

Changes Introduced in Asset Valuation Standards 2016 Compared with ANEVAR Valuation Standards, 2015 Edition

Below are presented the changes introduced in the Asset Valuation Standards 2016 compared to the previous edition. Due to the dynamic nature of the valuer profession, of the Romanian legislation, as well as of other professions that have an impact on the valuation activity, the valuation standards need to undergo regular revision.

Hence, the collection of standards, the 2016 edition, is titled *Asset Valuation Standards 2016* and it became effective on July 1, 2016.

The structure of the previous edition of the standards is preserved in the current edition, except for *GEV 530 Real Estate Mortgage Lending Value Estimation*, currently undergoing an update. Other important changes concerned *GEV 500 Determination of the Taxable Value of Buildings*, *GEV 620 Valuation of Personal Property such as Machinery, Plant and Equipment, and Inventories*, *GEV 520 Valuation for Secured Lending*, as well as the *Glossary*.

List of Changes

1. *GEV 500 Determination of the Taxable Value of Buildings*

- ✓ Both in the Valuation Guidance Note and its annexes, the cost approach was renamed “*the cost approach for tax purposes*” and the term “*effective age*” was replaced by “*actual weighted age*”.
- ✓ In the *General Considerations* section of the previous edition, paragraph no. 2 was removed, the current edition thus resulting in the following paragraphs, no. 2 and 11, modified as well:

“**Para. 2.** In the context of this Valuation Guidance Note, the definition of the term *building* is the one provided under the Art. 453 of the Fiscal Code and completed by the Title IX of the Methodological norms for the application of Law 227/2015 regarding the Fiscal Code, as approved through Governmental Decision 1/2016, with later amendments and completions.”

“**Para. 11.** In case of a tax payer which owns several buildings within the jurisdiction of the same local administrative unit, the valuer shall develop a single valuation report enclosing the final opinion of taxable value of the buildings which the owner declared in Annex 1 to this Valuation Guidance Note, buildings found within the jurisdiction of one locality.”

- ✓ In the *Final Provisions* section paragraph no. 41 was completed and a new paragraph, namely paragraph no. 42, was added:

“**Para. 41.** Both the annexes to this Valuation Guidance Note and the format of the valuation report may change, following the decision of ANEVAR’s Board of Directors.”

“**Para. 42.** Valuation reports shall show the valuer’s stamp, valid at the date of the report.”

- ✓ In Annex 2 *Estimation of Physical Deterioration and Actual Weighted Age Calculation Method, Considering Improvements Brought to the Subject Building*, a new paragraph was introduced:

“**Para. 8.** When the subject building does not match strictly the categories included in this Annex (i.e. the type of building, structure, age, etc.), the valuer shall use his or her judgment to illustrate the building’s condition at the valuation date, by considering the building’s standard, materials, fittings and other evidence emerging from the inspection, as well as the history of use of the subject building, while employing the information in this Annex for guidance.”

GEV 620 Valuation of Personal Property such as Machinery, Plant and Equipment, and Inventories

- ✓ The name of the Valuation Guidance Note was changed to *GEV 620 Valuation of Personal Property such as Machinery, Plant and Equipment, and Inventories*.
- ✓ The structure of the Valuation Guidance Note was slightly changed with the introduction of a new chapter consisting of three paragraphs (4, 5, 6) regarding the valuation of inventories, whereas the paragraphs regarding the valuation of machinery, plant and equipment were included in chapter *B, Personal Property such as Machinery, Plant and Equipment, and Inventories*. The new chapter is enclosed below:

“A. Personal property such as inventories

4. In the valuation of inventories, the valuer shall apply the method matching the type of value required by the client.
5. Inventories are assets held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or other supplies to be consumed in the production process or in the rendering of services.
6. National accounting regulations provide a relevant classification of inventories. Inventories include:
 - a) Commodities,
 - b) Raw materials,
 - c) Consumables,
 - d) Other materials including inventory items,
 - e) Products such as:
 - semi-finished products,
 - finished products,
 - throw-outs, recoverable materials and waste,
 - agricultural products,
 - f) Biological assets in stock,
 - g) Packing materials,
 - h) In-process goods.”

2. GEV 520 Valuation for Secured Lending

- ✓ In the *Introduction* section paragraphs no. 1, 5 and 9 were completed, as follows:

“Para. 1. The Valuation Guidance Note regarding the valuation of real guarantees (hereinafter referred to as the “Guidance Note”) is to be used by credit institutions, authorized valuers, financial auditors as well as other valuation services users who are involved in valuation activity as part of the lending activity, at various stages of the lending process, and it outlines the framework based on which the credit institutions shall develop their own valuation norms.”

“Para. 5. The internal rules regarding the valuation of real guarantees, adopted by credit institutions, shall be compliant with this Guidance Note and shall instate the obligation of valuers to apply the Asset Valuation Standards. [...]

„Para. 9. The credit institution shall decide whether the asset subject to valuation qualifies as a guarantee and such decision falls to the responsibility of the credit institution. The internal valuers of the credit institutions must be independent from the process of loan approval.”

- ✓ In the *Valuation Principles Used for Tangible Assets Guarantees* section, paragraphs no. 14, 15, 20 and 34 were amended and completed as follows:

“Para. 14. The person that commissioned the report shall provide the underlying documents needed for the valuation report to the authorized valuer. The valuer shall draft and present to the person that commissioned the report a list of the documents and pieces of information that are necessary for the valuation. The valuer shall mention all the documents he or she used and append them to the valuation report, and will single out all the documents that were required but were not made available. The valuer will mention in the valuation report whether the valuation was based on special assumptions, previously approved by the credit institution.”

“Para. 15. If the valuer finds out, while inspecting the asset, that the actual on-site situation is not consistent with the situation reflected in the documents presented to the valuer or that the property under valuation is not identifiable, then the valuer shall proceed according to the credit institution written instructions.”

“Para. 20. In order to estimate an opinion of the asset value, valuers shall use specific methods, corresponding to the three distinct valuation approaches recognized in the Valuation Standards currently into force:

- [...]”

“Para. 34. The valuation report shall comply with the Asset Valuation Standards into force at the valuation date.”

- ✓ In the *Valuation at the Stage of Loan Approval* section paragraphs no. 35, 38 and 45 were amended and completed, while paragraph 48 was removed, as follows:

“Para. 35. [...] If, in the course of the valuation, other complementary documents should become necessary, the external valuer shall notify the credit institution in writing. The report deadline shall be extended with the period elapsed until the respective document is provided.”

“Para. 38. The set of documents based on which the valuation report is to be prepared shall include the following:

- For real estate:
 - Property title regarding the asset under valuation,
 - Excerpt from the Land Book,
 - Documentation showing the real estate areas (land area and the gross building area and/or the usable area of the building). These areas can be extracted from at least one of the following:
 - i. Cadastral documentation approved by ANCPI/OCPI, in case of real estate for which such documentation was drawn-up in compliance with the legislation in force at the date of their preparation; it is advisable to present each floor plan of the building (in order to check also the floor partition and reconcile it with the actual situation),
 - ii. The plan appended to the property title and an integrant part of it, in case of real estate for which cadastral documentation was not drawn-up at the valuation date,
 - iii. Excerpt from the Land Book and/or the property title in which specific reference to the real estate areas (both for land and the building) is made; in such case, any potential changes of the real estate, unrecorded in the Land Book, will not be mentioned,
 - iv. Documentation drafted and signed/stamped by a certified expert (ANCPI authorized), without the approval stamp of ANCPI/OCPI, provided the credit institution allows it.
 - Urban planning certificate, valid on the valuation date, showing the options for development (land occupation rate, land occupation coefficient, purpose, restrictions, etc.) – for vacant land within built-up area,
 - Other specific documents depending on the type of subject property (approvals, permits, etc.).

If the documents provided fail to reflect the on-site situation, the valuer shall ask for additional documents (construction/demolition permit, operating permit, technical expert report, etc.);

The areas based on which the value is estimated shall be those mentioned in the documents listed before. The authorized valuer quality does not include competencies in the field of area

measurement, hence the responsibility for the correct reflection of areas lies with the persons that drew up the documents used in the valuation process. In the event the valuer has doubts regarding those areas, he or she will ask for clarifications from the designated user.”

“**Para. 45.** In asset valuation, one or more of these approaches may be used. The selection depends on the type of asset, the terms of reference, the quality and quantity of the data available for analysis.”

Para. 48. Removed

✓ In the *Valuation during the Loan Period* section, following the removal of para. no. 48 and the completions or amendments brought to them, resulted the new paragraphs no. 52, 53, 55, 56, 63, as follows:

“**Para. 52.** Credit institutions may agree on simplified versions of the valuation reports in their internal regulations, provided that they comply with the Asset Valuation Standards in force.”

“**Para. 53.** The guarantees in the credit institution’s portfolios shall be subject to individual or mass valuation. Individual valuation shall be performed whenever it is not possible to perform mass valuations or under the circumstances described in paragraph no. 55.”

“**Para. 55.** The cases when individual valuation of guarantees may be performed during the loan payback period are stipulated in the internal regulations of the credit institution and may regard the following situations:

- [...]”

“**Para. 56.** Individual valuation of the guarantees during the loan payback period is similar to valuation at the stage of loan approval (paragraphs no. 1 - 48 of this Valuation Guidance Note), provided that the credit institution shall obtain the owner acceptance for the asset inspection and communicate it to the valuer. [...]”

“**Para. 63.** Further recommendations on the mass valuation of guarantee portfolios, including details on the stages listed under paragraph 62, can be found in Annex 2 to this Valuation Guidance Note – *Mass Valuation of Guarantee Portfolios*, posted on ANEVAR’s website. [...]”

✓ Under the *Valuation at the Stage of Foreclosure* section paragraph no. 68 was modified as follows:

“**Para. 68.** Internal valuations at the stage of foreclosure, used within the credit institutions, can be performed according to the same underlying rules of the valuation which is performed during the loan payback period. For these valuations, no information needs to be recorded in ANEVAR’s Real Estate Guarantee Database (BIG Database).”

3. **Glossary**

The Glossary includes new entries regarding definitions of several types of capitalization rates. The definitions of the terms related to *GEV 530 Real Estate Mortgage Lending Value Estimation* were deleted.