

CONCEPT OF THE NATIONAL VALUATION STANDARDS: DEVELOPMENT FRAMEWORK, PREREQUISITIES AND THE BEST INTERNATIONAL PRACTICES

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INTRODUCTION

The importance of developing national valuation standards is unquestionable. It was expected that a set of standards binding on all appraisers practicing their profession in the Republic of Moldova would be developed soon after the adoption of the Legal Act on Valuation Activities in 2002. However, the regulations adopted at that time for market valuations of property and intellectual rights were describing the basic valuation concepts as well as the valuation principles, approaches and steps in sufficient detail – and so the lack of national valuation standards was not acutely felt. The methodology-related environment for market valuations of property was in place - and it was believed to be sufficiently developed for that time. We should emphasise that the first regulations on market valuation methodology were developed in accordance with the International and European valuation standards; this is why these documents remain relevant and still find broad application in market valuation practices although they are about 20 years old.

A feature specific of valuation standards in many countries of the world is that they have been developed by the professional community without involvement of the public authorities. It was hoped at that time that a strong community of valuers would emerge and be able to take over the function of developing valuation standards from the state as valuation activities in the Republic of Moldova take shape and develop over time, but this has not happened.

At present the regulatory environment for valuation activities is rapidly becoming obsolete in the Republic of Moldova. The further development of international property valuation standards requires an update of our national laws. The market valuation methodologies are developing worldwide and new valuation ideas and concepts are emerging. Thus, new types of value such as fair value, special value, synergy value have gained broad recognition in recent years. None of these innovations have been reflected in Moldova's national laws and consequently they do not find application in practical appraisal work locally.

One of the reasons for the importance and relevance of developing the National Valuation Standards is gradual emergence of market thinking among civil servants and managers of public administrations and controlling authorities. Situations have become more and more frequent where 'valuation in accordance with international standards' is a requirement for the appraisal of property or leasehold rights - and the application of these standards is only possible in the Republic of Moldova through the development of its own National Valuation Standards based on international best practices.

We believe that development and subsequent approval of the National Valuation Standards will contribute to improvement of Moldova's international image, which is relevant for international stakeholders and demonstrates best practices as well as the country's willingness to have a voice at the international level and to successfully implement international valuation standards.

RESEARCH TECHNIQUES AND MATERIALS

General scientific approaches of gaining new knowledge such as moving from the general to the particular, and a combination of logical conclusions with historical data were applied for the purposes of this research. A systemic approach, the consideration of specific valuation standards in relation to other standards, the research progress from general valuation standards, through the development of standards for different property types and valuation objectives, to practical guidelines

and technical documents have played a special role in the development of proposals for the structure of the standards.

The development of the concept for the national valuation standards was based on the ICAO-approved International Valuation Standards, the European Property Valuation Standards promulgated by TEGOVA, the US Best Professional Practice Standards, the RICS (Royal Institution of Chartered Surveyors) Valuation Standards, the ANEVAR (the National Association of Romanian Authorized Valuers) standards, on the best practices of the Russian Federation, Ukraine, the Republic of Belarus as well as on the author's personal professional knowledge and experience.

THE FINDINGS AND THE DISCUSSION

Our analysis of international best practices and of the above-mentioned valuation standards as well as our personal experience in the field of regulation and development of valuation activities in the Republic of Moldova has enabled us to propose the following concept for the National Valuation Standards (NVS).

The Structure of the Standards. It is believed to be most appropriate for the NVS to consist of the following sections: General standards reflecting the valuation concepts, ideas and fundamental principles; specific standards for different types of appraised properties; standards for specific applications depending on the valuation objective. In our opinion, Guidelines for the Application of the Standards and a separate section on technical documents should be a component of the National Valuation Standards. The structure suggested for the NVS is as follows:

General standards:

- General provisions
- Requirements to the appraiser
- Value types and valuation objectives. Market value
- Valuation methodology and procedure
- Valuation reports: Their types and requirements thereto

Specific standards for different property types being appraised:

- Valuation of real estate
- Valuation of construction in progress
- Valuation of movable property
- Valuation of businesses
- Valuation of intangible assets
- Valuation of shares and other financial instruments

Standards for specific applications:

- Valuation for tax purposes
- Valuation of collateral
- Valuation for insurance purposes
- Expert review (verification) of valuation reports

Guidelines for the application of the standards:

- Appraising the value of immovable property
- Valuation of businesses
- Valuation of machines, machine units, equipment and installations
- Valuation of agricultural land
- Valuation of items of architectural and historical value

Technical documents:

- Code of Measurement
- Code of Ethics
- Compendium of aggregate indicative costs of new construction

- Glossary

The presented NVS structure is subject to the discussion and approval by the working group on development of the national valuation standards established by the Agency for Land Relations and Cadastre in the Republic of Moldova.

Development of the standards. The draft standards are being developed by appraisers-practitioners, representatives of the educational community, representatives of non-governmental associations of appraisers, and state regulators of appraisal activities. The developed draft standards will be submitted to the working group established on the order of the Agency for Land Relations and Cadastre (the central public administration agency responsible for the NVS development). Foreign consultants in the field of valuation may be involved for drafting the most challenging standards.

Approval of the standards. With account of their universal nature, the National Valuation Standards must be approved by a Government Resolution after they go through a mandatory peer review system in the relevant ministries and departments. The specific nature of the National Valuation Standards makes them subject to the mandatory procedure of approval of their text by Moldova's National Institute for Standardisation and National Terminology Centre. In accordance with the national practices of drafting regulatory documents, the National Valuation Standards should be developed in Romanian as well as in Russian. It is assumed that the National Valuation Standards will be largely based on the International Valuation Standards and so we should also foresee the necessity of obtaining a permission from the International Valuation Standards Committee (IVSC) to use the text of their standards in Romanian and Russian as the basis for the National Valuation Standards.

The technical part of the standards (the Application Guidelines and the Technical Documents) may be approved by the Agency for Land Relations and Cadastre and published on the Agency's website and in the Official Gazette of the Republic of Moldova after their registration with the Ministry of Justice.

Periodical updates of the standards. The working group for development of the National Valuation Standards should be a permanent unit monitoring the implementation of the standards together with the Real Estate Valuation Unit in the Agency for Land Relations and Cadastre. The National Valuation Standards should be amended and improved from time to time as a follow-up on possible identified inaccuracies and limitations impeding property valuations as well as with account of the emerging new versions of the International Valuation Standards (that are updated every 2 years). In our opinion, the frequency of updating the NVS should not be more than once in 5 to 7 years.

Mandatory application. After their publication in the Official Gazette of the Republic of Moldova, the National Valuation Standards should become binding by law on all valuers in Moldova. Any non-compliance with the National Appraisal Standards may only be justified where absolutely necessary and where properly reflected in the valuation report.

Financing the development. The development of the draft National Valuation Standards should be financed from the state budget and international grants for technical development allocated to the Republic of Moldova. Depending on the type of the property being appraised or the valuation objective, the development of individual draft national standards may be financed by international projects that have valuation of property as one of their objectives.

Moreover, certain funding from the state budget should be foreseen annually and included in the medium-term forecast to ensure adequate sustainability and continuity in the development and updating of the national valuation standards.

SUMMARY AND CONCLUSIONS

This Concept developed for the National Valuation Standards is a new research deliverable and a practical development, which is being published for its discussion by the scientific and professional community. The above draft will also be submitted for its consideration by the Working Group for development of the National Valuation Standards. The final version of the Concept will be submitted for approval to the Ministry of Finance and then to the Government.

The author believes that this Concept is a convincing proof of the importance, relevance and necessity of developing the National Valuation Standards and will make it possible to give Moldova's recently elected Government a comprehensive vision and understanding of this matter, which is extremely important from an economic and political perspective.

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