

The Declaration of Independence

■ Valuers' Independence Statement

Adrian Vascu,
President of ANEVAR

► 6

■ Forging Ahead Towards a European Valuation Culture

Interview with Krzysztof Grzesik,
Chairman of TEGoVA

► 16

■ European Mortgage Industry Taking a Keen Interest in Valuer Independence Discussions

Luca Bertalot, Secretary General of the European Mortgage Federation (EMF) and European Covered Bond Council (ECBC)

► 20

■ Mortgage Appraisal: A Story of Control and Influence on the Process

Appraisal Institute

► 24

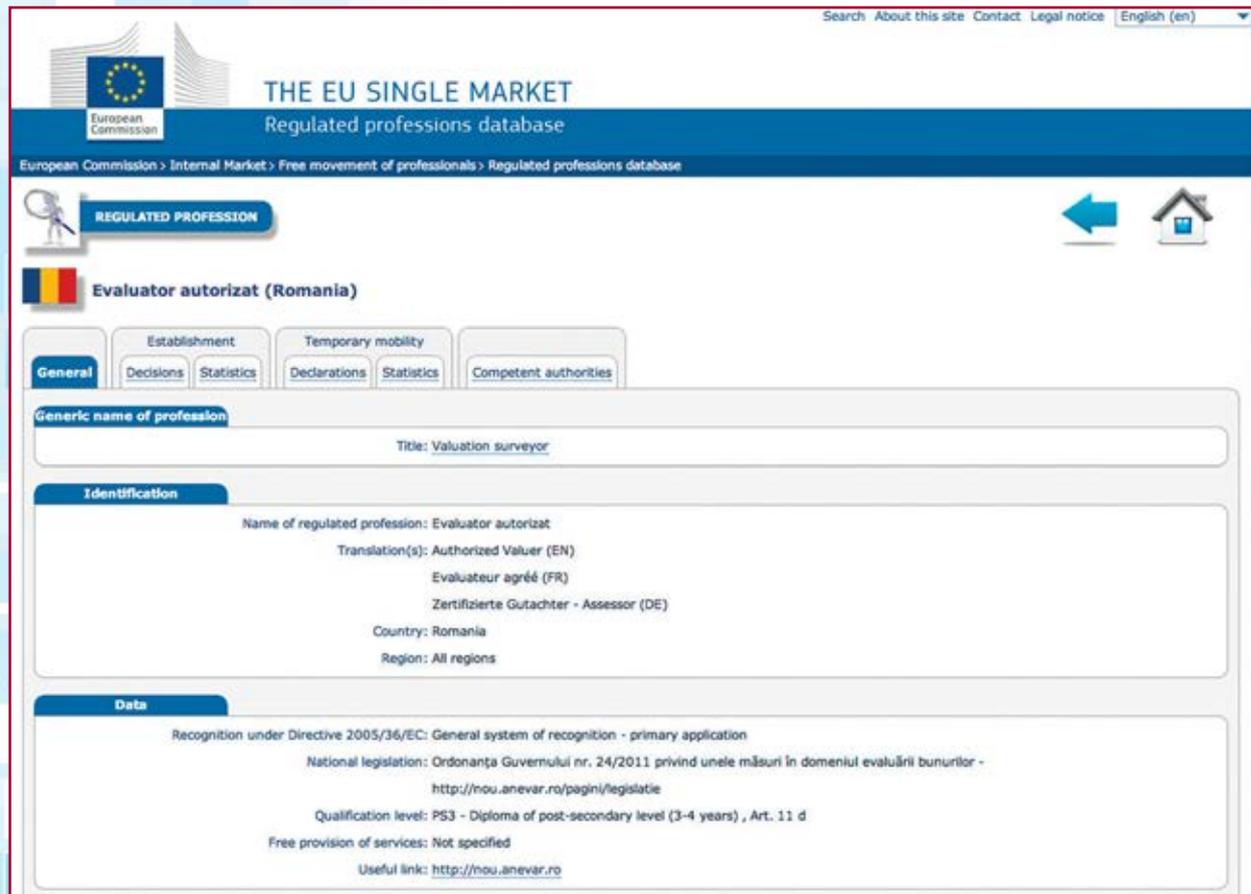
■ Independence of the Valuer or Independence of the Valuation?

Silvia Cappelli

► 30



THE PROFESSION OF AUTHORIZED VALUER IS REGISTERED IN **RegProf**



The screenshot displays the RegProf website interface. At the top, it features the European Commission logo and the text 'THE EU SINGLE MARKET Regulated professions database'. Below this, there is a search bar and navigation links. The main content area shows the entry for 'Evaluator autorizat (Romania)'. The entry is organized into sections: 'General', 'Identification', and 'Data'. The 'General' section includes tabs for 'Decisions', 'Statistics', 'Declarations', 'Statistics', and 'Competent authorities'. The 'Identification' section lists the name of the profession in multiple languages (Romanian, English, French, German) and the country (Romania). The 'Data' section provides information on recognition under Directive 2005/36/EC, national legislation (Ordonanța Guvernului nr. 24/2011), qualification level (PS3), and free provision of services.

Search About this site Contact Legal notice English (en)

European Commission

THE EU SINGLE MARKET
Regulated professions database

European Commission > Internal Market > Free movement of professionals > Regulated professions database

REGULATED PROFESSION

Evaluator autorizat (Romania)

General Establishment Temporary mobility
Decisions Statistics Declarations Statistics Competent authorities

Generic name of profession
Title: Valuation surveyor

Identification
Name of regulated profession: Evaluator autorizat
Translation(s): Authorized Valuer (EN)
Evalueur agréé (FR)
Zertifizierte Gutachter - Assessor (DE)
Country: Romania
Region: All regions

Data
Recognition under Directive 2005/36/EC: General system of recognition - primary application
National legislation: Ordonanța Guvernului nr. 24/2011 privind unele măsuri în domeniul evaluării bunurilor -
<http://nou.anevar.ro/pagini/legislatie>
Qualification level: PS3 - Diploma of post-secondary level (3-4 years) , Art. 11 d
Free provision of services: Not specified
Useful link: <http://nou.anevar.ro>

National Centre for Equivalence and Recognition of Diplomas (CNERD) has registered in RegProf (Regulated professions database), within the "Valuation surveyor" category, the profession of *authorized valuer*.

The profession of authorized valuer comprises the following activities, regulated by GO 24/2011 regarding certain measures in the field of asset valuation (ANEVAR is the competent authority for the recognition of qualifications obtained in other EU countries):

- **REAL ESTATE VALUATION**
- **BUSINESS VALUATION**
- **VALUATION OF PLANT AND MACHINERY**
- **VALUATION OF FINANCIAL INSTRUMENTS**



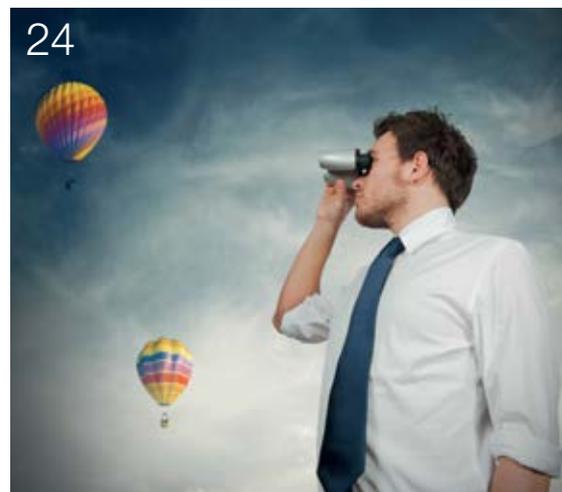
06



34



16



24

- 05 **Inside**
Raluca Şlicaru

- 06 **Valuers' Independence Statement**
Adrian Vascu

- 12 **Value, Wherever It Is, and NOT Whichever Should Be!**
Adrian Vascu

- 16 **Forging Ahead Towards a European Valuation Culture**
Interview with Krzysztof Grzesik

- 20 **European Mortgage Industry Taking a Keen Interest in Valuer Independence Discussions**
Luca Bertalot

- 24 **Mortgage Appraisal: A Story of Control and Influence on the Process**
Frederick H. Grubbe
William Garber

- 30 **Independence of the Valuer or Independence of the Valuation?**
Silvia Cappelli

34 **“The Conclusion on the Estimated Value Must Not Be Influenced by Anything or Anyone”**

Interview with Nicolae Cintează

36 **Liberal Professions to Boost Industry and Trade**

Interview with Emilian Radu

40 **Valuation Standards Serving the Romanian Market**

George Bădescu

42 **ANEVAR 2015 Valuation Standards**

Anamaria Ciobanu

44 **When are Standards (not) Useful?**

Şerban Ionescu

48 **Current Valuation Profession Challenges**

Adrian Crivii



36

50 **The Future of a Profession – from recollections to prospects –**
Daniel Manaşe

52 **Professional Ethics, a Pathway to Building Public Trust**

Dana Ababei

54 **An X-ray of Mortgage Lending Valuation**

Radu Călin Timbuş

60 **Mortgage Lending Value and Its Applicability in Romania**

Cristina Grigorescu

62 **Valuation Services Quality Monitoring**

Sorin Petre

66 **The Authorized Valuer's Expertise and How to Gain It**

Sorin V. Stan

70 **Events**

73 **Market Data**



70

Read the magazine accessing the application “VALOAREA” in App Store or Google Play where you can find, besides this issue in English, the whole archive of the magazine in Romanian.



VALUE

WHEREVER IT IS

Editorial Office: 7 Scărlătescu Street , Bucharest, 01158

Tel.: +40 21 315 65 64; +40 21 315 65 05 Fax: +40 21 311 13 40 E-mail: office@anevar.ro

Publisher:
ANEVAR

Coordinating Editor:
Raluca Şlicaru

Advertising Sales:

Raluca Şlicaru
tel.: 0722 53 44 90
raluca.slicaru@anevar.ro

Photos:

Timi Şlicaru;
Dreamstime.com

Editorial Office:
ANEVAR

DTP:
www.dtpdesign.ro

ISSN 2393 – 1477
ISSN-L 2393 – 1477

PRINTED BY ARTPRINT

The contents of this publication, integral or partial, is strictly forbidden to reproduce, archive or convey by any means – digital, mechanical, photocopying or recording – in the absence of ANEVAR's prior written approval.

The points of view expressed in Value, Wherever It Is magazine illustrate the opinions of the authors and do not engage ANEVAR's responsibility. ANEVAR's official point of view is expressed in the documents adopted and endorsed by its governing bodies. ANEVAR takes no responsibility and offers no guarantees for the products and/or services advertised in Value, Wherever It Is magazine, though they were subject to rigorous verification. Value, Wherever It Is magazine is educational and informative in nature, but, by means of this publication, ANEVAR does not supply consulting services in the field of: valuation, accountancy or legal.



› **RALUCA ŞLICARU,**
Coordinating Editor

Dear All,

It's been one year now since we released the Romanian version of our magazine "Value, Wherever It Is", intended as a mouthpiece for ANEVAR to provide a forum going past its regular readership, beyond the strict profession scope. While working on the end-of-December issue, called The Declaration of Independence, we also addressed a few leading figures in the field from other countries, (Luca Bertalot – General Secretary of EMF and of ECBC, Silvia Cappelli – Vice-President of ASSOVI and member of TEGoVA Board, Frederick H. Grubbe - Chief Executive Officer Appraisal Institute and William Garber – Director & Government Relations Appraisal Institute), inviting them to share their opinions on this subject. Another point of high interest of the present edition contents is the interview with Krzysztof Grzesik, Chairman of TEGoVA (page 16), published in our issue no. 4.

Therefore, having their materials already in English, and on account of ANEVAR's newly acquired membership to the European Mortgage Federation, we thought we should go further with the messages we want to put across through our authors, and take our magazine to the next level, by also editing a once-a-year English version of it. This includes a choice of the most relevant standpoints put forth throughout the year, as well as new articles. We have considered it important to reach our partners non-speakers of Romanian both in the country and abroad, when imparting ANEVAR's activity and points of interest, given the fact that the problems the valuer profession is faced with are the same, irrespective of country. That is why we assume that such an exchange of ideas will benefit us all, leaving us all the more powerful and knowledgeable.

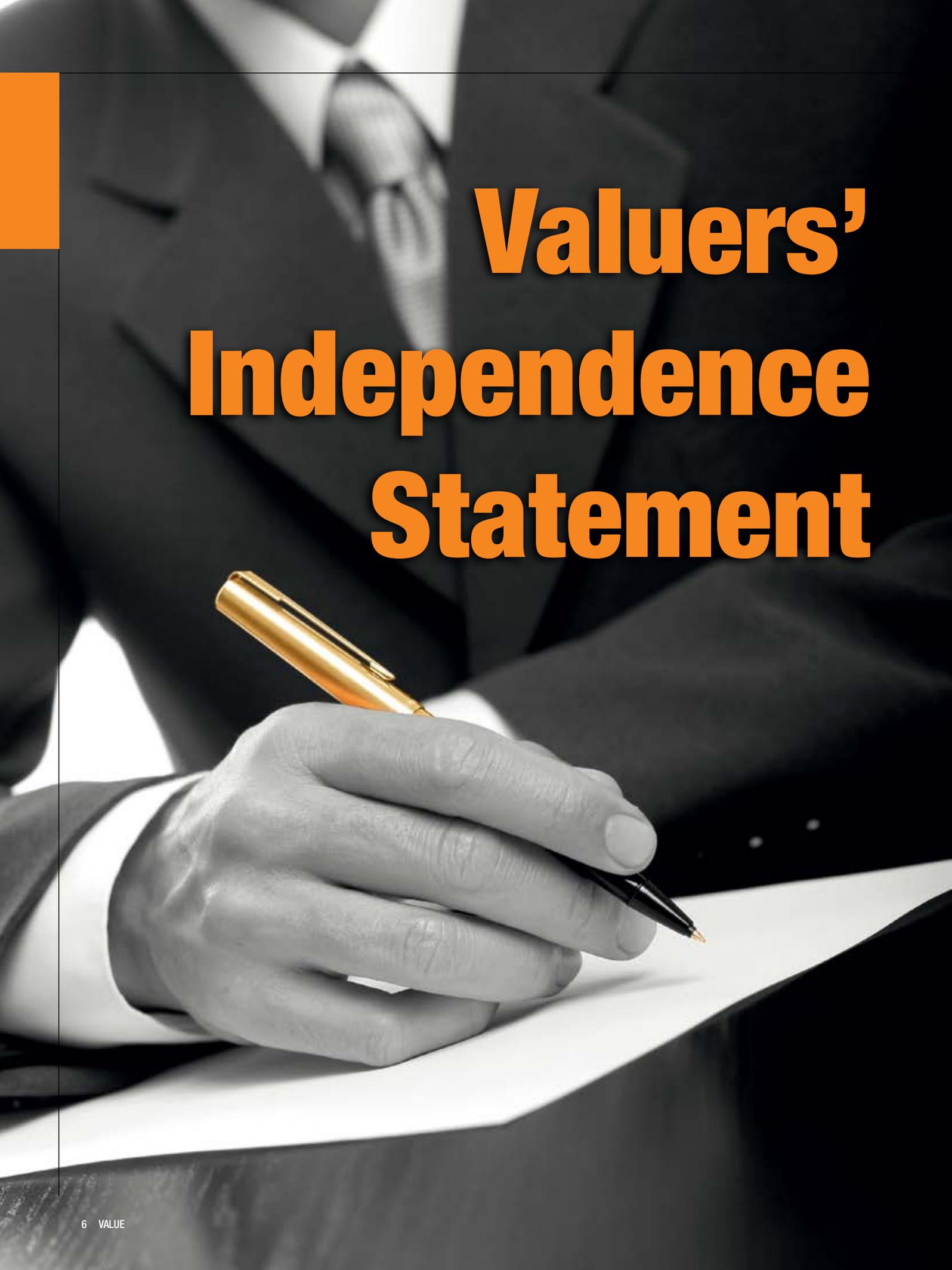
We have tried to enclose in the 80 pages of our magazine, topics of relevance, among which The Ethics and Standards providing guidance to Romanian valuers, ANEVAR - member companies monitoring, and others. The article written by Adrian Vascu, the President of ANEVAR, "Valuers' Independence Statement" (page 6) militates in favour of non-infringement of valuers' independence and against pressure of any kind being imposed upon them.

Under the heading Events (page 70), we have chosen to show several pictures taken during the Conference on Loan Guarantees held in Bucharest on 9 September 2014 – also the Valuer's Day as celebrated in Romania. You will also find photos from the Association's traditional annual meeting with its corporate members, held in December 2014.

The last section of the magazine is dedicated to various information pertaining to the real estate market, as we publish it quarterly. These data are reported by the leading companies in the field as a valuable input meeting expert valuers halfway in their endeavour to keep updated and well versed.

You are also welcome to virtually browse the magazine, by accessing the application "VALOAREA" in App Store or Google Play where you can find, besides this issue in English, the whole archive of the magazine in Romanian.

Please e-mail your feedback to the address: value@anevar.ro I am looking forward to your opinions, to your ideas about what you would like to read in our further issues, but particularly to your comments and criticism so valuable for us to grow and build excellence. Enjoy your reading!

A black and white photograph of a person in a suit and tie, sitting at a desk and writing on a document with a pen. The person's hand is in the foreground, holding a pen. The background is slightly blurred, showing the person's torso and the desk. An orange square is in the top left corner.

Valuers' Independence Statement



› ADRIAN VASCU,

President of ANEVAR 2014-2015, MAA, MRICS, REV,
Senior Director, Head of Valuations Department KPMG Advisory

Independence is a topic that can be approached from various angles and this is probably the reason why it seems a trivial, familiar subject. And it is these various perspectives of independence that I will further on address, taking as an example mortgage lending valuation. I have chosen this field since on the one hand, it best exemplifies the multiple perspectives of independence, and on the other hand, mortgage lending valuation still represents the largest share of a valuer's business activities. Thus, recent statistics have shown that mortgage lending valuation accounts for about 51% of valuers' turnover and for over 71% of the valuation reports issued during one year.

First and foremost, I would also like to stress that the conclusions outlined in this article apply to any partnership between valuers and the intended users of their valuation reports.

Approaches to independence

This concept can be approached from several perspectives:

1. Independence as a code of ethics requirement, according to which a valuer must act with impartiality, independence and honesty. Any potential uncertainty as to independence or impartiality must be made known to the parties involved and eliminated or minimized so as to avoid any doubts about the valuation conclusions.
2. Independence in terms of both valuation activities and financial institutions' lending services.

3. Independence from a fiscal viewpoint, as a regulated profession. Once a dependent profession has been adopted (salary income), the fiscal treatment will be different from the treatment applied to registered freelancers or independent freelancers.

4. Independence as a sovereign opinion about value which can only be expressed by a valuer.

In this article I will tackle this last point, as I have noticed that although it is a "common sense" statement, when we discuss about practical cases, we come across highly numerous instances where valuers and the intended users of valuation services do not share the same view.

In fact, some of the valuers' clients still think and act as if the valuation result might be

subject to negotiations. Hence, the frequent requests for a certain value to be assigned to a certain asset which, according to the clients, is the true value of the asset subject to valuation. Basically, their expectations are significantly influenced by the intended use of the valuated asset and not by the professional judgment that must lead to the estimation of a value.

I have frequently stressed on different occasions that the value of an asset at a certain moment, for a certain valuation purpose can only be one value, which should be reached by any valuer within a +/- 10% margin.

Why clients believe that value can be negotiated is difficult to explain in one sentence. In my opinion, it is mix of factors, one of which is that valuation is a new profession in the Romanian economic landscape and the interested public is still not aware of the essence of the profession. It is equally a mentality issue according to which if we have paid for a service we are also entitled to ask for more. The two factors above point to the fact that the profession does not yet enjoy the necessary level of public trust.

What can be done?

The valuation profession is undergoing a constant development, strengthening and adjustment to economic realities. As it is increasingly growing more mature, the profession identifies the needs to be addressed and proposes the necessary actions. We learn as we go, adopt specific standards, monitoring rules, ethical and disciplinary procedures and, if we stoically follow this path, we will ultimately reach the necessary level of trust.

One of the areas where things need to be changed is public information about the valuation activity and its specific characteristics. It may be that the public has not been aware that value results from a valuation process and that it can be determined by exclusively using the valuer's professional judgment. Certainly, there must have been valuers whose attitude helped the profession to be perceived as such, but this is not a "witch hunt". In exchange, we need to decide what is to be done. The solution is to raise the level of trust by providing professional services of the highest quality.

**More specifically,
how to reconsider the
relationship between
"valuers and credit
institutions"**

As mentioned in the previous issue of the publication "Value, Wherever It Is", "a reconsideration of the relationship between

valuers and credit institutions" is a prerequisite for overcoming the current status of things.

This "reconsideration" should also cover the contractual relationship between valuers and credit institutions. I have recently studied several contracts proposed by credit institutions to valuers and I have noticed the frequent recurrence of two phrases: *valuers' obligations* and *the bank's rights*. Less often could I find their respective "counterparts". I have also identified clauses that indicate a certain doubt as to valuation accuracy. I will not elaborate on these cases as I intend to deal with them in one of the next issues of the publication. However, I will present two examples without giving names, just to give an idea of the type of clauses that should not be accepted by valuers, or which will no longer be proposed by banks once the relationship between valuers and credit institutions has been reconsidered.



**FREE
WAY**



**DEAD
END**

Thus, the first example is as follows:

“The inaccurate estimation of the market value of the asset/assets subject to valuation or the existence in the Valuation Reports of any other misstatements/ misinformation provided by the Valuer intentionally or by negligence, will trigger the Valuer’s financial liability, who will be under the obligation to pay the Bank penalties of 1% of the loan value approved and secured with the asset/assets in question.”

Remark:

This clause cannot be accepted as such, given that (1) the law prohibits the computation of a valuer’s fees as a percentage of the value assessed, whereas the value of a loan is correlated with the market value established in the valuation report, therefore a first inequity, (2) financial liability should be correlated with the fees paid to the valuer through

a clearly established mechanism and (3) the contract does not specify who establishes that the value has been inaccurately assessed and that the report contains misstatements/ misinformation.

The second example:

“In the event of disagreements about the valuation report, the prejudice caused to the Beneficiary, resulting from the valuation of the assets covered by the Valuation Report shall be calculated as 100% of the difference between the asset value estimated by the concerned Valuer and the value of the same asset estimated by an independent valuer authorized under Governmental Ordinance 24/2011 (hereinafter referred to as “arbitrator”), designated by the Beneficiary. The arbitrator valuer will express an opinion in respect of the asset concerned, based on the same assumptions and restricting conditions and for the same date of valuation, which will be considered in the calculation of damages”.

Remark:

The idea of prejudice and damages is reiterated again, but the assessment of damages and the reasons for initiating such procedure give valuers no chance to defend their case. According to this clause, it is at the bank's discretion to compute and claim damages, with a 100% coverage of the risk, which has now been transferred to the valuer's responsibility.

As I have previously stated, in one of the next issues we will look at all the clauses still in effect that adversely affect valuers. We are obviously not advocating for clauses that would adversely affect credit institutions, in exchange we expect equitable contractual clauses, tailored to the particulars of asset valuation activities.

In this context, one of the aspects that stands out is "valuers' independence" and the fact that the need for independence is inferred and not declared.

Statement of independence

A valuer's independence means that the valuer shall carry on his/her activities based on professional knowledge and skills and shall express an opinion on value based on his/her own judgment, with no influence or constraints from another person, irrespective of the business relationship between such person and the valuer.

In practice, there are instances where credit institutions representatives with no qualification in valuation (loan officers), in an attempt to discharge their own obligations and attract new clients believe that they are





entitled to ask a valuer to change the value established in the valuation report. With no professional argument, by just invoking a Google search!

Such a situation, although not widely spread, is in itself a serious threat and so far, no written counteracting provisions have been set out.

The next step

Independence is effective provided it is acknowledged by third parties.

For this reason, we propose that the written agreements between valuers and clients should contain the definition of a valuer's independence along with the parties' obligations and rights in this respect.

Also, contracts should contain very clear provisions about each party's liability if the independence obligation is breached. Consequently, contracts should contain clauses to protect a bank against a valuer's acts of "excessive" independence as they should equally contain clauses penalizing any kind of pressure that credit institutions representatives may exert as to the estimated value level.

Effects

Valuers' accountability must be clearly outlined. They must justify the values obtained primarily through the quality of the valuation report and compliance with the valuation quality requirements. Last but not least, the two parties should build a mutual trust, as only based on trust will the interdependence between valuers and banks, which cannot exist separately, bring mutual benefits. And this crucial "interdependence" can only be achieved if both parties observe the "valuer's independence". ■

Value, Wherever It Is, Should Be!



› ADRIAN VASCU,

President of ANEVAR 2014-2015, MAA, MRICS, REV,
Senior Director, Head of Valuations Department KPMG Advisory

In broad terms, valuation is intended to estimate the value of an asset and express the result in monetary units at a certain date. Just like in the medical profession, technical instruments are only used as an accessory, since the end result depends on an individual's judgment without directly relying on technology.

For this reason, the high degree of subjectivity and its influence on the valuation result can only be limited by the professionalism of those in charge. The concept of professionalism covers both specific technical qualifications and an unblemished ethical behaviour.

Like in any other profession and human activity, clients will always exert a pressure to obtain the expected result after contracting a service.

Is client pressure legitimate? Up to a certain extent, yes. It depends on industry and type of pressure. However, when a client's demand cannot be satisfied for objective reasons, no compromise should be accepted.

To convince clients that their

demands are not legitimate is part of a professional valuer's duty.

The better educated and informed the public is, the easier it is for people to understand the objective boundaries and the reasonableness of their own demands. The more specialized a certain industry is and the less frequently its services are required, the more important the professional's role becomes, with less blame to be assigned to the claimant. Hence the proverb "There is no such thing as a stupid question".

In valuation, it is only natural for clients to be interested in the valuer's opinion about an asset. However, it is absolutely unethical to ask a valuer to prepare a report and expect a certain result.

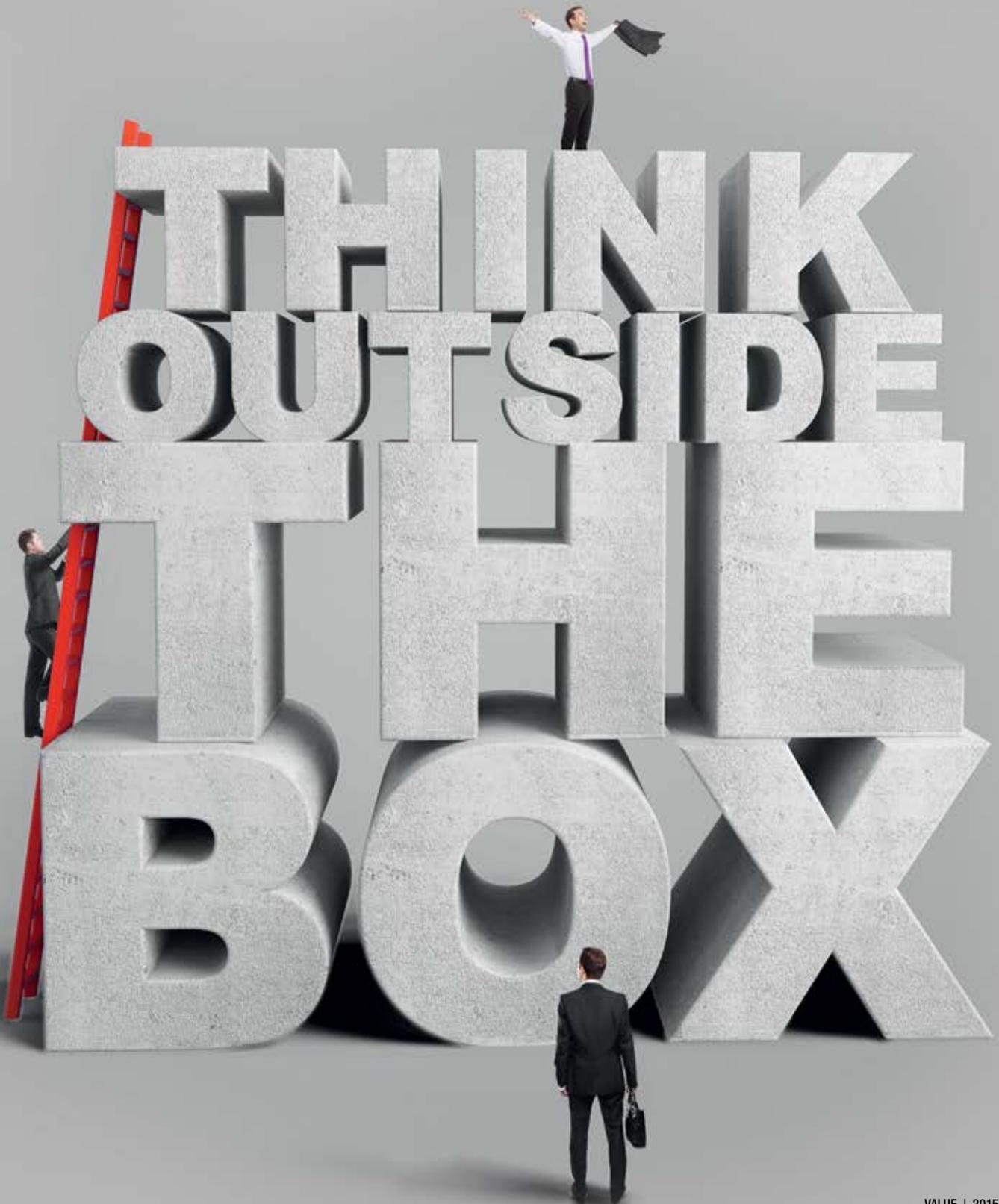
Asking a valuer to estimate the

value of an asset as other than the value resulting from valuation is the same as forcing a pilot to take off to a destination where landing is known to be impossible due to adverse weather conditions. Should he/she acquiesce, the result would be a disaster for both pilot and passenger.

The comparison may seem a bit exaggerated, but valuers cannot delude themselves into thinking that values misstated "on order" will remain a secret. Just like a plane which cannot safely land under unfavourable weather conditions, the time when such misstatement will call for retribution will certainly come. When that time comes, there is solely one individual who will be held accountable: the valuer. The client can legitimately say: "It is you who estimated the value, who signed the report, you should not have done it if you knew it was wrong." Most often than not, these words come too late.

Sadly, clients are right when they say: "I kept trying and after

and NOT Whichever



three valuers turned me down, the fourth agreed.” Therefore, he/she could do it. Does that mean that the other three were less qualified or were they truly professionals? I recommend clients never to demand a certain value and if they do it and a valuer agrees in the absence of any analysis and valuation work, they should never resort to their services. As for valuers, I would remind them that by accepting such an assignment and then striving to find arguments to uphold an inaccurate but already known result amounts to boarding a plane that will certainly crash. Is it worth doing this? Definitely not.

If such situations persist to this day, the main culprit is the valuer. I honestly believe that such instances are increasingly less frequent because professional valuers have understood, once the profession has been regulated, that their responsibility has increased and so have the consequences.

I could identify three distinct positions a valuer could adopt when faced with a demand for a valuation report from a client who expects a certain result.

1. The valuer understands the assignment and has the necessary qualifications to do it. It is or should be the most

frequently encountered case. The valuer accepts the assignment, negotiates the contract terms, but will not “negotiate” his/her opinion on the value. If the client persists and the valuer fails to convince the client about the inadequacy of such practice, he/she will decline the job.

2. The valuer does not have the required expertise or qualifications to prepare the valuation report. In such a case there are only two solutions. He/she will either team up with a more experienced valuer or will refuse the assignment. Otherwise, the valuer will be tempted to fabricate the value demanded by the client, focusing on those assumptions and methods that may lead to the desired result which could even be mathematically correct. Inconsistencies will most likely occur in the approaches adopted. Further on, there is just one step to disciplinary sanctions and civil or criminal proceedings.

3. The valuer understands the assignment and has the relevant expertise, but chooses to use such experience to find solutions to the “client’s problem” rather than argue the inadequacy of the client’s request. This is by far the most dangerous situation, which should no longer be encountered. This category of valuers who are proficient in their work but use their expertise to justify unreasonable values are malignant to both the profession and the public. Such behaviour ignores the valuation standards, the code of ethics and ultimately, the entire profession. The tools currently available to the profession must identify and put an end to such behaviour. Disciplinary actions have already been taken to reprimand such conduct and sadly, there have been instances where valuers were brought to justice for rendering inadequate valuation services.

I am posing a question to which I will also answer:

Is it possible for two or several valuers to appraise the same asset, at the same date, for the same purpose and yet obtain a result twice as high or more than the genuine one?

The answer is NO, IT IS NOT POSSIBLE.

It is not possible for at least two reasons:

- An asset has, at a certain date and for a specific purpose, a single value that ranges between well-known limits defined by the best practice;
- Correctly applied valuation standards may lead to value deviations within a reasonable range and only when the valuation techniques include sensitivity analyses.

In my opinion, deviations higher than 20-30% should raise questions

“VALUE, Wherever It Is” is the motto that inspired the title of the publication, highlighting the fact that the valuation practice holds no secrets for valuers. As much as it is worth.

Valuers must never again be associated with “VALUE, whichever should be”. This is no longer part of our profession! ■



Forging Ahead Towards a European Valuation Culture

Interview with Krzysztof Grzesik, Chairman of TEGoVA

You have recently been appointed chairman of TEGoVA. What are your priorities in this position?

My overriding priority is to help embed what I call a European valuation culture, and we can do that through the development of the European Valuation Standards, minimum education requirements for qualified valuers and the Recognised European Valuer qualification.

Assisting in the development of national valuation standards following the enactment of the Mortgage Credit Directive has also become a key activity with TEGoVA.

What would you say are the main recent accomplishments of TEGoVA?

The last 3 years have been the most successful in TEGoVA's 37-year history. During that period we increased our membership by 50% to 59 member associations spread over 32 countries and representing some 70,000 qualified valuers in Europe. We also achieved

a critical mass of nearly 2,500 Recognised European Valuers, in 14 countries. Also a big success this year has been the enshrinement of European Valuation Standards for the first time in European Legislation. Earlier this year the European Parliament passed the Mortgage Credit Directive which refers to TEGoVA as a recognized international standard setter. That has provided a tremendous boost in terms of our relationship with the EU.

Another success has been the recognition of the European Valuation Standards as preferred by the European Central Bank which recently undertook an exercise, called the Asset Quality Review for bank stress testing. The ECB's manual for the AQR clearly points to the superiority of the European Valuation Standards, which gives them an edge over all the others.

How would you like to take these accomplishments further? Do you plan to increase membership or the number of REV's?

We're a European organization, although we do also have members from outside of Europe, for example

the USA's Appraisal Institute and Taqyeem from the United Arab Emirates. We now cover almost the whole of Europe with only a handful of countries missing. Thus further geographical expansion will be difficult. We've already got almost everyone involved.

However, our mission now is to promote the REV qualification, develop the European Valuation Standards further and we also need to engage with Academia. Now that we've developed the REV qualification we need to focus more on the education of valuers and their continuous development. For that we need to get closer to the universities and cooperate with various real estate course providers.

Do you have any examples of pioneers in this area?

A good example is that of our Irish member IPAV which having recently implemented the REV scheme is co-operating with the ITT University in Dublin. The latter now provides valuation courses specifically geared towards the REV qualification. Also, what ANEVAR does in Romania with its excellent training initiatives is worth replicating elsewhere.

Do you think there's something to improve in relation to the valuation profession in Europe?

There's always a lot to improve. We are seeking to raise the profile and status of the valuation profession in Europe. Not too long ago we were perceived as a diverse group of individuals, all working to different standards and different qualifications. We still have a lot of diversity in Europe,

but we do now all accept minimum educational requirements for valuers and we are all now following valuation standards which are well harmonized. TEGoVA's aim is to help our member associations improve their status in their own countries and guide them in the development of their own national standards. In this connection I have already mentioned the Mortgage Credit Directive, which has imposed the requirement on every EU member state to develop reliable national standards for residential

mortgage lending within their territory. Whilst such requirement only relates to the valuation of residential properties, once reliable national standards are implemented they will obviously affect other property sectors. In the past the goal had been to follow a global set of standards but we now realise that there is no such thing as "one size fits all" standards of valuation.

Is it because of cultural, legislation differences?

Yes, it's about cultural and legal differences in market practice. The real estate market may be global, but when you go to the individual countries they have their own way of doing things, their own laws. The EU wants to encourage its member countries to develop their own national valuation standards but with the proviso that they should have regard to internationally recognised standards including European Valuation Standards. This will ensure that despite the national character of each set of standards they will still be well "harmonised".

How harmonised would you say the professional level is among member countries?

This is the area where we have the most diversity. Valuer qualification systems across the continent do indeed vary a lot. Nevertheless, we have succeeded in harmonising educational standards. So, no matter how diverse the qualifications, at least we now all follow a minimum level of educational requirements. Every valuer hoping to qualify in Europe will follow a similar curriculum, the same topics and a



similar amount of teaching. That is all becoming common.

In order to achieve the REV qualification valuers need to prove that they have an appropriate higher education diploma, that they have studied certain defined subjects and have a minimum level of experience in real estate valuation.

You said there are 2.500 REVs currently, how much do you plan to expand that figure?

TEGoVA's member associations currently represent around 70.000 qualified valuers on the whole. Our aim now is to encourage at least 10% of that number to become REVs. Certainly in the next 5 years we should reach to about 6.000-7.000 REVs. They will form the elite of the valuation profession in Europe.

What do you think the valuation profession learned from the economic crisis in the past few years?

At an individual level, it has made valuers appreciate the value of continuous professional development, the importance of improving the quality of their valuation reports and also understand that the report should not consist only of a valuation figure, but also a lot more about how that figure has been arrived at. The report should contain much more advice than in the past including an assessment of the risks associated with the property concerned.

At the representative organizational level, member associations have recognised the need to harmonise standards,



to improve their educational programmes and provide continuous professional development. To a large extent, the REV qualification is addressing the concerns that many of us felt following the crisis.

In practice, have things changed in the way valuations are done?

Whilst standards, definitions, methodology haven't changed that much valuers do now providing much more information in their reports being aware that their reports are today subject to the thorough scrutiny of clients and lending institutions. So, when I do a valuation for mortgage lending purposes I have to be very careful

because I know that someone in the bank is more likely than not to challenge my assumptions. I must ensure that my valuation can be well defended in every aspect. At the time of the market boom, anyone who had an idea could get it financed, valuation reports were seldom studied in detail and rarely challenged. That has all now changed, everyone is much more risk conscious at every stage of the lending process.

What do you think the profession can do to avoid a new bubble or other types of threats on the real estate market?

I don't think that the profession can directly prevent any future bubbles, they will be down to the behaviour of the players on the market (buyers, sellers, lenders). It is the valuer's duty to accurately observe the market. However when necessary the valuer should issue warnings about where the market appears to be heading, at which point of the cycle we are in. If the valuer perceives a risk associated with investing in a particular property because for example, the market appears to be overheating, he should mention this aspect in his report. In other words reports should contain more risk analysis but the market value reported can only reflect the market sentiment at the date of valuation.

How is the Romanian profession and ANEVAR perceived in TEGoVA?

ANEVAR has seen extraordinary development over the last 20 years since it was founded. It is considered to be one of the most efficiently run valuation professional bodies in Europe, very well organized, very focused on education and training, a true model to us all. Also ANEVAR has constructively participated in the international arena and has become very influential, not only in Europe, but throughout the world. ANEVAR, through its current President, Adrian Vascu, a TEGoVA board member for several years, has been an active participant in the development of the European Valuation Standards. Also Anamaria Ciobanu is a well-respected member of the REV Recognition Committee involved in the auditing of REV awarding bodies and the promotion of the REV qualification throughout Europe. ANEVAR has a lot to be proud of.

As a member of the Polish association, what would you say are the particularities of your home market?

ANEVAR and the Polish Federation of Valuers' Associations (PFVA) started developing more or less at the same time, although in Poland we were very quickly subjected to statutory licensing. To practise in Poland, a valuer must have a University degree, complete a post graduate diploma in valuation studies, undertake a minimum 6-month period of structured training, and then pass a national examination. It's quite a difficult procedure. Licensed valuers in Poland must be registered as such but they are under no obligation

to join a valuers' association. The PFVA represents some 3.000 licensed valuers who are members of local and regional associations which in turn belong to the "Federation". The latter's role is to represent Polish valuers at a national and international level.

How many valuers are there in Poland?

We have some 6.000 names appearing on the register of licensed valuers built up over the last 20 years but if one factors in retirements then today the number of practising valuers is at around 3.500.

What are the standards adopted in Poland?

We have a Land Management Act and subordinate legislation which defines the basic concepts of property valuation, such as market value, methodology and the content of valuation reports. In addition the PFVA produces its own Green Book of valuation standards which supplement the legislation.

Are they in line with the European Valuation Standards?

Largely yes, but the problem is that once you put standards into a statute, it becomes very difficult to change them and thus to keep up with European Valuation Standards.

However, we in Poland also must now apply EU legislation and as a result of the Mortgage Credit Directive, the Capital Requirements Regulation and Capital Requirements Directive IV legislative changes in the field of valuations will no doubt be speeded up.

We are just beginning to realise that when you have a European regulation, it becomes immediate law in every EU country. So all of a sudden, the Polish valuers have discovered that they have a new legal definition of market value imposed on them by Europe via the Capital Requirements Regulation. I say that is no bad thing because the CRR definition of market value is the same as the definition in European Valuation Standards. But it's an example of how the EU is beginning to exert its influence locally. Until now not many valuers have noticed this development. All that is about to change! ■

European Mortgage a Keen Interest Independence

Valuer independence has long been a key issue for the Mortgage Industry and, in recent times, we have seen an ever-increasing focus on this issue at EU level in the Capital Requirements Regulation, the recently adopted Mortgage Credit Directive, the European Central Bank's (ECB) Asset Quality Review, the European Banking Authority's (EBA) review of EU covered bond frameworks and the EBA draft Regulatory Technical Standards on Valuer Independence in the context of bank recovery and resolution.



› **LUCA BERTALOT,**

Secretary General of the European Mortgage Federation (EMF)
and European Covered Bond Council (ECBC)

The central issue in all of these initiatives is what independence actually means. As the representative of the European Mortgage Industry, the European Mortgage Federation (EMF) is very keen to move the discussion on independence of the valuer away from past and in fact any potential future debates about internal versus external valuers and independence to one where we focus on adequate processes to protect valuers, whether they be internal or external to the lender,

from undue influence.

Some years ago, the EMF drew up a set of guidelines which describe how the independence of internal and external valuers can and should be ensured based on existing market practices. Recently, in the context of the initiatives listed above, the EMF's Valuation Committee, which is made up of valuation professionals with a specific expertise in valuation for lending purposes, revisited the guidelines and the refined version was

Industry Taking in Valuer Discussions





presented during a recent roundtable on property valuation organised by the EMF and the European Covered Bond Council (ECBC) and attended by a wide cross-section of stakeholders, including the ECB, the EBA, rating agencies, TEGoVA, RICS and mortgage industry professionals.

As far as external valuers are concerned, the EMF puts the emphasis on avoiding conflicts of interest and protecting valuers from undue commercial influence:

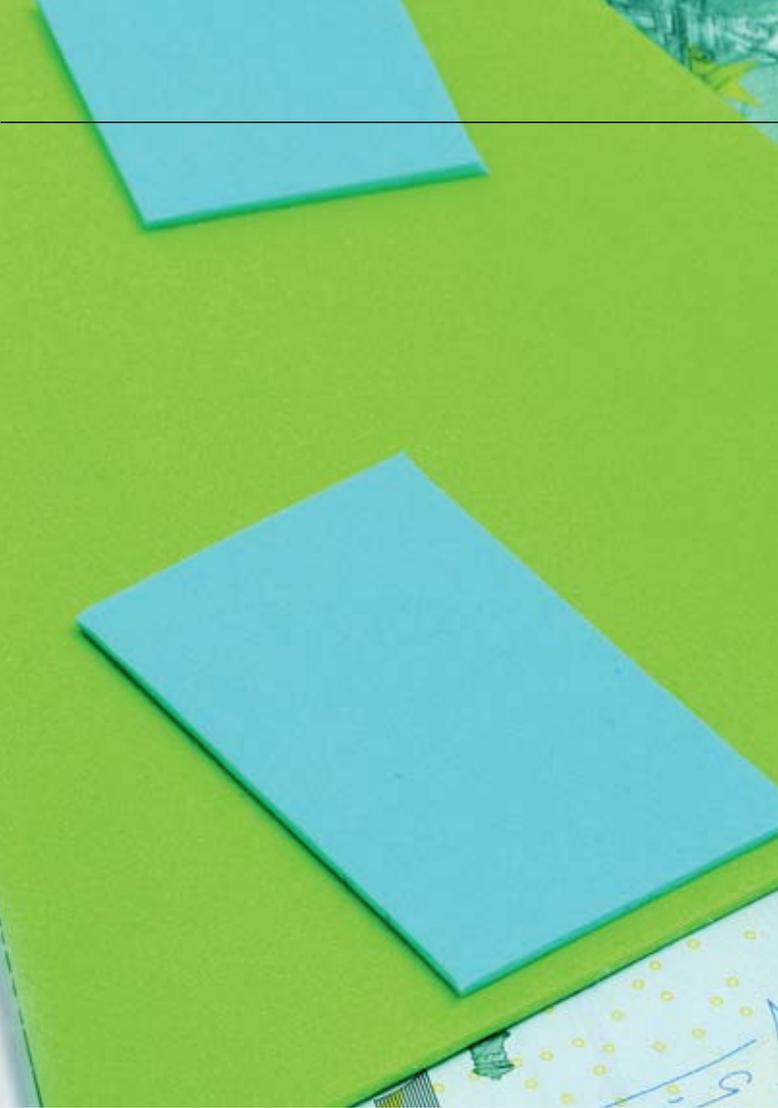
Regarding conflicts of interest, the EMF notes that:

- › It is highly advisable that external valuers are members of professional bodies with clearly established membership rules with respect to conflicts of interest between their valuation activities and other occupations (e.g. real estate intermediation, relation with buyer or seller etc.). These professional valuation bodies should be able to supervise and, if necessary, impose penalties in the event of non-compliance with rules. In countries where there are such bodies, lenders, in

principle, should only use the services of external valuers that are members of these bodies. In those countries where no such bodies exist, lenders should ensure that external valuers, who carry out valuations for them, have strict internal rules to avoid conflicts of interest; it should be possible to supervise compliance. One clear rule that should exist in all cases is that the professional who carries out valuations, should have no real estate intermediation responsibilities nor should he/she directly or indirectly benefit economically or otherwise from this business. In principle, there should be well established “Chinese Walls” between both activities and professional transfers from one activity to the other should be handled with great care.

Regarding commercial influence:

Lenders should establish internal rules so that valuers are protected from influence from lenders’ internal commercial units or from units that have an interest in the real estate transaction. Ideally, a bank



should have operational processes in place dealing with approving external valuers. These processes should be managed exclusively within the risk management units of the lender. These units should also be responsible for supervising the abnormal use of single valuers (excessive or too little). Lenders' internal audit units should be responsible for uncovering eventual undue influence on valuers. For a number of lenders, the responsibility for validating all valuations lays with their risk management units.

As far as internal valuers are concerned:

- › Lenders should have internal guidance rules in place for valuations performed by internal valuation companies or individual valuers of the lending entity. These guidance rules should, at least, consist of internal codes of conduct, which establish incompatibility rules when necessary. Supervisory authorities should ensure that the lending entity frequently monitors the existence of and compliance with the code of conduct.

- › As a general rule, lenders' internal valuation activity (carried out by companies or individual valuers) should be the responsibility of their risk management units. It is of paramount importance that lenders, who use the internal valuation approach, ensure that internal valuers are protected from influence from the commercial units/officers. For instance, lenders may use a central validation system of valuation figures and reports. Frequent corrections to the valuations of individual valuers would be centrally monitored and then investigated.
- › Selection and supervision of individual internal valuers (companies or individuals) should be the responsibility of risk management units.
- › Internal valuation professionals' remuneration and promotion should not be linked to the commercial objectives of the mortgage business.
- › The existence of and compliance with these internal rules and internal reporting lines should be monitored by the supervisory authorities.

This focus on processes rather than on whether a valuer is internal or external to the lender in the independence discussion is of paramount importance for the industry and in fact, very recently, was reiterated by the EBA itself in its response¹ to a question about the definition of independent valuer in Article 229(1) of the Capital Requirements Regulation. The EBA confirms that an internal valuer can be considered independent, provided he/she possesses the necessary qualifications, ability and experience to execute a valuation and is independent from the credit decision process. This principle was also recognised by the EU Institutions during the negotiations on the Mortgage Credit Directive², and internal valuers are subsequently explicitly recognised in the text in a similar way.

With this most recent acknowledgement from the EBA and the text of the recently adopted MCD, the Industry is hopeful that these developments will provide for an EU-wide precedent moving-forward in the area of valuer independence and definitely do away with any remaining question marks about the independence of internal valuers. ■

¹ http://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_1056
² Directive 2014/17/EU

Mortgage Appraisal: A Story of Control and Influence on the Process

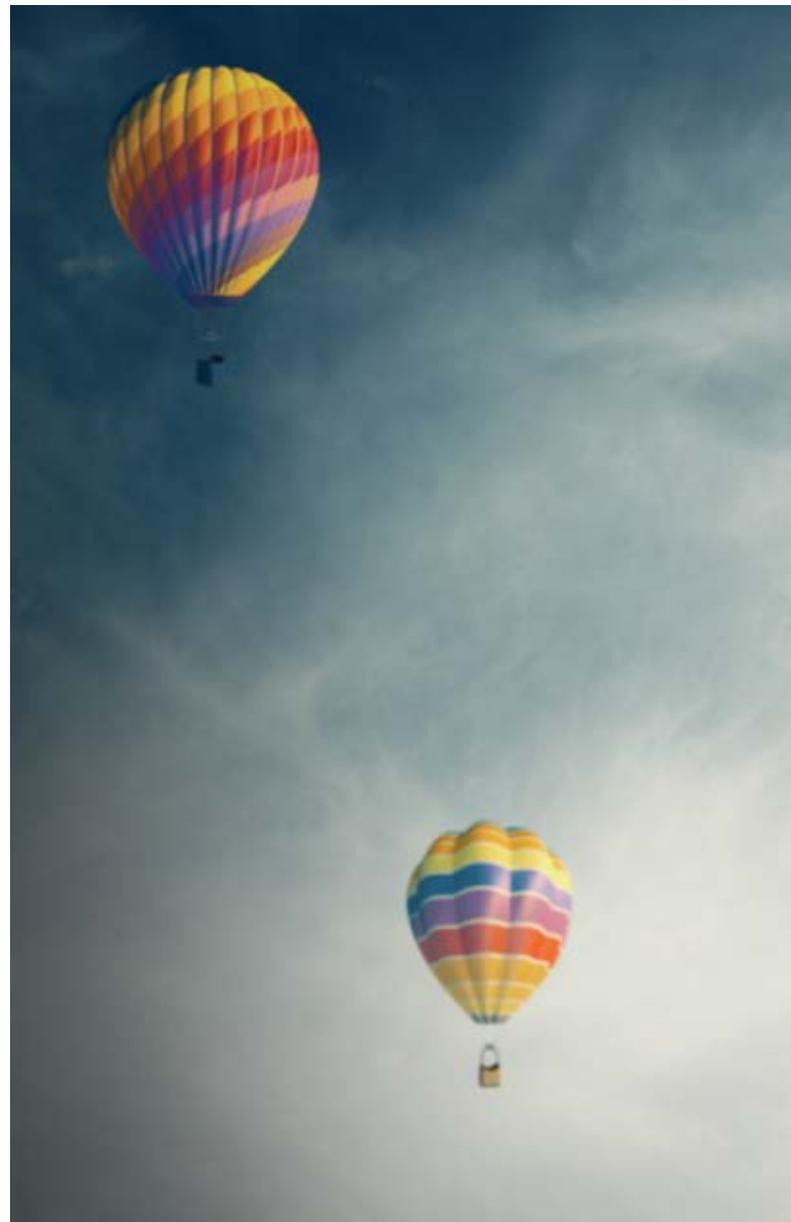


› **FREDERICK H. GRUBBE,**
MBA, CAE, Chief Executive Officer
Appraisal Institute

› **WILLIAM GARBER,**
Director, Government Relations
Appraisal Institute

A founding principle of the appraisal profession was independence. Unlike many other professionals in real estate, such as brokers and attorneys, who advocate for their clients, real estate appraisers are bound by an obligation that they remain impartial and unbiased in their work and to not advocate for any particular party. Under professional valuation standards that are built into federal and state law in the United States, appraisers are obligated to remain independent and to not provide predetermined values. This independence is what distinguishes appraisers from other professions. And, as a matter of law, failure to adhere to these requirements may result in the loss of license to practice or more several civil or criminal penalties.

The story of real estate appraisal in the United States in the mortgage-lending arena is one of control over the process. To varying degrees, residential appraisers face pressure from a wide range of individuals, including borrowers, loan officers, mortgage brokers and real estate brokers. Borrowers bring a certain emotionalism to mortgage transactions that lay the groundwork



for pressures to be applied on appraisers and/or the appraisal process. Loan officers at banks and financial institutions and mortgage brokers often are compensated based on commission and the consummation of a mortgage. In their eyes, the appraisal often is something standing in the way of making a mortgage. Likewise, real estate brokers are paid by commission on the closure of a sales transaction.

Commercial real estate appraisals prepared for mortgage-financing transactions face some

similarities with their residential brethren. But, generally speaking, the structure for ordering and reviewing appraisals is vastly different. Many of the largest banks and financial institutions in the world involved in commercial mortgage transactions at one point had appraisal departments reporting directly to the loan production departments. This set up situations where those with a vested interest in transactions (meaning they get paid on whether the deal closes) had a direct hand in appraisal management. However, commercial

real estate loan risk management typically had more positions reviewing the process and creating internal checks and balances, given the size of the loans and the relative risks presented to banks.

Some of the most egregious cases of appraiser coercion have occurred in the residential appraisal realm. Let's review what happened in the subsequent years that Congress enacted the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which among other things required banks to maintain independent appraisal functions and prohibited borrower-ordered appraisals to be used in mortgage financing transactions.

FIRREA Implementation

In 1994, the five federal bank regulatory agencies – the Office of the Comptroller of the Currency, Federal Reserve, Federal Deposit Insurance Corporation, Office of Thrift Supervision and the National Credit Union Administration – issued a final rule implementing FIRREA. This Final Rule included a provision requiring appraiser independence. Section 34.45 stated:

(b) Fee appraisers. (1) If an appraisal is prepared by a fee appraiser, the appraiser shall be engaged directly by the regulated institution or its agent, and have no direct or indirect interest, financial or otherwise, in the property or the transaction. (2) A regulated institution also may accept an appraisal that was prepared by an appraiser engaged directly by another financial services institution, if: (I) The appraiser has no direct or indirect interest, financial or otherwise, in the property or the transaction; and (II) The regulated institution determines



that the appraisal conforms to the requirements of this subpart and is otherwise acceptable.

Also in 1994, the federal bank regulatory agencies issued the Interagency Appraisal and Evaluation Guidelines, which expounded upon these requirements, establishing expectations that regulated institutions could expect during bank examinations. However, while appraisal independence was included in the Final Rule and Guidelines, experience indicates that appraisal issues within examinations were deemphasized in the subsequent years of implementation. Generally speaking, once the Final Rule and Guidelines were released, the federal bank regulatory agencies cut staff related to appraisal operations and generally turned to other issues, setting the course for bank appraisal staff to fall under the purview of loan production staff, mortgage brokers to control the appraisal ordering process, and real estate agents to steer appraisal orders to favorite appraisers. This occurred over a period of 5-10 years following the implementation of FIRREA regulations and guidelines. It was not until the early 2000s that bank examiners began to realize that



severe and structural conflicts of interest had been established within banks and financial institutions. Recognizing the severity of the problem, the federal bank regulatory agencies issued guidelines in 2003 relating to “Independence Appraisal and Evaluation Functions”. These guidelines were developed “to address concerns identified during examinations about the independence of the collateral valuation process”, reminding banks, “it is also important to ensure that the program is safeguarded from internal influence and interference from an institution’s loan production staff”.

Apparently, the problems identified during examinations continued because two years later the bank regulatory agencies released more guidance related to the issue of appraisal independence in the form of Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions. This guidance elaborated on things such as what is considered loan production staff within regulated institutions.

Too Little Too Late

As history has shown, the release of these guidelines did little to quell structural conflicts of interest from being created and were likely issued too late to have any substantive impact. These are typified in several high profile lawsuits and settlement agreements, including:

- › A settlement agreement between nearly all 50 states and Ameriquest Mortgage Company to pay a \$325 million fine and overhaul Ameriquest’s appraisal operations by removing branch offices and sales personnel from the appraiser selection process, instituting an automated system to select appraisers from panels created in each state, limiting the company’s ability to get second opinions on appraisals, and prohibiting Ameriquest employees from influencing appraisals.
- › A settlement agreement between the Office of the Attorney General of New York with Fannie Mae and Freddie Mac prohibiting mortgage brokers from ordering appraisals, prohibiting real estate agents from steering work to particular appraisers, and requiring loan sellers to maintain “independent” appraisal operations that separate loan production from appraisal functions. This settlement agreement resulted in a set of requirements for loan sellers to Fannie Mae and Freddie Mac relating to appraisal independence known as the “Home Valuation Code of Conduct” or now, “Appraisal Independence Requirements”.

Further, in the years that followed, the problems of this era were uncovered in other investigations, including one by the United States Senate Government Oversight Committee, which uncovered various problems found at Washington Mutual (WaMu), including evidence that there was clear knowledge and concern about appraiser coercion occurring with the institution. This is illustrated in

an email from a WaMu executive to select staff relating to concerns about a growing housing “bubble”.

“At this point in the mortgage cycle with prices having increased far beyond the rate of increase in personal incomes, there clearly comes a time when prices must slow down or perhaps even decline. There have been so many warnings of a Housing Bubble that we all tend now to ignore them because thus far it has not happened. I am not in the business of forecasting, but I have a healthy respect for the underlying data which says ultimately this environment is no longer sustainable. Therefore I would conclude that now is not the time to be pushing appraisal values. If anything we should be a bit more conservative across the board. Kerry Killinger and Bill Longbrake [a Vice Chair of WaMu] have both expressed renewed concern over this issue.

This is a point where we should be much more careful about exceptions. It is highly questionable as to how strong this economy may be; there is clearly no consensus on Wall Street. If the economy stalls, the combination of low FICOs, high LTVs and inordinate numbers of exceptions will come back to haunt us!”

The Financial Crimes Inquiry Commission final report further highlighted the issue, summarizing what transpired at WaMu with the following:

In 2005, the four bank regulators issued new guidance to strengthen appraisals. They recommended that an originator’s loan production staff not select appraisers. That led Washington Mutual to use an “appraisal management company,” First American Corporation, to choose appraisers. Nevertheless, in 2007 the New York State attorney general

sued First American: relying on internal company documents, the complaint alleged the corporation improperly let Washington Mutual's loan production staff "hand-pick appraisers who bring in appraisal values high enough to permit WaMu's loans to close, and improperly permit[ted] WaMu to pressure appraisers to change appraisal values that are too low to permit loans to close."

The 2003 and 2005 guidance notices were clearly in reaction to structural changes that occurred within the banking sector, but were too late to have meaningful impact, as the damage was already done.

Congressional Response

Congress responded in 2010 by enacting several reforms intended to address concerns over appraisal coercion. These included:

- › Adding appraiser coercion as a violation of the Truth in Lending Act, with the full weight and force of TILA penalties available for enforcement.
- › Consumer disclosure of appraisals three days prior to closing on a loan. Such disclosure would help consumers understand what was used by the bank in evaluating the collateral and possibly illustrate instances where loan production staff may be involved in the appraisal review and management process.

Separately, more than 40 states added appraisal independence requirements for state licensees and registrants for mortgage brokers and loan originators. Some of these requirements extend to real estate agents, but not all.

The Current Environment

Despite all of these apparent breakdowns and firewalls that have been set up, the Appraisal Institute still hears of appraiser coercion and "steering" in new forms. As stated earlier, the story of appraisal is one of expressing control over the process, but despite the risk of severe penalties, the lure of one deal appears strong enough to apply pressure on appraisers.

Some of the methods used have simply changed from more direct conveyances to indirect pressure. For instance, a member recently contacted the Appraisal Institute to alert the organization about intimidation tactics involving a multiple listing service

used by a real estate agent, who apparently was upset that an appraisal prepared by an Appraisal Institute member did not meet what was required for the mortgage loan application. This real estate agent apparently turned to the MLS to post comments about the appraiser, suggesting to peers that agents should avoid having any mortgage application involve an appraisal prepared by this individual.

The Appraisal Institute also has



heard of instances where banks have not fully disclosed all of the appraisals used in evaluating the collateral as part of the loan application, obtaining a second appraisal when the first one failed to satisfy requirements for the loan application. Under the new laws enacted by Congress in 2010, any and all appraisals are to be disclosed to the consumer, but in this instance, the consumer was provided only a copy of a second appraisal that

fulfilled the wishes of the loan officer within the bank. This failure to disclose both appraisals would appear to be a violation of the Equal Credit Opportunity Act, but, thus far, the Consumer Financial Protection Bureau has yet to express interest in pursuing an investigation in the case.

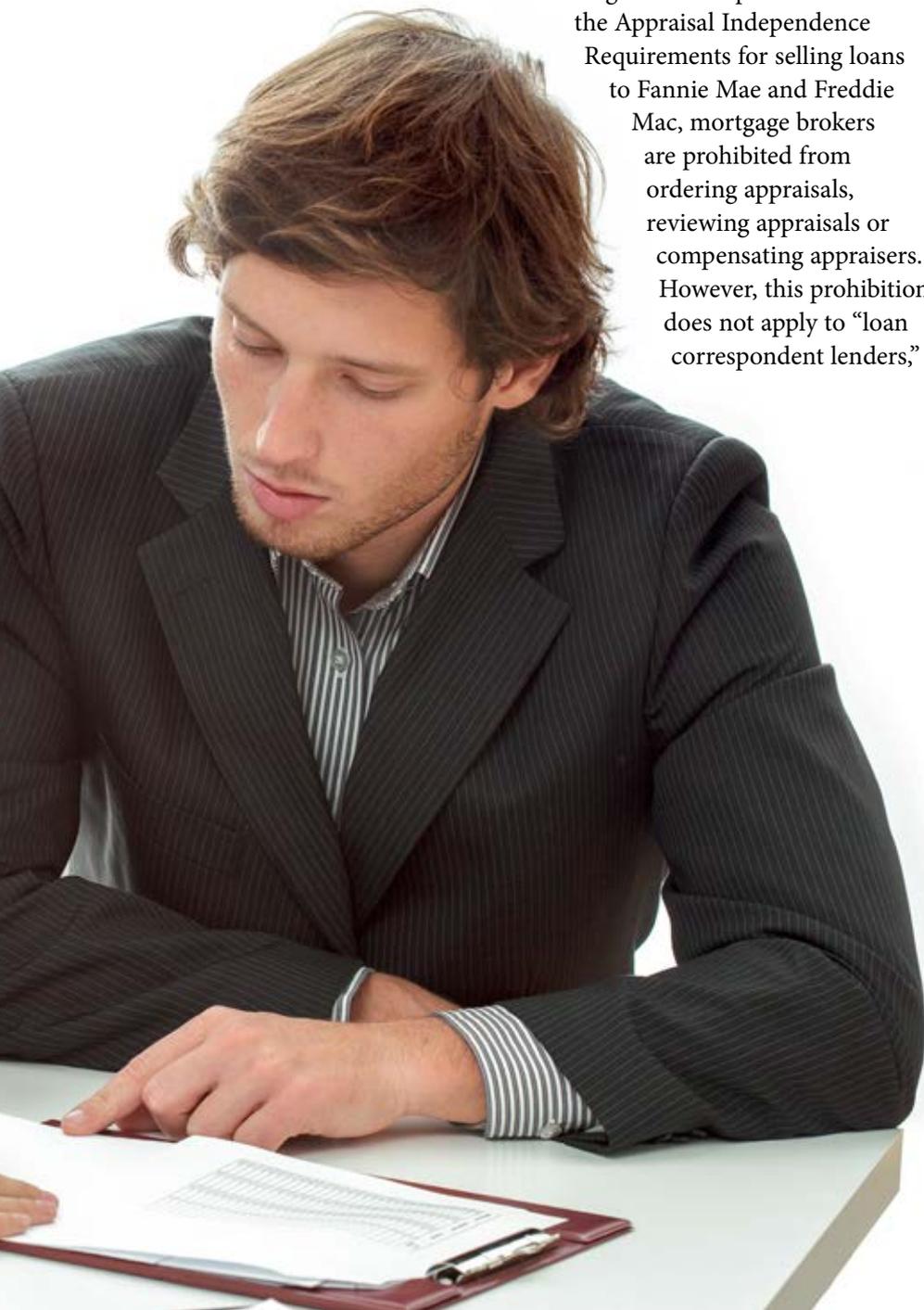
Finally, the Appraisal Institute has witnessed mortgage brokers reasserting themselves into the appraisal process by actually owning and controlling appraisal management companies. Under the Appraisal Independence Requirements for selling loans to Fannie Mae and Freddie Mac, mortgage brokers are prohibited from ordering appraisals, reviewing appraisals or compensating appraisers. However, this prohibition does not apply to “loan correspondent lenders,”

who are similar, but different from mortgage brokers in that they fund loans using their own money, if only for a short period of time. Loan correspondent lenders, under the Appraisal Independence Requirements, are allowed to order appraisals and even own appraisal management companies. As a result, mortgage brokers can now adjust their business model to obtain a loan correspondent lender status – typically, meeting a net worth requirement and registering with a state agency – and get back into the business of managing the appraisal process, and even owning appraisal management companies.

These experiences illustrate an old adage – “the more things change, the more they stay the same”. Indeed, those with a vested interest in a mortgage transaction will continue to seek ways to close those deals, and real estate appraisers, as independent third parties to these transactions, will continue to face an assortment of pressures in their work. And this holds true despite a financial crisis, millions of dollars in lawsuits, and multiple investigations citing some of the largest financial institutions in the world with violations of fundamental appraisal independence requirements. Yet real estate appraisers continue to be impartial and unbiased in their work, being careful not to advocate for any particular party. It is for this reason that real estate appraisers in the United States strive to maintain their independence and objectivity in fulfillment of their professional responsibility. ■

1 The Financial Crisis: Anatomy of a Financial Collapse. April 13, 2011. Senate Permanent Subcommittee on Investigations. Available at http://www.hsgac.senate.gov/imo/media/doc/Financial_Crisis/FinancialCrisisReport.pdf?attempt=2

2 Financial Crisis Inquiry Report. Financial Crisis Inquiry Commission. January 2011. Available at http://cybercemetery.unt.edu/archive/fcic/20110310173545/http://c0182732.cdn1.cloudfiles.rackspacecloud.com/fcic_final_report_full.pdf



Independence of or Independence

Independence is one of the hottest topics regarding Property Valuation. It is the element that – when lacking – can impair the valuation produced by even the most competent valuer. We will see why and how an external Valuation Company could be the best guarantee of such independence.



› **SILVIA CAPPELLI**,
Vice-President of ASSOVI, B,
Member of TEGoVA Board

the Valuer of the Valuation?

During the last couple of years the awareness of the importance of Valuation of property used as Collateral in Mortgage loans has increased significantly and Independence has been at the center of many related discussions.

New EU regulations and legislation have contributed to put a spotlight on this issue.

CRR 575/2013 in Article 229 stated: “For immovable property

collateral, the collateral shall be valued by an independent valuer at or at less than the market value. An institution shall require the independent valuer to document the market value in a transparent and clear manner.

In those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions the immovable property

may instead be valued by an independent valuer at or at less than the mortgage lending value”.

Regarding independence, an important question concerns internal versus external valuers, especially in countries like Germany where many banks rely on internal teams of valuers.

The first European Directive including provisions on Property Valuation, Directive 2014/17/EU





on Credit Agreements for Consumers Relating to Residential Immovable Property (also known as the Mortgage Credit Directive), appears to accept both internal and external valuers. Article 19 par. 2 requires Member States to ensure “that internal and external appraisers conducting property valuations are professionally competent and sufficiently independent from the credit underwriting process”.

An opposite position on the subject has been adopted by the ECB in the AQR Phase 2 Manual, considering acceptable only valuations performed by an independent, external appraiser.

EBA has adopted a different

approach in different situations: drafting regulatory in the context of the Bank Recovery and Resolution Directive, EBA stated that the independent valuers are to be legally, structurally and operationally separated from the resolution authorities, and the institutions subject to valuation and its affiliate undertakings. However, with reference to Regulation (EU) 575/2013, replying to a question on independence, EBA stated: “the review of an immovable property collateral has to be carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit

decision process. As long as an employee of the bank meets all the aforementioned conditions, he/she can be considered as an independent valuer”.

If we consider what all those positions have in common, the need for a higher level of specification emerges concerning two key elements: how to demonstrate the competence/qualifications/ability/experience of the valuer and the fact that he/she is sufficiently independent from the credit decision/underwriting process. I would like to stress out here that those two elements need to be demonstrated and not just stated, as for example it has appeared clearly



during the Asset Quality Review process carried out by the ECB.

If we consider the Italian market contest, the valuation profession is not regulated and more than half a million professionals are entitled to sign a property valuation. It is obvious that most of them would not be able to approach the task with the due reliability. Today in Italy – as in other countries – a professional can prove his level of competence/ qualifications/ability/experience getting the ISO 17024 Accredited Certification or a REV Qualification (from TEGoVA - The European Group of Valuers' Associations) or a RICS Qualification (from the Royal Institution of Chartered Surveyors).

On the other hand, it's not as easy for a valuer to prove his independence or for a bank to prove that all valuations of properties used as mortgage collaterals have been valued by valuers who are independent from the credit decision/underwriting process. Valuers tend to claim for themselves the responsibility to be independent and to affirm independence. E.g. in EVS 2012 (from TEGoVA) we read “in many cases it will be necessary and professional for the valuer (and where appropriate any valuation company) to show that he is independent of any party interested in the outcome of the valuation”.

However, the sentence itself “independent valuer” is misleading, since it tends to convey the idea of independence as a valuer's feature, a quality that the valuer has or hasn't got.

The confusion was further fuelled by Directive 2006/48/EC, where it defined an “independent valuer” as: “a person who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.”

Actually, we should talk about “Valuation's Independence” and not “Valuer's Independence”.

In fact, while competence and experience are intrinsic features of a valuer and permanent at a specific moment of his professional career, independence varies with each individual valuation carried out by a valuer in different scenarios or for different customers.

Independence includes at least two main ingredients: ethics of the valuer and relationship with the customer. Only the valuer's ethics can be considered dependant on the valuer's resolution and willingness to follow a moral behaviour, often prescribed by “Codes of Ethics and Conduct” from national or international professional bodies.

The other half of the equation – relationship with the customer – cannot be guaranteed by the valuer alone.

Facing this difficult peculiarity of independence, in the effort to demonstrate the valuer's independence required by regulators, banks and associations more and more often talk about “Chinese Walls” as a panacea. The „wall“ is thrown up to prevent pressure on the internal or external valuer from the credit decision/underwriting process. How the existence and effectiveness of those walls can be demonstrated when the valuer is internal, is still to be explained.

ASSOVIB recently participated in a roundtable on property valuation organised by the EMF and the European Covered Bond Council (ECBC) and welcomed the proposal of the mortgage industry to focus on adequate processes to protect valuers from undue influence. We believe that such a process can be best put in place by an external Valuation Company. In order for a valuation process to be able to support effectively the valuer's independence, it has to include: valuers selection and training; centralized management of job assignments (guaranteeing rotation), monitoring, quality control on each valuation report. Even if this process could be implemented also by an internal team, an external Valuation Company can best assure to implement such a process in a truly independent way and to protect the individual valuer performing the inspection from any undue influence. For this reason, nowadays most Italian banks and mortgage insurance companies require valuations on mortgage collaterals to be performed exclusively by external valuation companies, while in the past individual valuers or internal valuers were often employed. ■

“THE CONCLUSION ON THE ESTIMATED VALUE MUST NOT BE INFLUENCED BY ANYTHING OR ANYONE“

Interview with Nicolae Cintează, Head of the Supervision Department of the National Bank of Romania

Is the Romanian banking system prepared for the stress test required by the ECB?

To prevent any problem with the AQR (Asset Quality Review), banks were required to set up provisions accordingly and book assets at market value in their statements of financial position. Starting April, we launched the statement of financial position “cleaning” process for banks and things already look much better, though there is room for improvement.

What is the outcome of the policies implemented so far by the National Bank of Romania?

As a result of the measures recommended by NBR, the rate of non-performing loans decreased by 7%,

from 22.3% to 15.3%, in a relatively short period of time, from April to September 2014.

It is not bad at all, but I believe the rate of non-performing loans has not yet reached the level it should have. If the three recommendations we have made starting April 2014 had been implemented accordingly, the level should have been somewhere around 9.50%. Unfortunately, changes in the banks’ software applications need time and are costly, and as such the statements of financial position could not have been adjusted accordingly, as we recommended.

However, the coverage rate of non-performing loans with provisions is on average very good, of 66.2%. A simple calculation shows that only 33.8% of the default rate of 15.3%, i.e. less than 6% of all loans, could generate potential losses for banks and only in the instance in which the banks would not recover anything of the collaterals securing the approved loans.

How important are the valuation reports in light of the stress test?

The valuation reports are very important, considering that one of the most common arguments received by the NBR is that the lower level of provisioning is connected to the market value of the underlying collaterals. That is why it is important to use market values adequately estimated in compliance with ANEVAR valuation standards. As you are perhaps aware, we came across abnormal values in the banks’ statements of financial position, which resulted in the removal of valuers from agreed-upon appraiser lists utilized by the banks. We will take the same course of action if we come across similar issues, because “cleaning” is needed in this area.





What is your professional relationship with ANEVAR?

We are cooperating very well. The role of the valuation profession gained increasing importance during this period, when banking caution and supervision are accompanied by the ECB AQR actions. We expect the valuation profession to be prepared for the appropriate measures required. Experience drawn based on past cases proves that we benefit from ANEVAR's support and interest in our mission to set things straight.

What do these required measures involve?

They mainly refer to the consolidation of valuation standards by issuance of specific guidelines for the valuation profession, in order to limit the potential erroneous application of the valuation standards. The more ambiguous the guidelines, the more prone to interpretation and misapplication of the valuation standards. Valuers must be aware of the fact that they are accountable for their conclusion on the estimated value and that their conclusion must not be influenced by anything or anyone. I have heard there are employees in banks, some of which are not authorized appraisers, which request the estimation of a certain value. I hope this is just a rumour and that nobody really allows such liberties. I urge valuers to never succumb to any kind of pressure. That is why I believe the role of the profession is to support valuers through specific guidelines in this

respect. We also expect the profession to firmly react in case of ethics and deontology code violations.

Is the joint database, recently launched by ANEVAR for discussion purposes, such a required measure?

It certainly is. This database of secured lending valuations was launched following a meeting I had with the Association's board members last spring and we all consider it to be a very useful tool in minimizing subjectivity in collateral valuation. The NBR is supportive of this measure and we expect it to be implemented starting 2015.

This issue of „Value, Wherever It Is“ magazine focuses mainly on the independence of the valuer. What is your opinion on the topic?

I consider that independence should be complied with unconditionally, both by banks and valuers. Perhaps the agreements concluded between the 2 parties should clearly state what “independence” is and what the obligations of the two parties are in respect to this principle. I would however draw the attention on the fact that valuers should understand the significant role that they play in the loan approval/monitoring process as well as the impact of the valuations on the provisions booked. The valuers should express their independence through solid professional judgment and properly documented valuation reports. ■

Liberal Professions to Boost Industry and Trade

Interview with Emilian Radu, Ec., President of UPLR¹, Honorific President of UNPIR², Chairman of the Association Friends of the National Museum of Contemporary Art

There's a long way to independence, set with pitfalls awaiting for any wrong step to be taken. Success depends on a number of factors, such as proper financing and being acknowledged as an independent worker by the relevant authorities. Which UPLR member succeeds in making itself best heard in the relation with the state's authorities?

UPLR is aimed at promoting and defending the vested interests of its members, the trade associations, mainly the joint interests that have brought us together.

It is up to each and every association to decide on how and to what extent they promote their specific interest in their relationship with the state, as part of the trade policy. It should be their own line. UPLR is not supposed to be in the know.

We step in to assist with issues typical of a certain association only

when specifically asked to, which I must admit, is rather rarely the case.

What we aim to defend or stand up for is the vested interest of all trades, for instance issues related to deregulation, taxation, or unfair competition, not a particular interest of a specific trade.

Is intrusion of other professions into liberal ones a real threat to the independence and high performance of the members belonging with the latter?

I take it you mean a possible unfair competition from other practitioners providing similar services while having neither the capacity nor the proper professional qualifications specific to a professional belonging with a liberal trade.

It is obvious it would be, and in certain cases it actually is a threat, not only to the liberal professions, but also, and firstly to the users of our services, when public interest is at stake.

Is the independence of liberal professions closely connected with their outputs?

If you are referring to the financial outputs, then an efficient booming industry will obviously tend to be more vocal and assertive in expressing its own independence - actually an essential feature in defining liberal professions.

However, qualitative outputs, namely the image created and the members' professional credibility entail in turn a higher degree of independence and respect.

Another quite delicate issue is relaxed taxation/taxation abatement vs. the costs involved in practising a liberal profession (membership fees, life learning, taxes). Is it an easy to reach objective?

Taxation abatement related to liberal professions is a major objective with UPLR, and we are keen to address it to the relevant authorities.



We could easily make a point, but the idea needs to be agreed to and then put into practice by the authorities.

We have repeatedly drawn the attention upon the fact that the fixed share specific to a self-employed person, namely for independent activities is 21.5%, not 16%, as a result of not having a capped 5.5% share for health contribution, and of applying this contribution share to the whole tax base, therefore as a sole quota.

Moreover, it is also a case of discrimination, since the health system provides the same service package, regardless of the contribution to the health care fund.

Another issue relates to the tax system equity and morality, since most liberal professions serving public interest, have set themselves a high standard of life learning they stick to and which involves considerable costs.

And I am not necessarily referring strictly to life learning - related financial costs, but also to the loss of incomes as a result of the misappropriation of the time

- related investment from client to courses and to the process of learning and getting connected to the increasingly higher and complex professional standards.

Mention should be made that it is not strictly about employees, like with trade and industry, but about freelancers practising on their own and providing services directly, thus shouldering due responsibility.

As we know, with liberal professions, it is not the financial finality, the profit that comes first, since they are declared of public utility. Is this a major feature setting them apart from other professions?

Absolutely YES. Compliance with a statute, a Code of Ethics, the Standards of Professional Conduct and with other technical and methodological standards, as well as exposure and sanction of unfair competition and conflicts of interests are not traits to be normally found with the classical formula of profit as fuelling market

economy.

An auditor, an accountant, a notary, a valuer, to name just a few of the liberal professions, are obvious examples of practitioners who cannot subordinate their assignments to the idea of profit. There is a cost level below which the business would turn more profitable, yet to the detriment of public interest. Or, it would clash with the very role of the trade, since it is supposed to watch over in defense of public interest, by providing services up to the specific high standards imposed – which supposes fair competition.

Are you a believer in a potential increase in the number of entrepreneurs among those having liberal professions? How could they be fostered to open up their own businesses?

I wouldn't like to refer only to fiscal measures that would add pressure to the state budget, BUT I can identify at least two aspects beyond our control.

One of them would refer to the condition of economy in general, as liberal professions are basically intended as support services facilitating industry and trade development.

As long as economy does not progress, it is difficult to envisage an increase in the number of entrepreneurs in the area of liberal professions.

The latter aspect refers to the danger undergone by liberal professions of being subject to an aggressive deregulation, which would allow for their free practice beyond the rules able to ensure the quality and morality of the services provided – nota bene – for the public interest.

Under such a scenario, I can hardly see why any entrepreneur would be still motivated to be part of a trade which imposes, to the clients' interest, restrictions entailing costs, as long as he could do the same thing at lower costs, from outside of the respective liberal profession.

Economic growth and maintaining a reasonable regulation level are prerequisites for an increase in the number of entrepreneurs in liberal professions.

Would you briefly describe to us the way you perceive the socio-economic impact of liberal professions?

I think that the several conclusions in the Study on Liberal Professions Impact (those non-affiliated to the UPLR included), conducted pro-bono by PwC, at UPLR demand is relevant:

- › over 350.000 free lancers
- › over 177.000 additional employments
- › 55 billion lei cumulated turnover accounting for 8% of the GDP
- › over 7 billion lei contribution to budgetary incomes (taxes and charges)

As far as liberal professions regulatory framework is concerned, are rules a must to vouch for the quality and code of ethics of the assignments undertaken by the self-employed?

The activities undertaken by the self-employed are independent, which gives them a common starting point.

They can either pertain to the regulated liberal professions, being undertaken only independently, so long as the respective practitioner



meets all the trade terms and regulations.

They can also include other activities beyond those specific to the liberal professions (regulated or not). Given their nature and diversity, I do not think they can be governed by rules similar to those of the trade.

Respect for quality and for the code of ethics may be earned or not on the market the respective self-employed undertakes his assignments on, with the difference that, in the case of other professions than the strictly liberal ones, there will be no other institution (trade) to impose certain standards and sanction deviations besides the client's.

Do employees run lower risks than the free-employed?

Obviously YES! According to the business model assumed, one runs lower or higher risks in terms of the investment and the portfolio

of contracts and, consequently, of clients. Besides, there is personal responsibility to be shouldered for each and every service provided, which comes with its related risk of personal responsibility.

In what way has your previous experience as a partner in one of the big companies making up Big Four helped you with your activity in UPLR Board of Directors?

Organizational management, the direct interface with people, problem prioritizing, the experience gained as a result of my own practising a liberal profession, the capacity of synthesis, the technique of negotiation and acceptable compromise, a deep understanding of the modality in which public authority operates – all that bears the hallmark my previous experience has left knowingly or not, upon my actions and decision making.

What are the domains liberal professions are prevailing in?

Obviously, the services, with health care, the legal, economic and technical fields, the media/ advertising, and not least, culture and art, being the main lines of activity. In terms of turnover, the services in the health care domain play a leading part.

What other trades would you like to adhere to the UPLR in the near future, and how do you intend to attract them?

I would like the Body of Expert- and Licensed Accountants of Romania (CECCAR) to come back to the UPLR, and the Romanian College of Physicians to join in. Of course, I would like all the other liberal professions, indiscriminately, those in the media/advertising and in the cultural-artistic field included, to join us.

The big attraction should be the advantages the membership to an association with such a powerful representation and capacity of negotiation considerably superior to those of any association taken individually, comes with.

What's the novelty brought about by the 2013 Government Ordinance regarding the UPLR adhering to the Economic and Social Council (CES)?

It's the possibility of expressing our standpoint regarding legal initiatives by addressing topics of interest to the liberal professions, while there is still a chance to set things right.

Are you confronted with unfair competition? Which of the liberal professions has managed to pinpoint it?

Unfortunately, yes, there is unfair competition. It is mostly lawyers who have been faced for several years with this situation that authorities unaccountably tolerate. In spite of repeated intercessions, inclusively by referring the matter to the court, the problem has not been settled yet and, what is more, to the surprise of the National Association of Romanian Bars (UNBR) as well as to our surprise, it seems to be here to stay.

Now, to be honest, I haven't been asked, either, to provide assistance in favour of UNBR's undertakings, although I personally have repeatedly offered my help on behalf of the UPLR.

How do you envisage the future of liberal professions in Romania?

There are at least three factors underlying the future of liberal professions:

- › the Romanian economy's future evolution, namely either its picking up through an upgrade, or its getting in the doldrums, or even worse, its downgrade;
- › the wisdom (or lack of wisdom) of the government and of the political class in general to understand the major part played by freelancers as a prime mover of the middle class, as well as the importance of the legal and tax - related measures intended to facilitate – not to hamper – entrepreneurship; and
- › the modality in which liberal professions themselves are actively and efficiently committed, within the UPLR, to

promoting their own legitimate interests, inclusively through an enhanced visibility in the media, towards building up their own identity.

Of course, there is also an international dimension conditioning this future, and the new European Commission's policy on tackling the issue of liberal professions regulation/deregulation stands proof of it.

Under the pressure of high unemployment rate, there is the risk of an aggressive deregulation, as a "solution", namely through the uptake of part of the unemployed population by the area of these services to be dominated by free practice.

General quality, morality and credibility will be heavily impacted by the lack of specific deregulation intended to protect public interest.

Profit will set the business model to the detriment of the client or the patient, respectively, in the case of medical services.

The possibility of investing only capital and of merely waiting for dividends, without providing the respective services and without shouldering due responsibility, will raise the barrier between industry and commerce, on the one hand, and liberal professions, on the other hand, to the detriment of public interest.

However, let me conclude on an optimistic tone, as I actually hope that liberal professions will keep their current status, yet without excluding the prospect of their bigger transparency and opening outwards, as they are the best suited to "digest" the socio-economic changes awaiting at a global scale in the years to come. Well, this is another topic to be tackled. ■

¹ The Romanian Union of Liberal Professions

² The National Union of the Insolvency Practitioners from Romania

Valuation Standards Serving the Romanian Market

The word “standard” has several meanings, namely:

- › a generally accepted norm,
- › a level of excellence or adequacy, or
- › something that is ordinary or usual.

We would like to take a closer look at the first two meanings with a view to their better understanding.

In the valuation services industry, standards should:

- › address in a plain language, using clear and unambiguous definitions.
- › solve specific valuation issues, and
- › set out an adequate valuer’s behaviour through a Code of ethics and specific rules of conduct.

Modern professional standards are principle-based and require professional judgment exercise in order to apply these principles, which may lead to possible inconsistencies in solving similar cases.

Thus, in order to get best results, principle-based standards do not mean “principle only”; the principles should be accompanied by essential explanatory material and guidance to make the standards operational at the expected high quality.

There are several types of professional standards:

- › definitional standards – used to build a common language;
- › process standards – used to promote best practice;
- › technical standards - used to assist to solve specific valuation issues; and
- › conduct (ethical) standards – rules used to benchmark a valuer’s behaviour.

International organizations as well as regional and national ones spend a lot of systematic effort producing normative documents intended as valuation standards and codes of ethics pertinent to their respective market areas.

The International Valuation Standards Committee (now the International Valuation Standards Council) published the first pronouncement of the International Valuation Standards – IVS in 1994. Its latest published edition was issued in 2014. In Europe, the European Group of Valuers Association

– TEGoVA issued the latest version of the European Valuation Standards – EVS in 2012 which includes besides the IVS-compatible valuation standards, also those complying with European Union specific legislation. Other organizations such as the Royal



› **GEORGE BĂDESCU,**
MAA, FRICS, REV

Institute of Chartered Surveyors – RICS, the American Appraisal Society – ASA and The Appraisal Foundation – TAF have published valuation standards that are compatible with IVS to a great extent.

Since 2003, ANEVAR has adopted the International Valuation Standards as mandatory for its members, a policy that has been pursued up to date. Following the approval of the Valuation Law, the official valuation standards in Romania will be those annually prepared and adopted by the The National Association of Authorized Romanian Valuers (ANEVAR). The ANEVAR valuation standards are endorsed by Government Decision thus becoming mandatory nationwide.

However, because IVS and EVS 2012 are principle-based, in 2013 ANEVAR adopted a decision to develop a structure of standards and guidance methodology, IVS and EVS compatible, yet also applicable to the Romanian market. At the same time, ANEVAR will develop and adopt recommendations and practical





examples aimed both at assisting valuers to produce their valuation reports, and at providing the valuation services users a framework of guidance for a better understanding of valuation principles and methodology, as well as for assessing the service quality. The standards (SEV) and the methodological guides (GME) are mandatory, while the recommendations and examples show how to solve various valuation issues and cases.

A general presentation of the 2014 edition of Romanian Valuation Standards is as following:

A framework referring to:

- › general valuation principles and definitions
Professional standards referring to:
- › general valuation procedures
- › valuation of specific assets
- › valuation applications
Methodological guides referring to:
- › valuation for tax purposes
- › valuation for secured lending
- › mortgage lending value of real estate
- › business valuation methodology

- › machinery and equipment valuation methodology
- › real estate valuation methodology

The main features of the Romanian valuation standards described before are:

- › a consistent, practical and flexible add-in type structure,
- › a solution-oriented approach to basic valuation issues,
- › full coverage of valuation issues addressing various asset types and purposes as well as of the scope of valuation,
- › full compatibility with both the International Valuation Standards and the European Valuation Standards, and
- › compatibility and coherence with other standards adopted by other international organizations as best practice in valuation.

Valuation Standards due process

The valuation issues to be covered by a normative document can be proposed by any interested party. All proposals are analysed by

the ANEVAR Standard Committee (SC) and if it decides to proceed, an expert group will be assigned to prepare a discussion draft.

The SC will analyse the discussion draft, decide on the document class (standard, methodological guide, recommendation), and go on to instruct the expert group either to prepare an exposure draft or to drop the project.

The exposure draft will be approved by the SC and published on ANEVAR website, inviting comments.

After the period allowed for comments has been over, the expert group will prepare the final form to be approved by the SC and submitted to ANEVAR Board of Directors. If the document is a standard or guide, it will have to be approved by ANEVAR General Assembly and published in the Official Gazette.

Code of Ethics

In Romania, the Code of ethics of the valuation profession has been prepared and adopted by ANEVAR and endorsed by a Government Decision. The conduct requirements are similar to those in the IVSC and TEGoVA Codes of ethics.

ANEVAR has currently set a working group to develop the Rules of Conduct as methodological norms which will be mandatory for all members. The Rules will cover, without being limited to, the following issues: integrity, objectivity, independence, impartiality, confidentiality, transparency, responsibility, competence, consistency, professional behaviour, management of the valuation activity. At the same time, case studies will be produced for a better understanding of the requirements under the Code and the Rules. ■



ANEVAR 2015 Valuation Standards

Estimating an asset value is quite a difficult mission, since it takes established valuation methods and techniques, expertise and professional reasoning, as well as all the possible data available, all mixed up in the melting pot of the valuation process. Therefore, the realism of the value thus determined depends a lot on the quality of the “ingredients” made use of. Starting from this analogy, one may expect valuation standards to be sort of a book of recipes for whoever fancies assessing the value of an asset to look up in and find a complete list of ingredients, quantities and preparation times. We should know better than that. Real life teaches us that, try as we may, valuation will not be standardised. There are a number of aspects we simply cannot standardise. Take for example relevant information selection and mining, or the

valuer’s reasoning. Nevertheless, if we aim at higher quality valuation reports including opinions put forth with higher professionalism, then we ought to admit the must of a better transparency of the reasoning underlying the valuation, and of standards able to provide benchmarks, recommendations of good practice regarding the valuation terms of reference, the consistent application of various approaches to valuation, value reporting etc.

In response to this requirement for standards with both asset valuers and valuation services users, a market of valuation standards has been set. We have a wide variety of valuation standards available, as developed by a number of organizations, for instance IVSC (International Valuation Standards Council), TEGoVA (European Group of Valuers’ Associations), RICS (Royal Institution of Chartered Surveyors), AICPA



› ANAMARIA CIOBANU,
Vice-President of ANEVAR, President of the
Scientific and Standards Committee, MAA, REV

(American Institute of Certified Public Accountants) etc., aimed at harmonising valuation practice and at setting an adequate level of professionalism for the valuation reports coming in handy for their users. The valuation standards published by these organizations generally converge towards the same good practice recommendations. Nevertheless, there are also some differences, for instance: the degree to which provisions are detailed, or the type of assets for

Nowadays, people know the price of everything and the value of nothing.
(Oscar Wilde)



whose valuation the respective standards have been elaborated. Thus, the European Valuation Standards published by TEGoVA refer to real asset valuation, while the International Valuation Standards published by IVSC make recommendations on the valuation of several types of assets, debts, enterprises. Option for one or another set of standards available on the market should be determined by compliance with the particularities of the economic environment the valuation assignment is undertaken in, as well as with the requirements of the valuation services users. In keeping with the provisions under Government Ordinance No. 24/2011 regarding certain measures in the field of asset valuation, as subsequently amended, ANEVAR adopts valuation standards compulsory for valuation assignments undertaking in Romania Under these circumstances, ANEVAR

aims at developing and promoting valuation standards that should take into account the valuation market characteristics, the economic environment evolution, and the valuer practice dynamics. Due to its wider coverage regarding the types of asset valuation recommendations are made for, the International Valuation Standards published by IVSC have been the benchmark for asset valuation in Romania, being included into ANEVAR collection of standards, the 2015 edition. Regarding real asset valuations, standards have been developed in compliance with the requirements under the European Valuation Standards that are indicated as a first reference within the recommendations issued by the European Central Bank on asset quality, and also mentioned by Directive 2014/17/UE on mortgage loan.

The list of ANEVAR valuation standards and guides has been completed with standards taken from the 2012 edition of the European Valuation Standards, namely: EVA 4 Assessment of Insurable Value, EVA 5 Application of Investment Value (Worth) for Individual Investors, EVA 7 Property Valuation in the Context of the Alternative Investment Fund managers Directive, EVA 8 Property Valuation and Energy Efficiency.

ANEVAR 2015 Standards also include valuation guides developed in order to provide useful tools to the standard setters, for example the Valuation Guide GEV 500 – Estimation of buildings tax value, providing useful recommendations which may complete the provisions under the Fiscal Code regarding the calculation called for tailoring and updates in order to meet, through its recommendations, the evolutions on the valuation market for non-residential buildings tax

according to their tax value as determined through a valuation report. Also, the National Bank of Romania (NBR) intention to transpose the European Directive on mortgage loan into the local legislation, has entailed the need of a valuation guide to determine mortgage landing value of a real estate (GEV 530). Also, a new valuation guide introduced into ANEVAR 2015 collection of standards is GEV 550 that refers to Valuation for legal expertise. Valuation for secured loans (GEV 520) is one of the valuation guides which called for tailoring and updating in order to provide support, through its recommendations, to the evolutions on the valuation market for credit institutions, as related to the requirements issued by the European Central Bank and to those in the Directive on Mortgage Loan.

ANEVAR 2015 Valuation Standards also include valuation guides GEV 600, GEV 620 and GEV 630, GEV 510 which complete the requirements under the International Valuation Standards being compulsory in undertaking valuation assignments on enterprises, machinery, equipment and installations, as well as of real estate, namely for valuation for financial reporting.

By continuously developing and updating the valuation standards, ANEVAR aims at supporting the valuer's practice and the users of the valuation services, by promoting the principles and the good practice recommendations adequate to the current economic context. Assets value estimation can be facilitated by having coherent valuation standards available, yet these standards will never be a substitute for a valuer's expertise and professionalism. ■

When are Standards (not) Useful?



› ȘERBAN IONESCU,
CFA, KPMG Advisory

A few weeks ago this publication's editor-in-chief asked the author of this article to present a brief review of the innovations brought on by the GME (Valuation Methodology Guidebook) 600 over IVS 200. Having been confronted, over the course of several frustrating weeks, with a crippling lack of vision regarding how these novelties should be presented in a reasonably adequate and readable format (GME 600 consists of 18 pages whereas IVS 200 has only nine pages), this author decided that whilst the topic is certainly important, it is also rather dull and difficult to address in an informal paper. What's more, why should anyone wish to deprive the readers of this publication, most of whom are probably professional valuers, of the joy and excitement that comes with learning about such "novelties" straight from the source, i.e. ANEVAR Valuation Standards - 2014, fresh from the printing press? Hence, it was decided that this article would (rather cursorily) address topics of a wider interest, such as European policies, mobile phones, consumers' behavior and their somewhat elusive connection with valuation standards.



On March 13, 2014, the European Parliament passed a draft directive mandating the introduction of universal chargers for all mobile phones sold in the European Union Member States¹, within three years from that date. The implementation of this directive calls, among others, for technical and legislative clarifications from the European Commission, the formal approval of the European Council and the induction of the new rules in the national legislation of each Member State.

On April 5, 2014, the National Conference of ANEVAR sanctioned the valuation standards that are mandatory for the Association's members, consisting of the International Valuation Standards (IVS) and the Valuation Methodology Guidebooks².

The Resolution of the National Conference comes into force as of July 1, 2014, unless otherwise specified within each individual standard.

Naturally, it may seem that the two events are not even remotely connected. But it so happens that the decisions of the two bodies share some resemblance: both are intended to benefit the “end users” (mobile phone users in the former case and valuation reports’ users in the latter) as well as the “manufacturers” (mobile phone designers and, correspondingly, valuation professionals).

Any frequent traveler will have likely found themselves at one end or the other of the all-too-familiar plea: “Can anyone spare a Nokia/Samsung/Blackberry charger?” How frustrating it can be to realize you are now the proud owner of a discharged iPhone, lost amidst a community of Blackberry users enjoying the full functionality of their devices!

Many valuers have probably been at the receiving end of the following question: “What is the weighted average cost of capital (WACC) in Romania – what do the standards have to say about this?” This author is confident that the number of authorized valuers who have also phrased this inquiry in this manner is quite small.

In three years’ time, the Common EPS (External Power Source) Directive will perhaps help mobile phone users find an easier way to charge their batteries. However, the ANEVAR standards will most certainly not help a valuator learn about the WACC in Romania. This is not only due to the



question's poor wording, but rather because the standards are not intended to become a source of data or formulae. "What are standards for, then?" – a junior valuator might ask.

To illustrate this on the WACC example mentioned before³, standards and guidebooks (GME 600 in particular) attempt to clarify certain matters identified as possible sources of confusion in practice: the relationship between cash flows and the discount rate with respect to inflation (nominal or real), the relationship between cash flows and the discount rate with respect to taxes (before or after tax), or the relationship between the currency in which the cash flows are expressed and the currency applicable to the discount rate, because it is unfortunately not rare for one to come across reports where cash flows in Euro are discounted at a rate estimated for Romanian lei (hopefully

the explicit provisions of GME 600 will be of any help in such instances in the future.)

"But what about estimating the WACC for a company operating in sector X in country Y, and where can we find some numbers or references?" – our junior valuator could ask next. This brings us to a first attempt in answering the question in the title of this article: the standards are not a substitute for the literature that valuers must read to gather their professional knowledge.

Similarly, neither the European Parliament, nor the European Council or the European Commission intend to address the whole issue of universal chargers in an exclusively political manner: the entire procedure is designed such that it involves many other European and international standardization bodies (CEN, CENELEC, ETSI⁴) as well as professional associations⁵.

In contrast, ANEVAR is the sole association authorized to sanction mandatory valuation standards for the valuation profession in Romania. And yet, valuers do not conduct their business as exclusive members of an obscure club and valuation could not work in isolation from the more general context (a discussion of the extent to which valuation is a science, an art or a combination of both or neither shall be reserved for the future.) In this general context, valuation standards cannot cover all the concepts which are fundamental but not specific to valuation (cash flow structure, terminal value, cost of capital, the CAPM and its limitations, the selection of valuation multiples, the various definitions of EBITDA and so on). Such notions are not included in the guidebooks and neither should they be.

Consequently, our junior

valuator will realize, hopefully sooner rather than later, that they need to refer to concepts specific to other fields. This brings us to the second part of the answer: knowledge of the standards is mandatory but not sufficient for a true professional; knowledge from related fields (finance theory, accounting background, practical knowledge on capital markets, legal concepts etc.) is of critical importance to any valuation business.

Moreover, the Directive on universal chargers

only addresses one half of the problem: a charger unmistakably has two ends, whereas the directive looks only (at least for now) at the phone end. Having left Romania and reaching the UK or Switzerland, a traveler might realize that they also need a power adaptor.

Similarly, valuation standards cannot address all ends of the problem and certain assumptions that are naturally developed by a valuator cannot be “standardized”. For instance,

a standard that would try to impose a certain methodology for forecasting days receivables (smaller or greater than or equal to the average over the last n years...?), would be met with the same chance of success as an attempt of the European Commission to impose a continental standard for electrical sockets in the UK - and with the same potential for sparking a public uprising. Even our junior valuator will admit (again better sooner rather than later) that they need an “adaptor” to connect to the power grid. That brings us to the final point: neither the standards nor the theory can substitute the valuator’s professional judgment that is required in the various stages of valuation.

How does professional judgment develop and how does it connect to “best practices”, a concept widely used in many other fields? This author has suddenly been made aware that they have exceeded their allocated editorial space, so the topic of professional judgment will have to be addressed at a future time. ■

¹ <http://www.europarl.europa.eu/news/en/news-room/content/20140307IPR38122/html/MEPs-push-for-common-charger-for-all-mobile-phones;>

http://www.euractiv.ro/uniunea-europeana/articles%7CdisplayArticle/articleID_25865/UE_va_impune_un_incarcator_universal_pentru_telefoanele_mobile_in_urmatorii_trei_ani.html

² <http://nou.anevar.ro/pagini/standarde>

³ Because the editor-in-chief has explicitly asked for concrete examples.

⁴ For those who are genuinely interested: <http://www.cenelec.eu/dyn/www/f?p=104:107>

⁵ Idem: http://ec.europa.eu/enterprise/sectors/rtte/links/index_en.htm

The views expressed in this article are the author’s own and do not reflect the position of his current employer.



Current Valuation Profession Challenges

It is a well known fact that starting 2013, valuation has been governed in Romania by a rigorous legislative framework that ensures transparency in professional practice and vouches for quality and compliance with the International Valuation Standards, embraced and promoted in Romania as early as 2002, which offers both users and investors a welcome reassurance.

Such legislative changes do not come out of nowhere. In its over 20 years of existence, ANEVAR has been creatively translating the global realities to reflect the state of affairs in Romania, while ceaselessly, decisively and steadily building a new profession, emblematic for the market economy. This inspired policy accompanied by the effort of many devoted and visionary personalities has earned the association the public recognition of all the financial and regulatory (or governmental) institutions.

Since 1992, ANEVAR has covered a way of courage and milestones of success, reflected in

the international recognition with TEGoVA, IVSC and WAWO, in the adoption of professional and ethical standards, in the development and enhanced professionalism of the four specializations, as well as in a higher level of public trust in the profession.

ANEVAR's permanent openness to the latest valuation approaches in the global arena, its participation in international events, the courses and workshops delivered by lecturers and personalities representing prestigious professional associations, the effort to translate a large number of specialist books as well as the foundation of an impressive library on valuation topics have helped improve the quality of membership and also strengthened the respect the association has inspired at national and international level.

This modern policy successfully developed at national level together with the promotion of the valuation profession has earned increasing international recognition to our association that is a member or even a founder of relevant international organizations, in Europe or globally.

Consequently, it is more than 15 years since ANEVAR's leading personalities have successfully represented the association in the boards of international organizations and contributed to the development of the valuation profession globally.

I would remind only one instance of the memorable series of prestigious events, namely that



› **ADRIAN CRIVII**,
PhD, President of DARIAN DRS Company,
MAA, FRICS, REV

in 2002 ANEVAR was among the first professional associations that translated and adopted the 3rd Edition of the International Standards of the IVSC and launched them in an international conference in Bucharest. I believe it was a turning point for the valuation profession in Romania, a country where most of the public and regulatory institutions started to require compliance with standards. It was also the moment when ANEVAR's input to setting a transparent framework for the profession was given due recognition.

International Standards are a must, given speeding globalization in the last decades, the requirements of the investors or of the financial or regulatory institutions. Standards have led to better transparency and higher trust among the users of valuation reports. They represented a strong support for consistency and good practice in the development of valuation, promoted professionalism and built public trust all over the

world. Continuity in the application of standards that evolve all the time, higher level of professionalism and tailoring to the ever more complex realities of our times are the foundation of success in our profession.

For the two decades since it was founded, ANEVAR has been a leading professional association, one that is modern in nature, dedicated and engaged in social realities and helps developing personalities, experts in the field of consulting providing public and private institutions a reliable support in decision making aimed at achieving their goals.

The financial crisis starting in the autumn of 2007, which triggered a global economic crisis, concerns in the banking system and the sovereign debt crisis that many countries in the world are faced with, has been putting a big pressure on all professional services in the financial, fiscal, accounting, audit and valuation fields.

The fast changing realities of today's global world are shaping new risks and new regulations in our profession, but also new opportunities that need consideration if we want to be able to further meet the demands of our clients.

Investors, national and European public institutions, governments through

the authorities regulating financial and capital markets have imposed

increased requirements, more transparency and indirectly a more prominent role for the professional, ethical and quality standards, a new picture Romania is part of, too.

The Ministry of Finance as well as the other market regulatory authorities in Romania have developed legislation that sets higher civil and criminal liability standards for consultants, valuation firms or individual valuers, in other words, the new legal framework of the profession entails increased responsibility.

In response to it, ANEVAR has put in place a review and monitoring system that requires high transparency and quality of the valuation firms, thus creating a framework for the valuation activity that will also enable positive developments in the future.

The implementation of a good system of quality assurance, ISO 9001:2008, and information security, ISO/IEC 27001:2013, must make the core of the valuation activity delivered

by professional services firms.

I believe that ANEVAR's success story can set a modern role model for other emerging countries that want to join the European

Community.

The market of the valuation services that, unfortunately, are not correctly rewarded yet is rather underdeveloped. This is linked to the lack of strong firms that can provide good quality services and create a good environment for the professional development of valuation practitioners.

After an over 20 years' experience in the profession, both in Romania and abroad, I believe that the time of small firms and individual valuers is gone. They can only provide services of little added value and will be replaced by valuation management companies based on CAT or mass valuation products, tailored to the market requirements.

The desideratum of having a valuation profession that is highly regarded in the society and generates prosperity is not something to be left to the association only, it must be the concern and the interest of each qualified and corporate member. Strong real estate and financial services companies, sadly, both facing decline

nowadays, could integrate valuation into consultancy services in order to meet the more sophisticated demands of the clients, while capitalizing on valuers' experience and creativeness. I consider that the way towards prosperity in our profession goes from professional services to consultancy. ■

The Future of a Profession – from recollections to prospects –

It was a nice morning in the spring of 1992, when my beloved late mother told me, in a rather matter-of-fact voice, yet allowing for no comments: “Daniel, they are organising a training course on business valuation in the city of Arad. Go and apply, I think there is a great future to it!”

Back then I did not realise she was absolutely right and I was sort of trying to find a way around it. However, my attitude changed completely when I met Aristide Nelu Dragomir, the local initiator of the course and a person whom I found absolutely fascinating.

Once the training started and I met all those wonderful pathfinders who contributed their time and knowledge to blowing life into the valuation profession that the wave of new reforms had brought to Romania, I knew I had made the right choice for the future. I would like to recall here and now the wise character of the former honorary president of the Association, Professor Alexandru Gheorghiu, the calm and organized personality of Constantin Coțovanu, the young and smart Corina Cernea, adamant about debt and credit accounting, the sharp and combative Nicolae Popescu, the elegant and rigorous Adriana Gheorghiu... The list would never be complete without recalling the senior industry figure animating the group of lecturers of former

days, the initiator and first President of the Association, engineer Gheorghe Bădescu.

Those and many others who have honourably followed in their footsteps, such as Sorin Stan, Doru Puiu Tiberiu, Traian Grigore, Veronica Gruzniczki, Mihaela Cociș, Olaru Ion and Cornel Șchiopu, people shaped in the tough and impersonal melting pot of the new economic, social and political order, pioneered the development of the valuation profession, a liberal profession instrumental to market economy proper functioning

The Association came into the national professional landscape at the right time, paving the way for a set of economic operations that go hand in hand with the transition from a centrally planned economy to an economy based on free competition and private property: privatization, the creation and development of an organized capital and commodities market, the establishment and operation of a local market for mergers and acquisitions, investment activity boost, real estate or business development, mortgage lending etc.



› DANIEL MANĂȚE,
First Vice-President of ANEVAR,
MAA, REV, MRICS



Each of the above mentioned stages required not only significant effort from the Association, but also intelligence and constant work. The team headed by Professor Gheorghe Bădescu did a brilliant job. Throughout the ten years since its foundation, ANEVAR had already provided the authorities and the public the needed support: a one-way ticket for the country's advance towards market economy. There was no going back. The profession had evolved from its first specialty, business valuation, back in 1992, to real estate valuation, starting 1997, fostered by the new dynamics of the Romanian business environment: development – funds – loans – securities – growth.

Yet, we needed to bring in some new blood, new energies, an assertive manner bordering on some sort of aggressiveness, in the good sense of the word. It was high time ANEVAR meant more. Time had come to thrive.

Mr. Upon Bădescu's initiative, who no longer ran for elections and promoted the generous troika idea (former – current – future president), Adrian Crivii came at the helm of the Association. He was followed by Mihai Bojincă, Ion Anghel and Adrian Vascu, the ideal mix of “young wolves” and mature experience.

The change matched the times. If ANEVAR already had professional substance, it also started to acquire a shape, developed a visual identity, including its own creed “Value, Wherever It Is”, it became a natural presence in the International Valuation Standards Council - IVSC or in TEGoVA, acquired the public interest association status, succeeded in including in the Occupational Registry of Romania occupations such as business, real estate, personal

property and financial assets valuation and developed strong links with universities, since they represent a pool for training and recruiting future valuation experts. The evolution of the profession continued in 2000 with a third specialty, personal property valuation, with the creation of a third class of members, accredited members, in 2001, and finally reached the fourth specialty, financial instruments valuation, with its pilot training course conducted in 2007.

The financial crisis that the USA exported to the Old Continent caused economic recession, unemployment and insecurity in the lives of the Europeans, changing the rules of market economy on the go. Never before in modern history was there more need for a financial culture, from understanding basic principles, like savings, investment, market value, risk and return to the complete understanding of the factors that impact value. The training courses and lifelong training programmes, the conferences and publications of the Association have offered the members and the public the necessary knowledge to understand the mechanisms that govern properties values, which is very useful in times of recession and economic boom alike.

In this ever more dynamic and complex environment, the fine balance of the profession on the narrow bridge spanning regulation and deregulation was found during the office of one of ANEVAR's most level-headed presidents, Filip Stoica, when professional valuation as well as the organization and structure of the authorized valuation activity acquired legal status (GO 24/2011). The continuity between the old ANEVAR – The National Union of

Romanian Authorized Valuers) and the new ANEVAR was masterfully conducted by the former president in office, Petre Marian.

Briefly, those are my fond memories of a profession, valuation and of an Association, ANEVAR that charted the area of this liberal profession in Romania.

The present is born under our eyes. The word of the day is continuity and that continuity materializes in the person that took over the leadership of the Association in 2014, Adrian Vascu, one of ANEVAR's presidents before the profession was regulated.

My strong belief is the Association will find the wisdom to stay flexible, to reinvent itself to the benefit of its members, the profession and the public and to choose the best representatives, those who understand the meaning of volunteering and dedication.

I would like to conclude with some thoughts of mine, which I deem relevant. Let me share them with you in hope you will “value” them as they may recommend you, too.

Education and lifelong training are our passport, everyone's passport to a better future, as long as tomorrow will always side with those that are forging it today.

Just like the slumber of reason produces monsters, education lacking moral values ends up in producing professionals of no morals, a species that can harm society even more than criminals who have but little education.

I want to be successful, but I want to earn my way to success. I need no charity, but I would not work for too little either. I know that nothing comes for free. I know that peaks are hard to reach, but I am willing to try. In fact we are young as long as we keep on learning. ■

Professional Ethics, a Pathway to Building Public Trust



The Romanian language dictionary defines ethics as:

A set of norms according to which a group of human beings would adjust their conduct so as to distinguish what is legitimate and acceptable in achieving their goals.

The International Valuation Standards setters make it clear in the Code of Ethics that it is vital for standard-compliant valuation assignments to be undertaken by honest, competent, unbiased and disinterested professional valuers producing apprehensible reports that shall not be misleading and present all the essential aspects required for the valuation to be adequately understood.

Under Art. 24 letter c) of Government Ordinance 24/2011 regarding certain measures in the field of asset valuation, valuation practice in Romania shall abide by the Code of Ethics of the authorized valuation profession. The Code is aimed at enhancing public trust in the valuation process, by setting a framework that enables the credibility of the valuation opinion given by authorized, adequately qualified valuers who comply with the rules of ethics in the performance of their activity. The Code of Ethics aims at promoting ethical conduct and principles inside the valuation profession.

In other words, if we abide by



› DANA ABABEI,

Vice-President of ANEVAR – Head of the Legal Committee, CEO of CMF CONSULTING S.A.

the Code of Ethics, we strengthen public trust in ANEVAR, the trust that the Association has been gradually building throughout its over 20 years' activity, and each of us, honest authorized valuers, will be distinguished from those

who choose otherwise. Only if we define and abide by what is legitimate, moral and acceptable in professional practice, can we become a profession enjoying high recognition on the market.

The basic principles of ethics laid out in the Code of Ethics of the authorized valuation profession are the following:

- › Integrity
- › Objectivity, independence, fairness
- › Confidentiality
- › Professional competence, and
- › Professional conduct

The principle of integrity requires valuers to be honest and fair in all professional and business relations. Integrity calls for a fair and sincere conduct. No valuer shall knowingly write a report which:

- › includes statements or declarations that are untrue, erroneous or inadequately structured;
- › includes fundamental errors either by omission or intentionally.

Let us be honest! Such a valuation report should be written under no circumstances, irrespective of whether it is mandatory to abide by a set of principles or not.

Should an authorized valuer become aware of his association with untrue or erroneous information, he or she should take immediate action to correct the existing errors and inform the client

and the user of his work on his findings.

In such a context, mention should be made of Art. 25 of Government Ordinance 24/2011 regarding certain measures in the field of asset valuation introduced through Law 221/2013 regarding the approval of the Governmental Emergency Ordinance no.12/2013 on the regulation of financial-fiscal measures and the prorogation of certain deadlines, in completion to certain regulations:

Art 25. In the performance of their activity, valuers shall account for violation of discipline, civil and criminal law, as the case may be.

(2) Criminal liability for damage arising from any use of untrue data in the valuation report or the inadequate application of the valuation standards adopted by ANEVAR rests exclusively with the valuer.

Given the way the valuation profession has developed in Romania, it is useful to remind/ point out that under no circumstances should the fees charged by an authorized valuer for the assignment be expressed as a percentage of the estimated value, neither should they depend on the acceptance of a proposed value or

on tax tied to a proposed value. The fees should not depend on the occurrence of an event (approval/ rejection of a loan, decrease or preservation of a level of taxation etc.) or on future benefit, either.

At the same time, giving or accepting gifts, accommodation or other types of services might result in obligations that taint integrity.

We must never forget that the provisions in the Code of Ethics of the authorized valuation profession are mandatory for all authorized valuers, natural and legal persons, who are members of the Association. Violation of the Code is deemed to be a disciplinary violation that authorized valuers shall account for, in line with the currently applicable regulations. (see the article “Despre etică și disciplină” [On Ethics and Discipline] in “Value, Wherever It Is”, magazine issue no.1)

However, abidance by ethical principles should not stem from fear; it should rather come as a result of upbringing, “countless” years of study / training and, last but not least, the pride of belonging with a well-established Association in Romania, which we all have helped build! ■



An X-ray of Mortgage Lending Valuation



› RADU CĂLIN TIMBUȘ,
Vice-President of ANEVAR,
MAA, REV, CEO of Euroeval S.R.L.

This material is trying to capture some aspects of mortgage lending valuation, emerging only a while ago in Romania.

Outer Perception

Seen from the “outside”, mortgage lending valuation looks like an orchard with plentiful of fruit all the year round, where everyone would like to find a place.

Only when one gets to write mortgage valuation reports (suited to the deadlines and the fees imposed by the lenders, yet fully compliant with the quality the standards require) does one realise that some of the trees are barren, that fruit is sometimes inaccessible, or maybe

already picked... by others.

Certainly there is still fruit left, the smaller and the very big, but poisonous... Out of ignorance or deceit, or sometimes out of hunger, some end up associating to those that think they are immune and target the poisonous fruit.

Perception of the Parties

It is a well known fact both parties involved (lender/user and client) pursue particular, clearly defined interests (similar to the buyer’s vision vs. the seller’s vision).

Consequently, the lender is in pursuit of a collateral that is clearly identified, can be sold right away, at its discretion, independent of the wish of the others or the external environment, for a value that is higher or at least close to the value the lender relied on the moment the

collateral was deemed acceptable. One needn’t be a valuer or a banker to understand that the identification of the asset, the property rights valued, the general and special assumptions, alternative use and the risk associated to the collateral are the most important aspects to consider and that they require additional supporting arguments. All of that will generate information on the quality of the collateral, before any estimation of its value. Hence the first conclusion: Quality, the worthiness of the collateral prevails over any value that is attached to it.

On the other hand, the borrower/mortgagor seeks for the “most optimistic” valuation of the real estate, one that would minimize (willingly or unwillingly) the transferability risk of the asset to third parties, or situations where the use of the asset is related to and/

or dependent on other assets or on the asset's compliance with legal, economic, environmental or other requirements.

In most of the cases, the owner will see his or her asset as "the best" of all and perceive it at least as a high-end item on the market. It is rare, rather very rare, for an owner to concede with the functional and external depreciation of a property revealed by market comparison and/or the earning power of the property. Such a perception may stem from sheer subjectivity or ignorance of the market, but also from the entrepreneurial vanity of the negotiator in the selling process.

Digressions from Normality

We described before the subjective position of a "good will" borrower, but there is also the kind of borrowers who deliberately attempt at influencing valuation (tip the balance in their favour) from the very moment they apply for the loan (mortgage registration). The practical methods are not intricate at all and they consist in providing the valuer only those aspects that can increase value and/or hiding the aspects that would make the collateral less valuable or, worse, less marketable, or even dependent on assets and/or decisions of the borrower/mortgagor.

For the sake of balance and objectiveness, which are essential in the reasoning and activity of any valuer, we must admit that lenders often tend to be "excessively prudent", especially the risk officers and people with a background of foreclosure sale (once "bitten..." or those who learn from the experience of the others). This is something easy to understand. Norms actually come to support such people through the

differentiated approach of the credit score, but that lies with the lender, not the valuer.

I will refrain from making direct comments on the situation when the main interest of both the borrower and the credit officer goes with the placement, not with securing the investment. It is tough for the valuer to cope when pressure goes one direction only, when there is no limitation or no mitigation coming from risk officers of fellow-reviewers. That does not mean that such situations never occur. Some valuers strive to find a solution, others turn the assignment down. Unfortunately, there are some who, at their own risk, make a "shallow" job of such assignments. We may say it is their choice, but ... the Association comes into play or the sales people may reproach on us: "What do you mean you cannot do it when your colleague could...". Should we reply that the colleague they mention took a bite from the poisonous fruit, I wonder?

Reviewers

Internal valuers have a huge responsibility. They are accountable both for their own assignments and the external valuations they review and endorse. The discretion of the banks together

with the valuer's duty of confidentiality limits public knowledge about the complexity of their tasks and their capacity to deal with them, especially when they are under the fire of sales targets.

External Valuers

One may say about external valuers that they have the freedom to choose their clients, to turn down assignments, but... if they are



repeatedly doing that they may “be free to go” and they will eventually be eliminated from the banks’ list of accredited valuers.

One may say that they have an easier life than internal valuers and that they cannot be subject to any subordination pressure. It is true to a certain extent, but they are running the risk of being eliminated from the banks’ list of accredited valuers for being incapable of solving the problems “well and fast”. They may be satisfied with the smaller fruit... or be tempted by the poisonous fruit.

External valuers are often “annoyed” at some of the demands (related to substance, more or less, or even form) of the lender’s reviewer. These demands are time and energy consuming or even useless in the fabric of the report, but these should not be perceived as negative aspects because the trap of antagonism is totally unproductive. Both internal and external valuers have a common interest and though they see issues from a different perspective, they pursue the same end, i.e. to define an acceptable quality for collaterals and to attach a value to the property rights that are mortgaged and deemed transferable in case of foreclosure sale.

That leads to another conclusion: Be happy when you have your work competently peer reviewed and when an expert valuer looks at a report based on which the loan is approved (before it is secured, because afterwards it may be too late and a different story).

Competence

It is easier for an internal valuer to acquire the necessary expertise and basically to follow the evolution of a collateral in time, case by case, domain by domain, step by step.

The experience of mortgage



loan approval, of revaluation during the loan, of monitoring the main features of a collateral, the analysis of the degree to which the initial assumptions materialize, of the influence of the environment, of the debtor’s reaction and of other aspects, they are all important lessons.

In fact, a mortgage valuer can reach professional maturity only if he or she can analyse the mortgaged asset both from the perspective of loan approval and foreclosure sale. In conclusion, a mortgage valuer can say he or she is experienced enough only when the asset is sold following the enforcement of foreclosure (every time the actors involved realise that they have learned new things when they reconcile the reality of foreclosure sale and initial mortgage value).

Moreover, we can reach one more conclusion that we will develop in the next chapters: When we value an asset, we must be aware that it is not difficult to mortgage it, but to sell it in case of default. (In fact, this is the interest of the bank, i.e. to know what it can rely on if it comes to turning the asset into money.)

Turning Valuation to Value

Many (unfortunately) embrace the wrong idea that they are “covered up” when they give an opinion on value, because the asset is not supposed to be sold right away, but after a while, if ever.

There also existed adventurers who, based on this wrong idea, anticipated during the real estate boom that the market would keep growing and values would be covered on the principle that everything sells “on an ever growing value on the market”. It was so for a while, but... besides value the market also reacted to the quality of collaterals and dismantled the development assumptions or the assumptions denying inter-dependencies, resulting in a situation where assets could no longer be sold at reasonable prices, not because of the drop in quotations but because of the limitations on property rights. The experience of the crisis should teach valuers (old and young alike) a useful lesson. A mortgage loan can act as a “time bomb” that is why all the

technical data, all the data about the influence of the environment and hedging must emerge from the valuation report the moment the loan is approved (bombs can rarely be disarmed on the way). Once handed over to the bank for safe keeping... all you can do is be happy if it does not go off. In case it does, we can only hope it is for other reasons, reasons we could not possibly anticipate, or that we have prudentially and conscientiously warned the lender about.

Specific requirements

Through its specific standards and the mortgage valuation guidance, ANEVAR provides mortgage valuers with adequate supporting and guiding tools. I suggest a handy test: it is easy to make a comparison and look at the standard and the guidance as a checklist, see whether all their requirements are reflected in our reports. It is a step forward.

Besides the general requirements, there are specific requirements as well as the financiers' own norms. Since we have tackled the issue, valuers should make a rule of making a clear note of the instructions they receive from the lender about the treatment of a valuation. On top of that, even if it is time consuming, we can conclude that any specific demand and instruction or working assumption required (or agreed) by the bank shall be communicated in writing before the valuation process starts.

Certainties

At the time collaterals are valued, both the lender and the valuer need sure facts. The trap of replacing facts by assumptions is to be avoided. Normally, the bank will

not accept them, but they may escape reviewers and the collaterals may be included into the portfolio while it contains a certain dose (unknown and uncontrolled) of uncertainty linked to legal, technical, economic or other aspects. Life has shown that what is uncertain at the time the deal is closed will definitely generate greater uncertainty on foreclosure sale and if the bank does not have the right levers in place, the borrower will definitely exploit that in his or her favour. In conclusion: any uncertainty linked to the collateral shall be conveyed to the bank (entirely), as the bank could have specific tools to cover such a risk.

Particulars of Mortgage Lending Valuation

The core of mortgage lending valuation is market value. That means that there must be a market for the valued assets. Valuation assumptions must be carefully considered in order to estimate the value for the subject-property.

Market value is well-known to us, we can define it, we feel it as something normal. However, when it comes to mortgage, we must analyse how much of that normality can be preserved and how much of it can depend on other factors that the bank may control or not. Let us keep in mind that while valuation considers normal market conditions, the asset will most likely be sold following foreclosure, which may explain some differences in value.

The biggest problem is the change of the assumptions when the asset in distress is sold and the impossibility to uphold or to fulfil the assumptions built when the asset was valued in the process of loan approval.

This is what explains some errors frequently occurring in the

valuation reports. Valuation relies on unrealistic assumptions or assumptions that are at risk of non-materialising at the moment the asset is sold. Moreover, the lender may see valuation as totally erroneous, or even deceitful, when the report do not offer any explanations regarding the risk that these assumption would not materialise. Standards require us to use reasonable and clearly defined assumptions.

Clarity is a basic requirement and even more so in mortgage valuation. It regards the valuation conclusions resulting from the adequate assumptions, their explanation and agreement as well as the presentation of the risk associated to the possibility that they fail to materialise.

As for marketability, transferability and the preservation of a fairly constant level of the parameters (inherent to the collateral's quality and value) throughout the loan term, consideration should be given to the legal elements, too, not only the technical and the market issues.

Valuation for lending purposes must necessarily rely on a larger scope in the definition, documentation and careful analysis of ownership rights than valuation for other purposes, disconnected from asset acquisition or collateral finance. Lenders should not agree to faulty, incomplete or missing documents, nor should they accept such flaws to be made, even if they are covered with assumptions. Yet, whenever we come across such situations, we must explain clearly and thoroughly what the consequences will be in case the assumptions fail of the ownership right is limited. Experience has shown that if ownership rights are not well defined and identified on loan approval, they will be even

less clear when the bank needs to proceed to foreclosure sale.

Both the assumptions and the definition of the legal rights attached to the valued asset (transmissible through foreclosure sale) are not only based on documents, but also on the inspection of the real estate and the clear identification of both the legal and the actual situation.

Limited inspection is totally unproductive and risky for loan approval. Any valuer is aware that he or she is “the bank’s seeing eyes on site”. Identification plays an important role in the definition of the legal rights attached to the real estate as well as in the identification of any predictable risk linked to neighborhood, limited access, use etc.

Such situations often generate errors in valuation reports, where inconsistencies are not explained well enough or the treatment of dissimilarities is not even mentioned. In fact, any such inconsistency should be communicated to the bank that will send the valuer written instructions on how to treat that specific assignment.

Valuation Risk

Certainly, amateurs (not valuers, we believe) are tempted to say that mortgage valuation is difficult. Indeed so, but it is not the role of this chapter to dwell on that.

The chapter is explicitly required in the standards, but there is no typical content provided. The content should fit each case, the lender’s instructions and the assumptions. However, risks should be clearly communicated for the lender to understand and interpret them correctly and be knowledgeable when they accept them. The adequacy of the lenders’ decisions depends on them.



From the valuer’s point of view, this chapter involves a snapshot of the whole valuation, the assumptions, ownership rights, market, trends, dependencies and conditionality, the consequences of government reshuffle, of social, environmental, technical change etc. Some of these are concrete facts emerging from the analysis, while others are only potential facts. Predictable risks are known to the valuator (they should be, since according to his or her qualification, a valuator must know the field, the asset, market, purpose etc.). Yet all these risks are present in foreclosure sale, which proves the point that experience in mortgage valuation accumulates only after one has seen how perspective changes at that moment. Yet, not even experience can help us foresee the unpredictable... But at least we are not held accountable... (though

when one needs a scapegoat...).

A creditor should actually know about the risks running the collateral, the risk of losing part of its marketability or its quality/value (again: rarity, use, marketability, purchasing power, to which I would add unconditional transferability). Those risks are inherent to the collateral or they reflect outer factors and they require a sizable analysis, since in case of potential foreclosure sale, the borrower or perhaps other stakeholders will try to use and make the most of their levers at their hand to delay the sale, to gain something, eliminate potential competitors, limit rights etc. All that opposes the interest of the lender who wants to sell as fast as possible, at the highest value, for the ultimate purpose of debt recovery.

Form the point of view of the lender, the information in this

chapter is used to perform analysis, to take prevention/mitigation/removal actions and supports the approval of the collateral for the loan.

I personally often think of what would happen if considerations about risks were read, understood and exploited (consolidated in his favor) by the borrower only and were not counteracted by the lender. Should we have written nothing? Definitely not. We did our professional duty.

(Beware) Myths

The banking industry is rather rich in “myths” (most of them embraced by credit officers) that practical experience proves wrong.

I have already presented an extensive material on the topic in the mortgage valuation seminars. I would dwell on the myth of the “good client” spread by the lender (loan seller) to induce valuers the idea of lower risk. The feature regards, the client, the business, for sure, but as a rule “A good client is not necessarily a client with good collaterals”. We assess the risk attached to the collateral, not the client.

Another myth concerns the “unique asset” where the lender points out the uniqueness of the asset (“the only, the biggest, the most...”). A valuer necessarily considers potential foreclosure sale: who would potentially buy the asset, what might be the use for the buyers, what are the alternative uses, how can it be converted, how to apply comparison etc.? The lender’s enthusiasm will definitely cause the valuer some mixed feelings.

As for the “myth regarding the competence” of the mortgage valuer... I believe that this material has already pointed out that “a valuer specialized in valuation of flats”

(even as many as hundreds) should not adopt a shallow approach to the valuation of other types of property and/or property rights. The same goes for a valuer specialised in car leasing, as he or she has never had to do with the additional necessary analyses, or the complexity inherent to data collection, to building the assumptions and assessing the risks for production lines, dependent on upstream and downstream elements, the cost of environmental barriers and even the clear prerequisite of mounting/dismantling.

The analysis of ownership rights, of the specific market, of determinant factors, of attached risks is so much more complicated. The speed in filling out the much talked about (yet never patented) “Uniform Report” does not go hand in hand with mortgage valuation. But, of course, it should all start from somewhere (except for that “uniform” report that we eventually expect).

Fees and Monitoring

Both are vital. The efforts made by ANEVAR’s leaders might work in practice with respect to setting fees that translate the size and the complexity of the job as well as the monitoring results.

It is a challenge that the President addressed bankers directly and concluded that “any pressure for lower fees will translate in lower quality”, so I will only add that few are those who tell banks that it is impossible to have good quality work if they want it fast and cheap (I do not dare develop the topic also because I was personally not able to tell them straight that ...” they do not understand the “value” of all those – users as well as valuers – who apply the valuation of an unoccupied plot of land a lower fee than an apartment).

Monitoring will (perhaps) give an answer to the question: If we obtain the fees we deserve (we substantiate), does it mean the quality of our reports will be up to the standards?

Many valuers do cut short telephone conversations when they negotiate with clients and clients start with the question (I daresay offence): “How much is the value and how much is the fee?” Those who do not hang up know what the next “negotiation” step is. Value is obviously never negotiable.

The Author’s Perception (in guise of conclusion)

What I wanted to convey is certainly my personal position, but it definitely relates to aspects from more than 20 years of practice “bordering” mortgage valuation as well as debt recovery.

I have learned from the questions of the reviewers, from their requirements, from their concrete instructions as well as criticism. I have learned from my peers, too. This is a field where there is always something new to learn, provided one is interested. The more interested and vigilant when peers and reviewers show they trust you and give you credit.

We are past trail-blazing in mortgage valuation. Meanwhile ANEVAR has developed extensive and detailed materials, including valuation issues and case studies. Seminars, conferences, articles, standards, guidances and other materials are a rich source of information in the field.

We will never be able to cover all the issues, but I believe we already have enough details in the big picture, so all is left to say is... do not starve in the orchard, but do not eat from the poisonous fruit either. ■

Mortgage Lending Value and Its Applicability in Romania

Mortgage Lending Value, MLV in short, is a type of value included in the European Valuation Standards (EVS) and the European regulations and widely used in Germany. Mortgage Lending Value is defined as “The value of the property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property. Speculative elements shall not be taken into account in Mortgage Lending Value assessment“

MLV takes into consideration the long term characteristics of real estate because it is seen as a value obtainable on the long term, preferably as long as the loan.

That explains the conceptual difference between market value (a value that is valid only at the valuation date and in the conditions described at the time of the valuation report) and MLV, which is a “long- term value”.

The way MLV is applied in Germany essentially points to a prudential value. The applicable methodology is specifically designed to eliminate the speculative elements from value by taking into consideration the historical data from the relevant market.

Starting with the autumn of 2011, with the intention of the National

Bank of Romania to transpose in the national legislation the European Directive regarding covered bonds, Romania launched public debates on the possibility of adopting MLV as a type of value laid out in the national valuation standards.

The adoption of MLV as part of the national standards rested from the very start on the ability to answer two questions:

1. Whether this standard can be adopted and promoted and if so, who should do it?
2. Will it be possible for this type of value to be estimated by the valuation professionals in Romania?

It is simple to answer the first question. Under Government



› CRISTINA GRIGORESCU,
ANEVAR MLV Working Group

Ordinance 24/2011 regarding some measures in the field of asset valuation, approved through Law 99/2013, later amended, ANEVAR is legally mandated to adopt the valuation standards governing the valuation activity in Romania.

However, in order this measure to be fully functional the answer to the second question was needed, otherwise MLV would be adopted as a mere “form deprived of substance”.

Under the circumstances, starting from the German methodology and benefiting from assistance from the promoters of this type of value in Germany, ANEVAR set up a working group that looked into the possibility of successfully adopting the German methodology in Romania.

The conclusion was that MLV methodology can be applied in our country provided it is adjusted to accord with the realities specific to the Romanian valuation market,

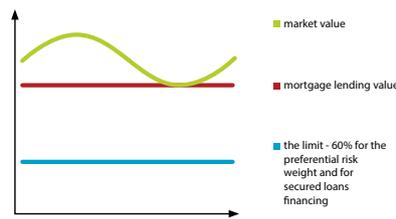
rather than adopt the German methodology as such.

We will further introduce the main ideas included in the draft standard that in the near future will be open for debates involving all stakeholders: valuers, banks and the National Bank of Romania.

Before reviewing the details, we will remind some of the particulars of the German methodology:

- › It applies to any type of real estate (residential, commercial - retail, warehouses, parking spaces etc. - industrial, leisure, health and welfare, vacant land - including farming land and others).
- › It applies both to loan approval and the issuance of bank covered bonds.
- › The main valuation method is part of the income approach (rent income capitalization).
- › The second valuation approach that may apply is the cost approach.
- › The third approach, the market approach (that essentially follows the market evolution), is accepted only in exceptional cases and applies prudentially.
- › The valuation result is the value obtained through the income approach provided it does not exceed by more than 20% the result obtained through the cost approach.
- › It takes into consideration prudential estimates of valuation parameters that are set for MLV to follow the pattern presented in the graph below, which is crucial to understanding the

relationship between “market value” and MLV.



Noticeably, MLV does not account for market fluctuations, but it will be situated at the market historical low.

- › The valuation report contains both “market value” and MLV.

The Draft Standard Developed by ANEVAR

Considering the realities in Romania, stemming both from the market and the availability of data, the draft standard developed by ANEVAR provides the following:

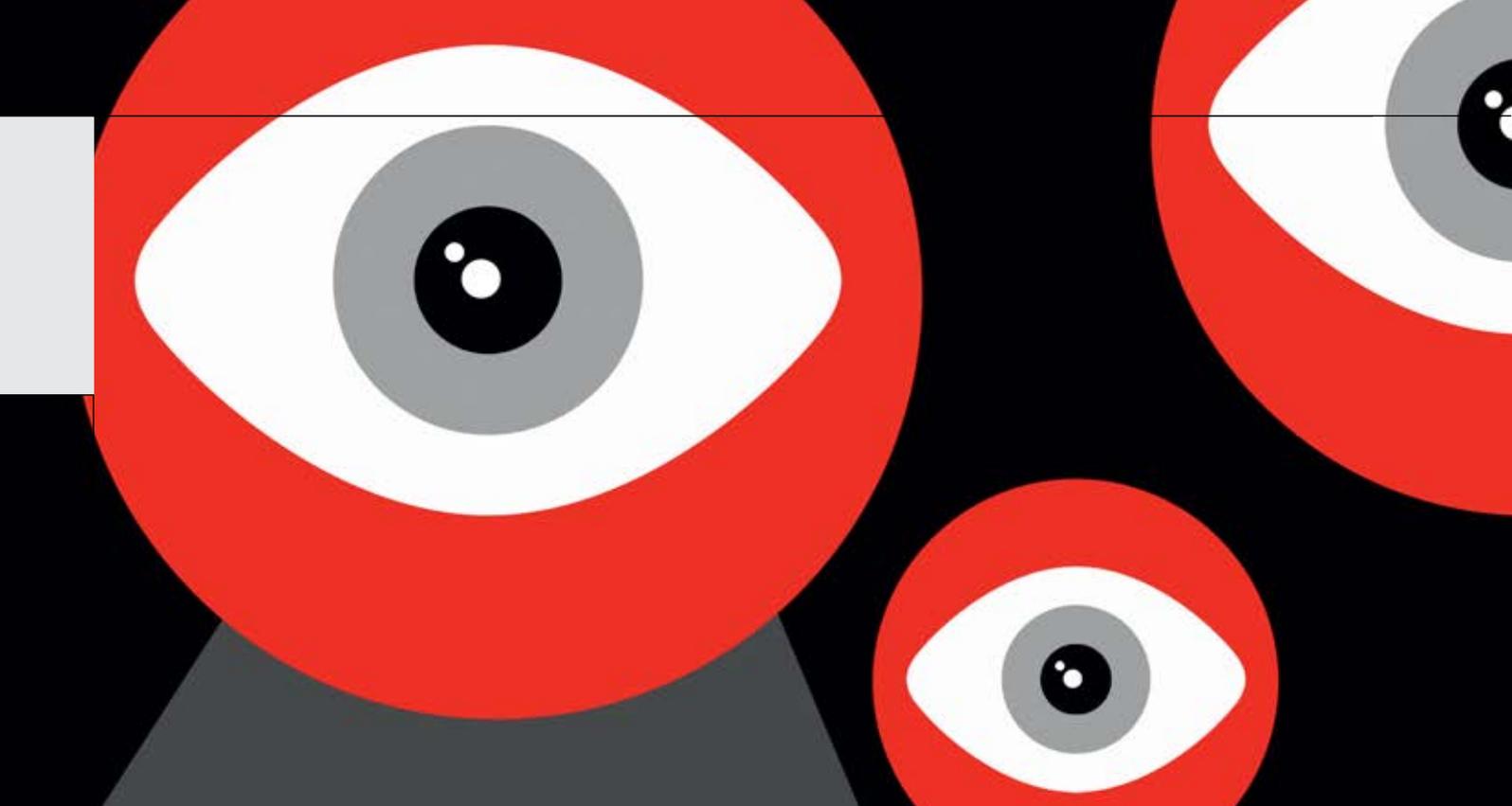
- › The methodology shall only apply to commercial property, office and retail buildings and only for the purpose of issuing bank covered bonds. It will not be possible to apply it in loan approval phase, because it only refers to the most liquid type of real estate, where there is sufficient market data to underpin bank covered bonds, in the event credit institutions issue such bonds.
- › The application of the methodology will result in MLV.
- › The income approach shall be the main valuation approach only for commercial properties.
- › For residential properties, flats or detached houses, the main valuation approach shall be the market approach.
- › In every case, the methodology used in the main valuation

approaches shall include specific elements ensuring the long term sustainability of the valuation results, i.e. prudential estimates tied to some of the valuation parameters.

- › The second valuation approach, which applies case by case, is the cost approach, applicable to commercial properties and residential houses with land, and the income approach for flats.
- › The selection of the final value will depend on the nature of the property, whether it is commercial or residential. Consequently:
 - For commercial properties, the selection will regard the value resulting from the income approach provided it does not exceed the cost approach result by more than 20%. In case it exceeds 20%, the result obtained from the income approach shall be adjusted accordingly.
 - For residential property, the selection will regard the lowest value of the two resulted from the application of the approaches advised for the two types of residential properties.
- › The valuation report shall include both market value and MLV.

The current guidebook will come into force when both of following conditions aggregate:

 - a. as a type of value, MLV is included in the legislation regarding the issuance of bonds secured with collaterals,
 - b. it is approved by ANEVAR's National Conference. ■

The top half of the image features three large, stylized eyes. Each eye is composed of a white outer ring, a grey inner ring, and a black pupil with a white highlight. The eyes are set against a black background. The largest eye is on the left, a smaller one is on the right, and another is partially visible at the top right. Grey beams of light emanate from the eyes, pointing downwards towards the text and the figures below.

Valuation Services Quality Monitoring





The activity ANEVAR has carried out so far has earned the Association a high profile on the Romanian valuation services market, its major input having charted the valuation profession development and its progress to the recognition among the users of such professional services.



› **SORIN PETRE,**
President of the Review and Monitoring Committee, MAA, MRICS, REV, Director in the Consulting Department of PwC Romania

Addressing ANEVAR professionals for various valuation assignments comes with a sense of safety from users, as membership to an Association that has always been concerned with both its members training and the must of a strict compliance with the profession ethical principles does justice to their credibility.

Maintaining the reputation and credibility in the eyes of the users of valuation services provided by ANEVAR members is a core objective of the Association. This is all the more the case since the Romanian authorities regulating the profession through Government Ordinance no. 24/2011, decided that „valuation activity can be performed by any person who is an authorized valuer” and it is only the Association that can grant such a qualification. Under these circumstances, valuation performed by authorized valuers must prove as good in quality as possible, which can only be done by providing members the adequate training and by permanently monitoring their activity. As a matter of fact, the Association has the legal obligation to monitor the activity of its authorized valuers.

This article will dwell on the main aspects related to quality monitoring in the professional



valuation services provided by authorized valuers, as laid out in the Review and Monitoring Committee (CVM) Regulations approved by ANEVAR Board of Directors.

Under art. 5, para. (1) of Governmental Ordinance no. 24/2011 regarding some measures in the field of asset valuation, approved with amendments by Law 99/2013, ANEVAR shall be responsible, among others, for the following:

“d) it shall monitor the application of the valuation standards it adopts, to the process of valuation performed by authorized valuers”;

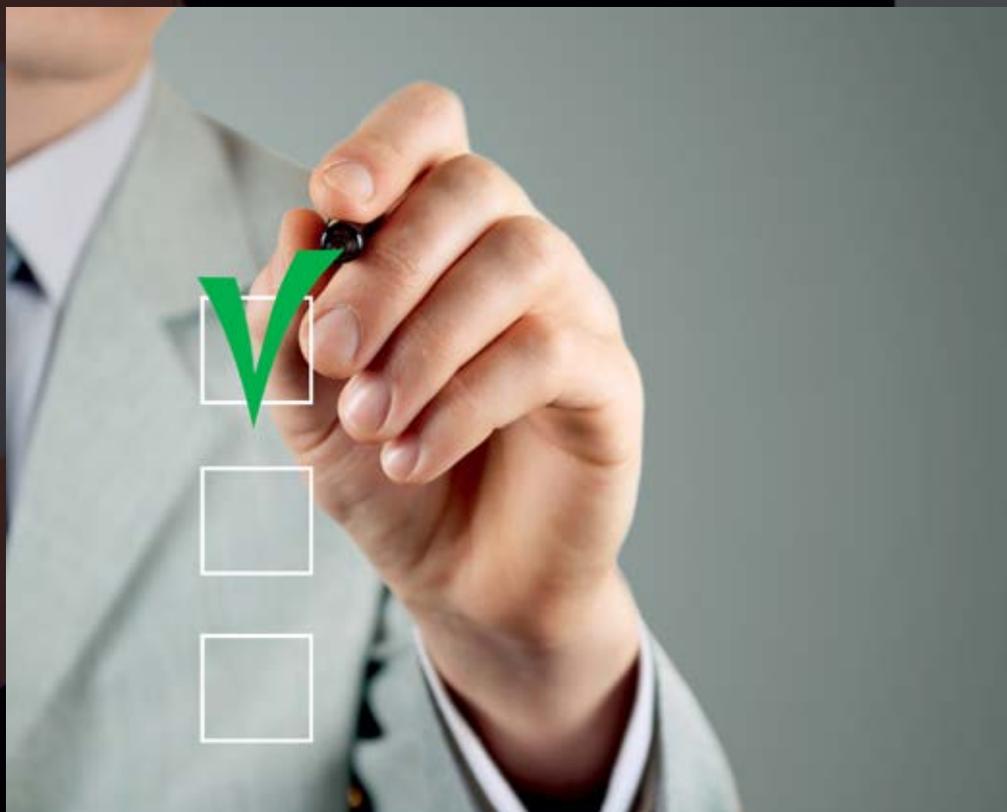
“f) it shall monitor compliance with the rules and principles of professional ethics governing the activity of authorized valuers”.

The same governmental ordinance defines valuation under art. 2, para. (2) as an “activity of estimating value, resulting in a document called valuation report, performed by an authorized valuer in line with its specific standards and the professional ethics”.

Since the legal requirements explained in the previous paragraphs place the monitoring process among the objectives of the Association, it was aimed to review the activity of all authorized valuers, sole practitioners or firms that conducted professional services resulting in valuation reports. Review will target compliance with both the Code of Ethics and the Valuation Standards approved by ANEVAR.

Valuation monitoring and review pursue three main objectives:

- › enhancement of authorized valuers’ professional performance;
- › consistent application of the mandatory valuation standards



for professional practice, by making suggestions on how to improve the activity, based on data resulted from the valuation reviews performed;

- › a higher sense of accountability among the members of the Association through the identification of those situations that may entail application of disciplinary measures to authorized professionals.

Thus, monitoring will play a preventive role, aimed at restraining the members of the Association from resorting to practices that the Code of Ethics and the Valuation Standards do not allow and at improving the quality of valuation services provided by authorized valuers.

The monitoring process includes the following activities:

- › review of the procedures applied by the valuer, in order

to ensure the requirements of objectiveness, independence and fairness as well as professional competence – in line with the Code of Ethics along with IVS 101 and IVS 103;

- › review of the correlation between the “Scope of Work” defined in IVS 101 and “Reporting” according to IVS 103;
- › review of working files by sampling – according to IVS 102, within the valuation process “A record shall be kept of the work done during the valuation process ... this record shall include the key inputs, all calculations, investigations and analyses relevant to the final conclusion and a copy of any draft or final report provided to the client”;
- › identification of the professional training requisite for the authorized valuers and the adjustment

of the continuous training programmes provided by the Association.

The monitoring process has not been intended to apply potential disciplinary sanctions to valuers. Under GO 24/2011, art. 8(8), sanctions are a prerogative of the Board of Directors that “will decide on the disciplinary sanctions to apply to authorized valuers, other than their own members, on the proposal of the Ethics and Discipline Committee, according to the regulations of the Ethics and Discipline Committee and the professional Code of Ethics.”

The monitoring activity is coordinated by the Review and Monitoring Committee and implemented with the help of the inspectors employed in the Review and Monitoring Department (DVM) within the Association.

The Review and Monitoring Committee is made up of 5 members (including the president) who are accredited valuers (a requirement also stipulated in GO 24/2011) and has the following main attributes:

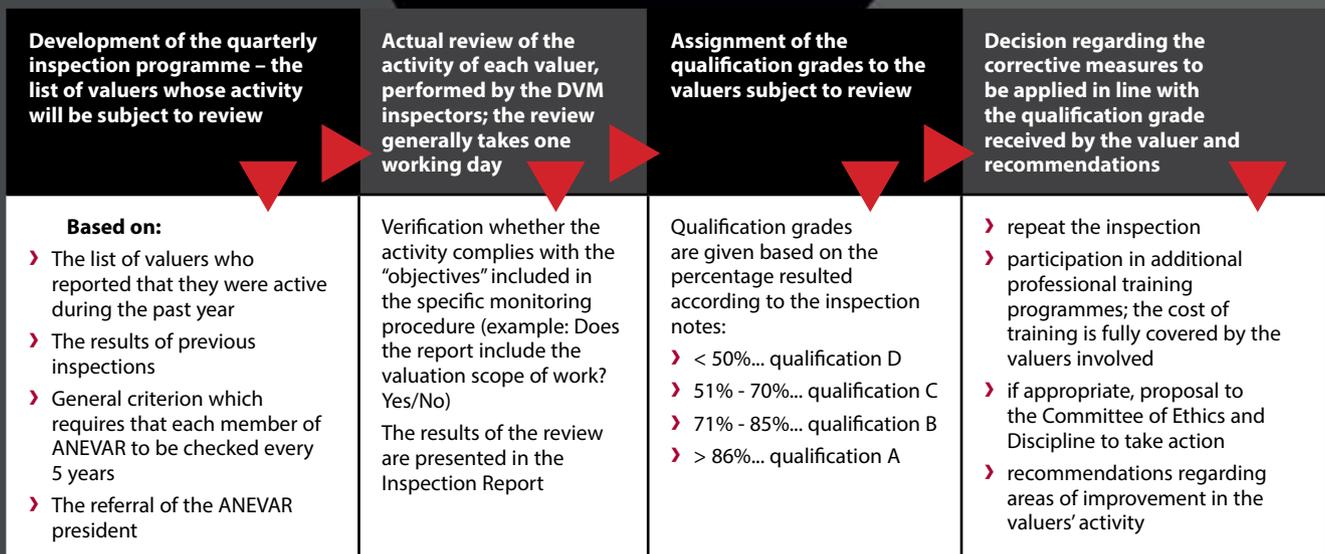
- › preparation of the specific monitoring procedures, including review objectives; the procedures are approved by the Board of Directors;
- › approval of the monitoring programme of the authorized valuers;
- › assignment of the qualification grades to the authorized valuers under monitoring, based on the inspection notes; qualification are approved by the Board of Directors;
- › proposals to the Board regarding the improvement of valuation activity.

Department consists of inspectors employed by ANEVAR (i.e. they are inactive members of the Association) who are selected based on their professional expertise in the field of valuation. The main attributes of the DVM inspectors are the following:

- › development of the monitoring programme of authorized valuers, based on their annual activity reports and the results of previous review inspections, conduct of inspections, development of inspection notes and reporting the inspection results to the Review and Monitoring Committee.

Inspections are carried out based on a quarterly programme developed in such a way that all active authorized valuers should be reviewed at least once every five years. The monitoring process consists in four stages summed up in the graph below:

The Review and Monitoring



To conclude, the monitoring activity was designed to put in place an effective instrument to ensure the quality of the valuation services provided by authorized valuers. It is preventive in nature, based on the principles of transparency, consistency and equal treatment and focused mainly

on enhancing the credibility of professional valuation with the users of valuation services.

Monitoring is just at the beginning of a long road. We are currently at the stage of developing and approving the regulations and procedures needed to implement it. The regulations were fine-tuned in

a volunteer review pilot project run in July-October 2013.

The process will definitely improve in the future from the practical experience of its implementation. We expect valuation practice to get better by sharing good professional practice emerging from the review process.

The Authorized Valuer's Expertise and How to Gain It



› Sorin V. Stan,
Ph.D, IROVAL Bucharest

Having recently read a few valuation reports on the Internet, I found out a number of terms and wordings which do not comply with the terminology under 2014 ANEVAR Valuation Standards, a fact which can cast doubt in a reader (client or valuation reports auditor) over the quality and implicitly, the value proposed by the authorized valuer, although valuation methods seem to have been correctly applied. Here are some examples of obsolete terms used in the valuation reports: updated remained value (instead of net replacement cost), liquidation value, gross replacement cost (whose definition is not to be found in any glossary or dictionary), limiting conditions, assets life (without specifying whether it is the physical, the useful or the economic one, on the one hand, or whether it is the total or merely the remaining life, on the other hand), overall subject value is X u.m. (without the required attributes, such as market, fair, investment, as the case may be), the enterprise residual value (instead of terminal value) etc. To mention nothing of the careless wording, the lack of diacritical marks, the unaesthetic fonts made use of and the manner of writing.



It may be argued that such inadvertencies of a rather formal nature have no influence over the reported value. However, USPAP 9, Business Appraisal, Development, stipulates that the valuer „not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results”.

A natural question arises as to the modalities of acquiring professional competence.

An authorized valuer can gain

competence through continuous professional training, and particularly through individual training. However, indulging in the idea that the main pathway to gaining professional competence is by constantly attending the continuous training seminars, the conferences and symposiums on economic assets valuation is self-deceit. It is enough to make a comparison with the daily training for practising other liberal professions. Let's take, for example, the expert accountants (who are supposed to study permanently the modifications in the accountancy- and fiscal

legislation), the IT specialists, the civil engineers, the lawyers etc.

In my opinion, competence comes mainly as a result of an individual permanent effort made by the valuer to study the relevant documents and information in his or her specialty line, available both at home and abroad.

The theory and methodology of economic valuation is evolving at an alert pace, inclusively through the publication of valuation standards in annual editions, such as those issued by RICS in the UK.

I have repeatedly stated

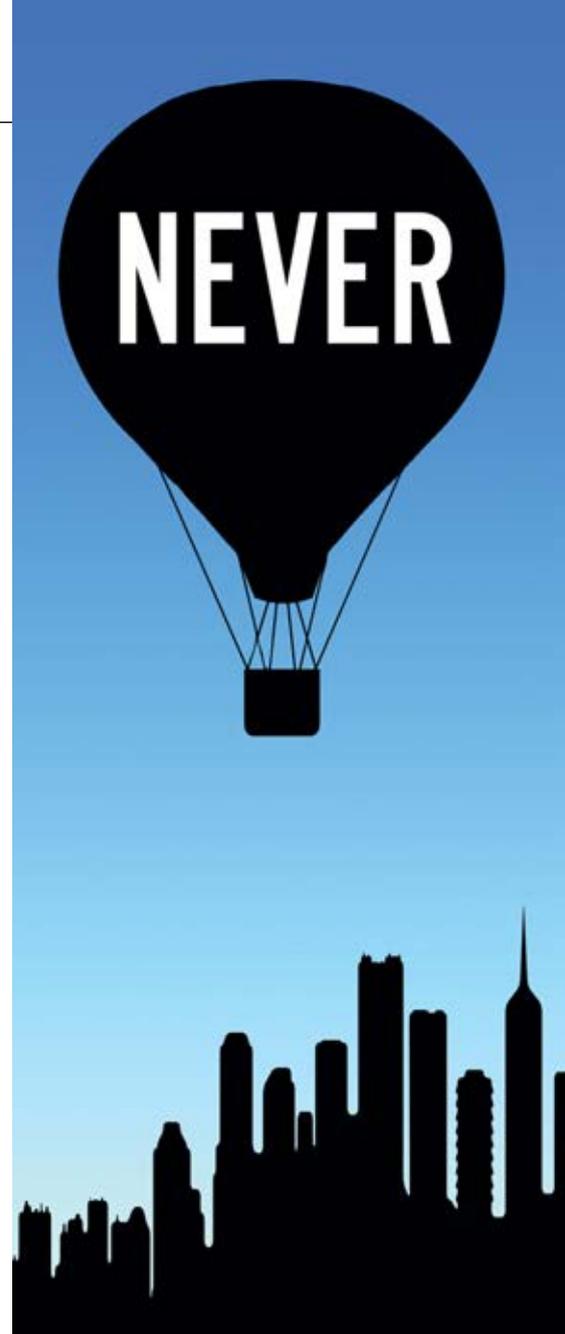
that the valuation of any asset or business consists in applying the general economic principles tailored to the specific character of the valuation subject. The question is: what are these economic principles and where can they be found and studied? This is the natural question to be asked by those valuers interested in their individual professional training.

In my opinion, at a microeconomic scale, the economic principles are widely explained in the International Financial Reporting Standards (IFRS), as the financial statements of the economic entities should closely reflect the economic reality, namely all the financial indicators included into the balance sheet, the profit and loss account and the cash flow statement. Among the approximately 3.500 pages of the two volumes (A and B) of the IFRS issued by IFRS Foundation in 2013, there are some hundred pages of paramount importance for the valuation practice in which ample comments are made referring to a number of principles, definitions and sentences contained in ANEVAR Valuation Standards. I am referring firstly to IFRS 13, Valuation at fair value, but also to IFRS 3, IAS 16, IAS 36, IAS 38, IAS 40 etc.

An extremely useful synthesis referring to the valuation of an unquoted enterprise equity capital is the document issued with a didactic finality by IFRS Foundation in December 2012, entitled "Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments" (accessible on the Internet).

My firm belief is that, in order to be considered competent, an authorized valuer should meet two conditions:

1. To be knowledgeable about all the valuation standards, not only ANEVAR- issued ones, but also about those issued by other professional bodies and associations ANEVAR has been developing a close relationship with, particularly that these standards are compatible with one another, and their terminology, approaches to value, valuation methods, as well as definitions of the terms used are similar. Therefore, the best known professional Valuation Standards I highly recommend are the following:
 - › AICPA SSVS - Standards for Valuation Services No. 1 (SSVS No. 1), Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset, elaborated by the American Institute of Certified Public Accountants (AICPA), which are of interest to business valuers, through their particularly ample dimension and methodological details included;
 - › ASA BVS - Business Valuation Standards, published by the American Society of Appraisers (ASA), of interest to the valuers of enterprises, intangible assets, to apply discounts and bonuses and for valuation reports reviews;
 - › USPAP - Uniform Standards of Professional Appraisal Practice, elaborated by the Appraisal Foundation, dealing with valuation of real property, personal property, intangible assets and businesses;
 - › RICS Valuation – Professional Standards, January 2014 (“Red



Book”), elaborated by the Royal Institute of Chartered Surveyors (RICS) for its members (out of whom, 113 are ANEVAR full members), referring to all the categories of assets, also integrally incorporating the IVS, elaborated by IVSC.

Their authors have also elaborated, besides these sets of valuation standards, further ones for valuation methodology, for instance the Guidance Note for valuation practice, Technical Information Papers, Opinions etc.

2. To get and study the latest



books by the „choriphaei” of the theory and methodology of valuation.

To this end in view, in the line of enterprise valuation and capital cost determining, I recommend the very well known published by Shanonn P. Pratt and Roger. J. Grabowski.

In the line of real property valuation, besides the reference books translated and edited by ANEVAR, I also recommend real estate valuers a unique book in terms of the scope and details of the analyses, namely „Hotel Market Analysis and Valuation”,

also including a CD, elaborated by the well known specialist in the line of hotel valuation, Stephen Rushmore (co-authors, John O’Neill and Stephen Rushmore jr.). Following a thorough study of this book, a hotel valuer can submit a well grounded valuation report based on the principles and methodology acknowledged in the USA and not only.

In the field of machinery and equipment valuation, I consider the book „Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets” third edition, 2011, of utmost utility. It is

elaborated by the American Society of Appraisers (ASA), and ANEVAR intends to get the copyright for it.

I will conclude by restating my firm belief that, to be fully competent, an authorized valuer should keep updated and well informed by reading the most representative books in the line of valuation (standards, books, guidances, reference valuation reports etc.), and I mean not only those currently published under the aegida of ANEVAR and IROVAL, but also those published by other famous editing houses or professional associations, most of them in the USA and the UK. ■

The Valuer's Day



Michael
MacBrien

Valuer's Day celebration was marked by an international conference and in the evening by an improvisational theater performance. The performance, "Spinning a Yarn" ("Câte-n lună și în stele"), featured the renowned actors Ion Caramitru and Horațiu Mălăieles and was hosted by the National Theatre Bucharest. The acting performance was accompanied by the music of Adrian Naidin, cello and songs.

The conference, occasioned by the Valuer's Day, celebrated on September 9-th, brought to Bucharest seven international speakers. Their speeches unfolded a set of ideas and answers addressing the problems and challenges they are faced within their professional activity.

The latest international concepts in the field of "Mortgage Lending Valuation" were presented to the 450 participants by the following guest speakers: Krzysztof Grzesik – Chairman of TEGoVa, Michael MacBrien – Advisor to TEGoVA, J. Scott Robinson – Vice-president of Appraisal Institute, Lothar Jerzembek – Director of VOB Germany, Thomas-Andreas Ziesenitz – VOB Germany, Silvia Cappelli – member of TEGoVA Board, Vladimir Ignatov M.Sc. - The Chamber of Independent Valuers of Bulgaria and Yang Feng – representative of China Appraisal Society. ■



J. Scott
Robinson



Krzysztof Grzesik



Adrian Vascu

Ion Caramitru

Corporate Members' Annual Meeting

The National Association of Authorized Romanian Valuers organised the Corporate Members' Annual Meeting, hosted by Horizont Hotel in Predeal, on 6th December 2014.

The event provided a forum for the debate of high interest issues related to the profession and its progress, out of which let us mention: valuation activity monitoring; the results of the accreditation session; the regulations regarding the organization, progress and completion of the probation stage; uniform valuation report model as per GME 500.

The two projects initiated by ANEVAR last year and announced on this occasion were of high interest with the audience. The former referred to the development of the database of secured lending valuations, achieved in cooperation with the NBR. The latter referred to the setting up of the Humanitarian Foundation "Cherish Life!"

Among the speakers at the conference: Adrian Vascu – President of ANEVAR, Dana Ababei – President of the Legal Committee, Radu Timbuș - President of the Qualification and Professional Certification Commission and Sorin Petre – President of the Review and Monitoring Commission. ■



Adrian Vascu



Adrian Crivii



Dana Ababei

Radu
Timbuș

Sorin Petre

Data Related to Real Estate and Business Valuation

The current issue of “Value, Wherever It Is” magazine presents the set of Market Data useful both to valuers and users of valuation reports. The presentation consists of two parts. The first part provides data related to real estate valuation, whereas the second part offers data related to business valuation.

We will introduce the data sources for each particular case, so as to valuers using the data will be able to specifically cite the data source in their valuation reports. It is noteworthy that accountability for these data rests only with the providers of such data, which are the only sources to be quoted in valuation reports. In other words, “Value, Wherever It Is” does not represent the source of information to be cited, but the data provider.

We have enclosed below the assumptions considered in the presentation of data regarding office buildings, shopping centers and industrial buildings. The data from the tables must be interpreted in strict correlation with these assumptions.

Regarding the real estate Market Data, for those cities that are not mentioned in the tables and in case the real estate transactions volume is likely to be smaller, valuers shall consider local data and correlate them with the data presented in the tables below. The capitalization rate levels, for instance, cannot be lower than the lowest rates included in the tables and it is rather likely to tend towards the upper rate levels.

The tables present the data providers in alphabetical order.

Chapter 1: Assumptions and Definitions

1. OFFICE BUILDINGS

- › Colliers: For the Bucharest market the data are based on office buildings ranking Class A in terms of the building quality, irrespective of the location, and which exceed 3.000 sqm of leasable area.
- › DTZ: For the office buildings market, both in Bucharest and in the territory, the data regard the best technical specifications buildings, for which the highest obtainable rent was reported.
- › The Advisers/Knight Frank: For the Bucharest market, the data are based on office buildings ranking Class A in terms of the building quality, irrespective of the location and which exceed 2.000 sqm of leasable area.
- › JLL: For the office buildings market, the highest obtainable rent is presented for the best building in that location type and in market conditions.
- › CBRE: Presents the “prime rent”, i.e. the market rent obtainable for a standard size unit (in line with the demand existing on each specific market – 1.000 sqm for offices) of premium quality, in the best location on the market, on the reporting date. The “prime rent” should reflect the level at which the relevant transactions are completed in the market at a given moment, but should not be identical with any of the transactions, especially when there is a limited number of transactions or when there are only a few offers.
- › For primary cities, the data are based on modern office buildings in each town, irrespective of the location. Whereas towns like Timișoara, Cluj-Napoca, Iași and Brașov also offer modern office buildings, Constanța, on the other hand, only offers poor quality office buildings.

- › For secondary cities, the data are based on modern office buildings from every town, irrespective of their location.
- › Colliers, The Advisers/Knight Frank, JLL, DTZ: The reported levels of rent represent the rent payable accordingly to a triple-net lease, where all expenses are incurred on the tenant (taxes, utilities and repairs or common areas expenses and any other expenses required to maintain and operate the rented property).
- › Such expenses can be paid by the lessor, but they are incurred back on the tenants through the “service charge” (including the categories listed above, among others). Note: the capital expenses shall rest with the lessor.
- › Colliers, The Advisers/Knight Frank, JLL, DTZ, Darian: The reported levels of rent represent the contract rent, therefore they do not include any incentives granted by the lessor (number of months exempt from rent payment, the lessor’s contribution to property improvement).
- › CBRE: The reported rent represent the gross rent, subject to further analysis in order to see how much is recovered through the “service charge”

and what is the share of the incentives (number of months with rent payment exemptions, the lessor’s contribution to property improvement).

- › For the Bucharest office market , the rent intervals were calculated as shown below:
- › The reported capitalization rate refers to primary products, i.e. the best yield (the lowest rate) estimated to be obtained for premium office buildings in the best market location, rented at market rent to prime-class tenants.
- › The reported capitalization rates do not include any transaction cost or transaction tax, but they reflect the reported price.
- › The estimated capitalization rates are based on both the transactions completed during the last few years and on advanced negotiations.
- › The capitalization rate is estimated as the ratio between net operating income (potential gross income less operational expenses and vacancy loss) and transaction price/negotiated price.
- › For primary cities, only modern office buildings are attractive for investors. The capitalization rate for such products was estimated according to the expectations of

investors interested in acquiring such properties in the analyzed cities, as well as according to the transactions recorded in the last few years.

- › For secondary cities, the number of transparent transactions recorded in the last few years was rather low, therefore it is difficult to estimate any capitalization rate.

2. SHOPPING CENTERS

- › In order to estimate the rent levels and the capitalization rates, the only shopping centers considered were those that display at least 5.000 sqm of shopping area as well as an anchor (a supermarket or hypermarket).
- › Colliers: Both for Bucharest and the main cities in the country, shopping centers were split into two categories (primary and secondary products), depending on their performance.
- › JLL: Both for Bucharest and the main cities in the country, only primary products were considered.
- › DTZ: For Bucharest and the main cities in the country, only modern products were considered (at least 5.000 sqm of leasable area, with the area of the supermarket/hypermarket not exceeding the shopping mall area).

- › The levels of the estimated rent represent rent payable accordingly to triple-net lease, i.e. all the expenses are incurred on the tenant (taxes, utilities and repairs or common areas

Location	central	Victoriei Square
	semi-central	Floreasca, Barbu Văcărescu, Presei Libere Square, Politehnica, Lujerului
	suburbs	Băneasa, Păcii, Pipera

- expenses and any other expenses required to maintain and operate the rented property). Such expenses can be paid by the lessor, but they are incurred back on the tenants through the “service charge” (including the categories listed above, among others). Note: the capital expenses shall rest with the lessor.
 - › The reported levels of the rent represent the contract rent therefore they do not include any incentives granted by the lessor (number of months with rent payment exemptions, the lessor’s contribution to property improvements).
 - › The estimated rent levels for shopping centers represent the average rent paid for an area of 100 sqm on the ground floor, occupied by fashion stores. Such values are not satisfactory/sufficient to estimate the average rent paid in a shopping center.
 - › It is also important to consider that the rent levels varies greatly from one city to another depending on: the actual purchasing power, competition and the commercial venue for each specific shopping center.
 - › The reported capitalization rates refer to primary products i.e. the best yield (the lowest rate) estimated to be obtained for a premium commercial property, in a premium market location, rented out at the market rent to prime-class tenants.
 - › The reported capitalization rates do not include any transaction cost or transaction tax, but they reflect the reported price.
 - › The capitalization rate is estimated as the ratio between net operating income (potential gross income less operational expenses and vacancy loss) and transaction price/negotiated price.
 - › For Bucharest, given that there have been no classical investment transactions with primary products, capitalization rates were estimated based on the expectations of both sellers and investors that would be interested in buying such a product, as well as on the transactions form comparable cities within the region (Central and Eastern Europe).
 - › Both for primary and secondary cities, the capitalization rates were estimated starting from the transactions completed in the last few years as well as considering the expectations of the sellers and of the potential buyers.
- ### 3. INDUSTRIAL BUILDINGS
- › Only good quality logistics spaces located in Bucharest and the listed cities were considered.
 - › The levels of the estimated rent represent rent payable accordingly to triple-net lease, i.e. all the expenses are incurred on the tenant (taxes, utilities and repairs or common areas expenses and any other expenses required to maintain and operate the rented property). Such expenses can be paid by the lessor, but they are incurred back on the tenants through the “service charge” (including the categories listed above, among others). Note: the capital expenses shall rest with the lessor.
 - › The reported levels of the rent represent the contract rent, therefore they do not include any incentives granted by the lessor (number of months with rent payment exemptions, the lessor’s contribution to property improvements).
 - › The reported capitalization rates refer to primary products, i.e. the best yield (the lowest rate) estimated to be obtained for a premium industrial property, in a premium market location, rented at market rent to prime-class tenants.
 - › The reported capitalization rates do not include any transaction cost or transaction, but they reflect the reported price.
 - › Both for Bucharest and the cities in the country, capitalization rates were estimated based on the expectations of both sellers and investors that would be interested in buying such a product, as well as on the transactions form comparable cities within the region (Central and Eastern Europe).
 - › The capitalization rate is estimated as the ratio between net operating income (potential gross income less operational expenses and vacancy loss) and transaction price/negotiated price.
 - › Colliers: For the cities of Constanța, Iași and Cluj-Napoca, quality industrial spaces are limited. The rent levels specified for these cities apply to built-to-suit solutions.
 - › The next tables illustrate the data for Q3 2014.

> CBRE Romania

Market segment	Bucharest	Primary cities (Iași, Cluj Napoca, Brașov, Timișoara, Constanța)	Secondary cities (Sibiu, Craiova, Târgu Mureș, Ploiești, Pitești, Arad)
Office buildings			
Contract rent for Class A buildings (Eur/sqm/mo.)	central: 18 semi-central: 14 suburbs: 10	11 - 14	9 - 11
Average vacancy rate (%)	14.1%	Iași: 8% Cluj Napoca: 12% Brașov: 10 - 12% Timișoara: 8% Constanța: n/a	n/a
Capitalization rate (%) *	7.75%	8.75 - 9.25%	9.5%
Shopping centers			
Rent asked for an area of 100 sqm on the ground floor. fashion store (Eur/sqm/mo.)	60	35 - 40	20 - 25
Capitalization rate (%) *	8%	9%	9 - 9.5%
Industrial buildings			
Average Class A rent (Eur/sqm/mo.)	3.8 for areas < 10.000 sqm 3 - 3.50 for areas > 10.000 sqm	2.80 - 3.80 depending on the area	2.5 - 3 depending on the area
Average vacancy rate (%)	12%	10 - 12%	n/a
Capitalization rate (%) *	9.5 - 10%	10 - 11%	10.5 - 11.5%
* Capitalisation rate for prime property			

> Colliers International

Market segment	Indicators	Bucharest		Primary cities (Iași, Cluj Napoca, Brașov, Timișoara, Constanța)		Secondary cities (Sibiu, Craiova, Târgu Mureș, Ploiești, Pitești, Arad)	
Office buildings	Contract rent for Class A buildings (Eur/sqm/mo.)	central	16 - 18	Timișoara	12 - 14	Sibiu	12 - 13
		semi-central	14 - 16	Cluj Napoca	11 - 14	Târgu Mureș	10 - 11
				Iași, Brașov	10 - 12	Ploiești, Pitești, Arad, Craiova	n/a
		suburbs	8 - 13	Constanța	n/a		
	Average vacancy rate (%)	market average	16.50%	Timișoara, Iași	5% - 10%	Sibiu & Târgu Mureș	n/a
				Cluj Napoca	14.5%		
Brașov				15%			
Capitalization rate (%)	primary products	7.75 - 8.25%	primary products in Iași, Cluj Napoca, Timișoara	9% - 10%	very limited interest from investors and low transaction transparency	n/a	
	secondary products	9.5% - 11%					
Shopping centers	Contract rent for 100 sqm on ground floor. fashion stores (Eur/sqm/mo.)	primary products	60 - 70	primary products	25 - 35	average for centers in the country	15 - 20
		secondary products	45 - 55	secondary products	15 - 25		
	Capitalization rate (%)	primary products	7.75% - 8%	primary products	9% - 9.5%	average for centers in the country	9% - 9.5%
		secondary products	9% - 10%				
Industrial spaces	Average contract rent for Class A buildings (Eur/sqm/mo.)	< 3.000 sqm	3.6 - 4.15	Brașov, Timișoara, Ploiești, Arad	3.5 - 4	Sibiu, Craiova, Târgu Mureș, Pitești	3.75 - 4.25
		> 3.000 sqm	3.4 - 3.75	Constanța, Iași, Cluj Napoca	3.5 - 4.25		
	Average vacancy rate (%)	market average	12.3%	Brașov	1%	Sibiu, Craiova, Târgu Mureș, Pitești	n/a
				Cluj Napoca, Timișoara	5 - 7%		
Iași, Constanța	n/a						
Capitalization rate (%)	market average	9 - 9.75%	primary products	9.75% - 10.5%	Sibiu, Craiova, Târgu Mureș, Pitești, Ploiești, Arad	11%	

> Darian DRS

Market segment	Bucharest	Primary cities (Iași, Cluj Napoca, Brașov, Timișoara, Constanța)	Secondary cities (Sibiu, Craiova, Târgu Mureș, Ploiești, Pitești, Arad)																								
Office buildings																											
Contract rent for Class A buildings (Eur/sqm/mo.)	very central: 15 - 18 central: 14 - 17 semi-central: 13 - 16	10 - 15	8 - 13																								
Average vacancy rate (%)	15%	Iași: 15% Cluj Napoca: 7% Brașov: 7% Timișoara: 5% Constanța: 20%	10% - 15%																								
Capitalization rate (%)	8.00% - 9.25%	8.25% - 9.5%	8.75% - 10.25%																								
Shopping centers																											
Rent asked for an area of 100 sqm on the ground floor. fashion store (Eur/sqm/mo.)	35 - 45	15 - 25	10 - 15																								
Capitalization rate (%)	8.25% - 9.50%	8.75% - 9.5%	9.00% - 10.5%																								
Industrial buildings																											
Average Class A rent (Eur/sqm/mo.)	3.50 - 4.25 for areas < 3.000 sqm 3.25 - 4.00 for areas between 3.000 and 10.000 sqm 2.75 - 3.50 for areas > 10.000 sqm	2 - 4 depending on the area	1.75 - 3.25 depending on the area																								
Average vacancy rate (%)	14% - 15%	<table border="1"> <thead> <tr> <th>Vacancy rate</th> <th>< 3.000 sqm</th> <th>3.000 - 10.000 sqm</th> <th>> 10.000 sqm</th> </tr> </thead> <tbody> <tr> <td>Brașov</td> <td>10%</td> <td>12%</td> <td>15%</td> </tr> <tr> <td>Cluj-Napoca</td> <td>5%</td> <td>10%</td> <td>15%</td> </tr> <tr> <td>Timișoara</td> <td>10%</td> <td>10%</td> <td>10%</td> </tr> <tr> <td>Iași</td> <td>16%</td> <td>17%</td> <td>18%</td> </tr> <tr> <td>Constanța</td> <td>20%</td> <td>25%</td> <td>30%</td> </tr> </tbody> </table>	Vacancy rate	< 3.000 sqm	3.000 - 10.000 sqm	> 10.000 sqm	Brașov	10%	12%	15%	Cluj-Napoca	5%	10%	15%	Timișoara	10%	10%	10%	Iași	16%	17%	18%	Constanța	20%	25%	30%	10% - 15%
Vacancy rate	< 3.000 sqm	3.000 - 10.000 sqm	> 10.000 sqm																								
Brașov	10%	12%	15%																								
Cluj-Napoca	5%	10%	15%																								
Timișoara	10%	10%	10%																								
Iași	16%	17%	18%																								
Constanța	20%	25%	30%																								
Capitalization rate (%)	8.5% - 10.25%	9.25% - 10.5%	9.25% - 10.75%																								
Note: The capitalization rates considered in this analysis are estimations at the level of the effective net income																											

> DTZ Echinox

Market segment	Bucharest	Primary cities (Iași, Cluj Napoca, Brașov, Timișoara, Constanța)	Secondary cities (Sibiu, Craiova, Târgu Mureș, Ploiești, Pitești, Arad)
Office buildings			
Contract rent for Class A buildings (Eur/sqm/mo.)	central: 16 - 18 semi-central: 12 - 15 suburbs: 9 - 11	12 - 15	9 - 11
Average vacancy rate (%)	14.7%	Iași: 10% Cluj Napoca: 10% Brașov: 15% Timișoara: 10% Constanța: n/a	n/a
Capitalization rate (%)	8.00%	9%	9.5%
Shopping centers			
Rent asked for an area of 100 sqm on the ground floor. fashion store (Eur/sqm/mo.)	60 - 70	30 - 35	20 - 25
Capitalization rate (%)	8 - 8.25%	8.5 - 9%	9 - 10%
Industrial buildings			
Average Class A rent (Eur/sqm/mo.)	3.50 - 3.9	3 - 3.5	3 - 3.5
Average vacancy rate (%)	11 - 13%	n/a	n/a
Capitalization rate (%)	10.00%	10.5 - 11%	11 - 11.5%

> Jones Lang LaSalle

Market segment	Bucharest	Primary cities (Iași, Cluj, Timișoara, Brașov)	Secondary cities
Office buildings			
Contract rent for Class A building (Euro/sqm/mo.)	central: 18.5 semi-central: 14 - 15 suburbs: 10 - 12.5	Iași: 12 - 14 Cluj: 12 - 14 Timișoara: 12 - 14 Brașov: 10 - 12	9 - 11
Average vacancy rate (%)	14.3%	Cluj: 10 - 12% Iași: 11 - 13% Brașov: n/a Timișoara: 11 - 13% Constanța: n/a	n/a
Capitalization rate (%)	8.00%	9%	9.5%
Shopping centers			
Rent asked for an area of 100 sqm on the ground floor. fashion store (Euro/sqm/mo.)	60 - 70	30 - 35	20 - 25
Capitalization rate (%)	8.00%	9%	9 - 9.5%
Industrial buildings			
Average Class A rent (Euro/sqm/mo.)	3.6 - 4.0 (area < 20.000 sqm) 3 - 3.5 (area > 20.000 sqm)	2.8 - 4.0 depending on the area	2.5 - 3.2 depending on the area
Average vacancy rate (%)	8.5 - 10%	n/a	n/a
Capitalization rate (%)	9.75%	10 - 11%	10.5 - 11.5%

> The Advisers/Knight Frank

Market segment	Bucharest	Primary cities (Iași, Cluj Napoca, Brașov, Timișoara, Constanța)	Secondary cities (Sibiu, Craiova, Târgu Mureș, Ploiești, Pitești, Arad)
Office buildings			
Contract rent for Class A building (Euro/sqm/mo.)	central: 16 - 18.5 semi-central: 13 - 16 suburbs: 9 - 13	10 - 14	7 - 10
Average vacancy rate (%), market average	16.4%	Iași: 15 - 20% Cluj Napoca: 10 - 15% Brașov: 10 - 15% Timișoara: 8 - 10% Constanța: n/a	n/a
Capitalization rate (%), primary products	8 - 8.25%	9 - 10%	9.5 - 11%
Shopping centers			
Contract rent for an area of 100 sqm on the ground floor, fashion store (Euro/sqm/mo.)	50 - 60	20 - 30	18 - 20
Capitalization rate (%), primary products	7.75 - 8.0%	9 - 10%	9.5 - 10%
Industrial buildings			
Class A contract rent (Eur/sqm/mo.)	3.9 - 4.2 (areas under 3.000 sqm) 3.75 - 4.25 (areas between 3.000 and 10.000 sqm) 3.0 - 3.6 (areas above 10.000 sqm)	3.3 - 3.7 (areas under 3.000 sqm) 2.9 - 3.6 (areas between 3.000 and 10.000 sqm) 2.2 - 3.0 (areas above 10.000 sqm)	3.2 - 3.5 (areas under 3.000 sqm); 2.5 - 3.3 (areas between 3.000 and 10.000 sqm); 2 - 3.5 (areas above 10.000 sqm)
Average vacancy rate (%), market average	14%	n.a.	n.a.
Capitalization rate (%), primary products	9 - 10%	10 - 11%	11 - 12%

Chapter 2:

Market Data Useful to Estimate the Discount Rate

Applying Discounted Cash Flow Method for Business valuation require estimation of an adequate discount rate in correspondence with the forecasted cash flows. For the discount rate estimation, information regarding the level of risk-free rate, the country risk premium and other risk premiums is needed.

Most often, reference of the risk-free rate is given by the 10-year AAA government bonds issued in the same currency as the forecast cash flows. The yield for Romanian government bonds (rated BB+) compensate the investors both for the time value of money at a level of the risk-free rate as well as for the default risk at the level of the credit risk margin resulting from transactions. Consequently, if the risk-free rate considered in the calculation of the discount rate is represented by the yield of Romanian government bonds, it is not advisable to take into consideration the country

risk premium, too. The level of the credit risk margin for Romanian government bonds can be approximated with the CDS quotations (Credit Default Swap – derivative instrument that transfers credit risk) for investment in Romanian Eurobonds or the difference existing between yields offered by AAA government bonds and Romanian government bonds issued in the same currency and having the same period left to maturity.

In order to have an image about the level of these indicators, we present data on the yield to maturity for Romanian, German and US government bonds, the CDS quotation for 5-year Romanian government bonds issued in Euro and the forecast inflation rate for 2014 for RON, Euro and USD, collected from credible public sources and valid on December 10, 2014.

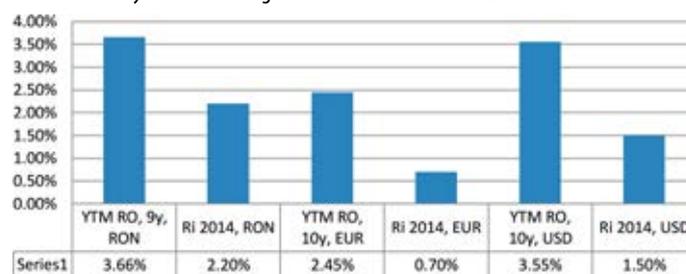
The yield to maturity for 10-year German government bonds issued in Euro (YTM

GER, 10y, EUR), as well as the yield to maturity for 10-year US government bonds issued in USD (YTM SUA, 10y, USD) were taken from the Bloomberg website. The yield to maturity for the Romanian government bonds issued in RON, with 9 years left to maturity (YTM RO, 9y, RON) was taken from the website of the European Central Bank. The yields to maturity for the Romanian government bonds issued in Euro and USD, with 10 years left to maturity (YTM RO, 10y, EUR), respectively (YTM RO, 10y, USD) were taken from the website of the Frankfurt Stock Exchange.

The CDS quotation for 5-year Romanian government bonds issued in Euro was taken from the website of Deutsche Bank Research. The 2014 forecast regarding the inflation rate for Romanian (RON) currency is provided by the National Bank of Romania (BNR), for Euro by the Central European Bank and for USD by the Federal Reserve Bank (FED). ■

YTM RO, 9y, RON	3.66%
Ri 2014, RON	2.20%
YTM RO, 10y, EUR	2.45%
Ri 2014, EUR	0.70%
YTM RO, 10y, USD	3.55%
Ri 2014, USD	1.50%
YTM GER, 10y, EUR	0.68%
YTM USA, 10y, USD	2.16%
CDS RO, 5y, EUR	1.32%

Yield to maturity for Romanian government bonds and the 2014 inflation rate forecast



Yields to maturity for German and US government bonds. CDS Romania





ROMANIA GREEN BUILDING COUNCIL

Our Mission

We are a non-profit, non-political association of businesses and other organizations active throughout the country. We are the leading organization promoting environmental responsibility and energy efficiency in the Design, Construction, Operation, and Deconstruction of Romania's buildings.



Construction21.eu
ROMANIA

online platform for green building practitioners



Government Initiative of the Year | Green Building Project of the Year | Sustainable Company of the Year | Green Product Innovation of the Year | Green Service Provider of the Year | Green Building Education Initiative of the Year



building that will receive the highest green building distinction according to **Living Building Challenge Standards**



eco-education regarding creating and managing **greener schools**



certification and **training** program



legislative outreach, awareness building campaigns, green building **legislative framework**

Greening our Workspace

sustainable **refurbishment** of the RoGBC office

Business Mark

Mark your B2B opportunity

office@business-mark.ro 021.313.98.19
www.business-mark.ro

business events - B2B communication - business development