

International Valuation Standards Committee

ANNEX B

Overview of the New Basel Capital Accord

Reference	Subject	Comment
Paragraph 34 page 7	Other professional standards and regulations	We would hope that International Valuation Standards could also be recognised in this area.
Paragraph 43 page 9	The effect of cycles.	This is an area where we believe that the property profession could assist with research and data on property market cycles.

The New Basel Capital Accord

Reference	Subject	Comment
Paragraph 38 page 11 Footnote 14	Introduces Exceptional Treatment	<p>1. The wording in the latter part of the note appears defective. “...or 60% of loan-to-value (LTV) based on Mortgage Lending Value (MLV)...”. Further, the wording is inconsistent insofar as para 2 of Supplement – “Criteria in defining exceptional treatment....” includes the word “ratio”.</p> <p>Is not what is intended “...60% of Mortgage Lending Value..” as appears in the first sentence of the footnote? Surely the LTV is represented by the %, either 50 or 60, of either Market Value or MLV respectively.</p> <p>2. Mortgage Lending Value is not a term universally understood or accepted. There is currently no IVSC definition, but TEGoVA publish guidance.</p>
Paragraphs 312-315 page 57	Commercial and Residential Real Estate as collateral for corporate loans.	This seems to specifically exclude properties let as investments from being regarded as collateral for corporate loans. This section is held out as providing a definition of commercial real estate, which it is not. It is describing the particular circumstances of corporate loans collateralised by real estate owned and usually occupied by the borrower. We consider it could be better termed “Operational Real Estate” or “Owner Occupied Real Estate” and perhaps tied to IAS 16.

Reference	Subject	Comment
Paragraph 318 page 58	Objective Market Value of Collateral	This paragraph would appear to introduce a number of concepts without linking them to any other standard. Fair Value is an accounting term defined by IASC and other standards. "...at or less..." would give legitimacy to any conservative valuation method, however the rest of the definition seems to embrace much of the Market Value definition under IVSC. There must be scope to tie this paragraph to other professional measurement standards.
Paragraph 321 page 58	Additional collateral management requirements in order to meet operational needs.	Whilst this section is about managing collateral it does identify the need to be able to "establish objectively a price or market value....."
Paragraph 655 page 123	Qualitative disclosures.	This provides another area where one could commend the ideas of standards for the measurement of collateral.

The Standardised Approach to Credit Risk

Reference	Subject	Comment
Paragraph 42 page 9 Footnote 8	Risk weights of claims secured on commercial real estate.	<p>1. Allocates a 100% (standard) risk weight to commercial real estate lending but recognises the Exceptional Treatment. Footnote 8 is a restatement of Footnote 14 to paragraph 38 of the New Basel Capital Accord.</p> <p>2. The wording in the latter part of the note appears defective. "...or 60% of loan-to-value (LTV) based on Mortgage Lending Value (MLV)...". Further, the wording is inconsistent insofar as para 2 of Supplement – "Criteria in defining exceptional treatment....." includes the word "ratio".</p> <p>Is not what is intended "...60% of Mortgage Lending Value.." as appears in the first sentence of the footnote. Surely the LTV is represented by the %, either 50 or 60, of either Market Value or MLV respectively.</p> <p>3. Mortgage Lending Value is not a term universally understood or accepted. There is currently no IVSC definition, but TEGoVA publish guidance.</p>

Reference	Subject	Comment
Paragraph 105 Page 19	Benchmarking	There are now benchmarks for real estate performance which are based on valuations and also indices.
Paragraph 110 Page 19	Eligible collateral	“ Essential that collateral can be revalued reliably”. This is the essence of valuation standards.

The Internal Ratings-Based Approach

Supporting document to the New Basel Capital Accord

Reference	Subject	Comment
Paragraphs 91 - 98 pages 20 & 21	Eligible commercial and residential real estate under the foundation approach (of the internal ratings based approach).	By referring this section back to the New Basel Capital Accord this links this section of the foundation approach of IRB back to the eligible criteria under footnote 14 of para 38. Reference to the amount of collateral in para 93 implies valuations. Para 96 makes no reference as to how the collateral value is to be measured in determining the LTV ratio.
Paragraph 96 page 21	Other forms of collateral.	Property other than pure real estate, eg plant and machinery, chattels etc can be reliably measured by valuers according to International Valuation Standards.
Paragraph 235 page 49 & 50	Management of collateral	Mentions the need to be able to attach an objective value to the collateral.
Paragraph 400 to 404page 84	Risks relating to project finance.	Valuers are able to assist in assessing risks and reliability of assumptions in real estate development projects.

Asset Securitisation

Supporting document to the New Basel Capital Accord

Reference	Subject	Comment
Paragraph 1 page 1	Overview	In Asset Backed Securities property is frequently the asset and this comprises a significant element of this kind of business. Standards for the measurement of the assets should comprise an integral part of banking procedures.
Paragraph 40 page 9	Credit protection.	Overcollateralisation identified as a means of credit protection. Only valid if extent of collateral can be reliably and consistently measured.

Criteria in defining exceptional treatment of commercial real estate lending

Supplement to the New Basel Capital Accord

Reference	Subject	Comment
Paragraph 2 page 1	Qualifications for special treatment.	<p>1. Market Value needs to be linked to a definition and to a set of standards. It seems odd to recognise a very specific risk assessment technique in connection with an exception without recognising some standards to shore it up.</p> <p>2. The wording in the latter part of the paragraph appears defective. "...or 60% of loan-to-value ratio (LTV) based on Mortgage Lending Value (MLV)...". The wording is inconsistent with that used in Footnote 14 to paragraph 38 in the New Basel Capital Accord. Is not what is intended "...60% of Mortgage Lending Value." Surely the LTV is represented by the %, either 50 or 60, of either Market Value or MLV respectively.</p> <p>3. Mortgage Lending Value is not a term universally understood or accepted. There is currently no IVSC definition, but TEGoVA publish guidance.</p>
Paragraph 3 page 1.	Definition of Commercial real estate lending.	This would appear to imply that this relates solely to let commercial investment property

		and is therefore at odds with Footnotes 14 and 30 NBCA. Could this be linked to IAS 40, Investment Property. The meaning of “mortgages in the form of leases” is not entirely clear.
Paragraph 7 page 3	Definition of Market Value	The paper uses the European Union definition of Market Value, devised for insurance legislation and does not link to any of the definitions advocated by any international valuation standard. It is close to but not the same as the USPAP definition. As a stand alone definition it does not have the back up and force of a set of standards behind it which also embody best practice. We would recommend the IVSC definition as having international acceptance with a set of standards to support it.

II. Verification

Reference	Subject	Comment
Paragraph 17 (3) page 5	Sufficiently long historic experience.	Continues the “60% of the LTV...” inconsistency. See comment on Para 2 page 1.
Paragraph 20 (b) page 7	Country level disclosure.	As above.

Annex – Valuation Rules

This sets out a methodology for Mortgage Lending Value. This would appear to be a unique departure for the Accord insofar as it tends to avoid prescription of detailed methodology when referring to professional disciplines other than banking.

Reference	Subject	Comment
Paragraph 3 page 12 first bullet.	Value of yield.	Given that the language chosen is English, this is not very clearly expressed. Perhaps what is meant is that value of yield is based on “a level of gross rent which is regarded as sustainable through different market cycles and affordable to the generality of tenants.