

Response to the Second BCBS Consultative Document Standards: *Revisions to the Standardised Approach for credit risk* (issued for comment by 11 March 2016)

RICS welcomes the opportunity to contribute to the public consultation initiated by the Basel Committee on Banking Supervision (BCBS) on *Standards: Revisions to the Standardised Approach for credit risk*.

The document came to our attention only recently and we are not in the position to comment in sufficient detail about all aspects of this consultation. Our response is largely confined to the issues pertaining to the valuation of real estate and the use of the International Valuation Standard (IVS) as the appropriate valuation standard.

We trust that the BCBS will take our opinions into consideration. We stay at your disposal for more information and happy to discuss further the use of international standards in banking supervision.

Suggestions

We have the following comments on the proposals:

1. We agree with the revised taxonomy to categorise all exposures related to real estate under the same exposure class and dropping the previous distinction between IPRE (income producing real estate) and ADC (land acquisition, development and construction) as we believe the previous categorisation was too artificial.
2. We consider it is reasonable to focus, wherever relevant, on whether repayment of the loan is materially dependent on the cash flows generated by the property, with risk weights reflecting the degree of materiality.
3. We believe the continuation of LTV as a principal risk driver for residential loans is inherently sound.
4. On the ascertainment of the value for LTV purposes:
 - i. We consider that "independently appraised" defined as being undertaken "independently from the bank's mortgage acquisition, loan processing and loan decision process" to be a reasonable requirement.
 - ii. The value is to be arrived at "in a prudently conservative manner" with the requirement that "national authorities should provide guidance setting out prudent valuation criteria where such guidance does not already exist under national law".

RICS would advise the consideration of stating International Valuation Standards set by the International Valuation Standards Council (IVS) be required as the appropriate Valuation Standards to be adopted for obtaining a prudently conservative valuation figure on the grounds that:

- a. the IVS definition of Market Value includes the word 'Prudent' - *Market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion;*
- b. the IVS's also stipulate the requirements for the valuation to be undertaken ethically and by a suitably qualified person. This requirement is further developed in the RICS Valuation Professional Standards (the 'Red Book') which is mandatory to all RICS members undertaking Red Book valuations (see below). The Financial Stability Board (FSB) paper on '*Principles for Sound Residential Mortgage Underwriting practices*' recognises both IVS and RICS as good practice for property valuations.

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About RICS

RICS is the world's leading professional body on all aspects of property, construction and land use. An independent, public interest organisation, we regulate, represent and promote over 118,000 individually qualified professionals in 140 countries worldwide. RICS promotes and enforces the highest professional qualifications and standards in the development, management and valuation of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We believe that standards underpin effective markets. With up to seventy percent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to underpin stable, sustainable investment and growth around the globe. We have a strong interest

in promoting more transparent, consistent and high quality property valuations that strengthen market discipline and contribute to financial stability.

All RICS valuers are required to comply with the RICS Valuation Professional Standards (the 'Red Book') which guarantees consistent valuation approaches and reporting worldwide in line with the International Valuation Standards (IVS). For clients and users of RICS valuations, these professional standards mean:

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