

## СУЧАСНА СИСТЕМА МІЖНАРОДНОГО ПРАВА

УДК 330.1

### EUROPEAN VALUATION STANDARDS EVS–2016 AND THEIR INTERRELATION WITH EU LEGISLATION

### ЄВРОПЕЙСЬКІ СТАНДАРТИ ОЦІНКИ EVS–2016 ТА ЇХ ВЗАЄМОЗВ'ЯЗОК З ЄВРОПЕЙСЬКИМ ЗАКОНОДАВСТВОМ

### ЕВРОПЕЙСКИЕ СТАНДАРТЫ ОЦЕНКИ EVS–2016 И ИХ ВЗАИМОСВЯЗЬ С ЕВРОПЕЙСКИМ ЗАКОНОДАТЕЛЬСТВОМ

**Yakubovsky V. V.**

Doctor of Science, Professor at the Department of International Business of the Institute of International Relations, Taras Shevchenko National University of Kyiv. E-mail: vyakubovsky@ukr.net

**Якубовський В. В.**

Доктор технічних наук, професор кафедри міжнародного бізнесу Інституту міжнародних відносин Київського національного університету імені Тараса Шевченка. E-mail: vyakubovsky@ukr.net

**Якубовский В. В.**

Доктор технических наук, профессор кафедры международного бизнеса Института международных отношений Киевского национального университета имени Тараса Шевченко. E-mail: vyakubovsky@ukr.net

**Abstract.** *The article is devoted to analysis of new edition of European Valuation Standards EVS–2016 and the interrelation with European Legislative and Normative basis. Reviewed are structure and content of so called “Blue Book” of EVS–2016 standards issued by The European Group of Valuer’s Associations (TEGoVA) which are enforced from 01 June 2016. Underlined is the fact that these standards are highly structured and include not only five basic valuation standards but also some sets of supporting documents such as Guidance Notes and Technical Documents.*

*Close interrelation of TEGoVA’s standards with European legislation is demonstrated and analyzed as one of the important and specific their peculiarity in comparison with other international valuation standards. This is specially marked by the fact that standards itself are already included into several European Directives and Regulation of mandatory character. This remarkably increase role and significance of EVS–2016 standards both for international and domestic valuation practice and should be closely considered during process of actualization of national property valuation standards.*

**Key words:** *valuation, property, assets, European legislation, national standards, valuation standards, guidance notes, technical documents.*

**Анотація.** *Дана стаття присвячена аналізу нової редакції Європейських Стандартів Оцінки EVS–2016 та їх взаємозв'язку з Європейською законодавчо-нормативною базою. Виконаний аналіз структури та змісту так званої «Блакитної Книги» стандартів EVS–016, які вийшли у світ під егідою Європейської Групи Асоціацій Оцінювачів (ТЕГоВА) та вступили в дію з липня 2016 р. Підкресленим є той факт, що дані стандарти є високо-*

© Якубовський В. В. 2018

структурованим документом, який включає до себе не тільки безпосередньо п'ять базових стандартів вартісної оцінки майна, але й низку інших документів до яких відносяться Керівництва та Технічні документи.

Тісна взаємопов'язаність стандартів ТЕГоВА з Європейською законодавчою базою яка притаманна цим стандартам є їхньою відмінною особливістю у порівнянні з іншими міжнародними стандартами в цієї галузі. Це особливо підкреслює той факт, що самі стандарти вже увійшли в законодавче поле Європейського Співтовариства, включаючи відповідні Директиви та Регламенти, які мають обов'язковий характер. Це суттєво підвищує роль та значущість стандартів EVS–2016 як в міжнародній так і в вітчизняній практиці виконання робіт з вартісної оцінки що в свою чергу має бути врахованим при розробці наступної редакції національних стандартів оцінки.

**Ключові слова:** вартісна оцінка, майно, активи, Європейське законодавство, національні стандарти, стандарти оцінки, керівництва, технічні документи.

**Анотація.** АСтатья посвящена анализу новой редакции Европейских Стандартов Оценки EVS–2016 и их взаимосвязи с Европейской законодательно-регулирующей базой. Выполнен анализ структуры и содержания так называемой «Синей Книги» стандартов EVS–2016, вышедших под эгидой Европейской Группы Ассоциаций Оценщиков (ТЕГоВА) и вступивших в действие с июля 2016 г. Подчеркнуто, что данные стандарты является высокоструктурированным документом, который включает в себя не только собственно пять базовых стандартов стоимостной оценки, но также содержит серию других сопровождающих документов, к числу которых относятся руководства и технические документы.

Отличительной особенностью стандартов EVS–2016 является их тесная взаимосвязь с Европейской законодательной базой, что существенно выделяет эти стандарты от аналогичных им других международным стандартам стоимостной оценки. Подтверждением этой взаимосвязи является тот факт, что сами стандарты EVS–2016 в законодательное поле Европейского Сообщества, включая соответствующие Директивы и Регламенты, которые носят обязательный характер. Это существенно повышает роль и значение стандартов EVS–2016 для международной и отечественной практики проведения работ по стоимостной оценке. В свою очередь это обстоятельство необходимо учитывать при разработке следующей редакции национальных стандартов оценки.

**Ключевые слова:** стоимостная оценка, имущество, активы, европейское законодательство, национальные стандарты, стандарты оценки, руководства, технические документы.

**The current problem.** Beginning of the year 2016 European Group of Valuer's Associations TEGoVA announced edition of new 8-th version of European Valuation Standards EVS-2016. Official presentation of these standards was done at TEGoVA's annual General Assembly and International Conference, which took place on May 14–15 this year in Brussels. Hereat, the date of these standards enforcement is June 01, 2016.

Before to start direct review of structure and content of EVS–2016 standards it seems reasonable to describe briefly TEGoVa as an umbrella organization which develops and publish all-european valuation standards. This is also grounded because of evident lack of information available in native resources on TEGoVA's structure and activity.

The TEGoVA abbreviation itself appeared in the mid of 1997 instead of previously known EUROVAL. Uniting as of to-day 3 national valuer's associations of 34 first of all european countries, in its current status TEGoVA, as an international organisation, represents professional in-

eterst of 70 thousands of valuer's of these countries. This is important to mention that apart of valuer's associations of leading european countries TEGoVA includes also such well-known organisations of other global regions as:

- Appraisal Institute of Canada – AIC, Canada;
- Appraisal Institute – AI, USA;
- Dubai Land Department – TAQYEEM, UAE.

This is not less important to indicate that from ex-soviet camp in this most meaningfull international organisation, which unites national valuer's associations, also participate:

- Georgia – Independent Valuers' Society of Georgia;
- Latvia – Latvian Association of Property Appraisers;
- Lithuania – Lithuanian Association of Property Valuers;
- Russian Federation:
  - Partnership of the Russian Society of Appraisers;
  - Russian Board of Appraisers;
  - Russian Society of Appraisers.

Such a broad interest to participation in TEGoVA's activity from professional valuation circles of leading european and non-european countries confirms significance of this important international organisation, its growing influence in formation of european and global policy in the valuation area. Hence, analysis of a new edition of TEGoVA's standards is important for national and international practices in assets valuation services.

**The aim of the article** is to analyze structure and content of the EVS–2016 valuation standards and their interrelation with the European general legislation related to the property.

**The important research results.** Last years TEGoVA initiated important move to close cooperation with leading sructures of the European Community with the mail purpose to reflect in the european legislation common rules and requirements on different assets valuation, first of all for investment activities, mortgage credit and taxation applications.

Main accent in the TEGoVA activity is laid down on development and dissemination of unified valuation standards with prospects of their utilization as all-european norms. Hence, content of new version of TEGoVA valuation standards EVS–2016 draws special attention to those who are involved in valuation area.

All-european group TEGoVA develops and publishes valuation standards from yearly 80-th of last century. Traditionally they are printed with cover sheet in dark blue color and hence named oftenly as “Blue Book” as distinct from Royal Institute of Chartered Surveyors (RICS) standards usially printed with red cover sheet and hence named for simplicity as “Red Book”.

As for the structure, standards EVS–2016 “Blue Book” consist of 4 main parts [1]. Its first part includes namely standards EVS–2016 (part 1A) and Guidance Notes to them (part 1B). Second part is occupied by European Code of Conduct and Ethics and European Code of Measurement. Third part is devoted to analysis of interrelations between European legislation and property valuation. And, finally, forth part accommodated Technical Documents, which are oriented to look more closely at some aspects of valuation activity. General structure of European valuation standards “Blue Book” last edition in more details is given in table 1.

General overview of table 1 shows high level of structuring of documents included in the “Blue Book”. It includes not only standards themselves but also several additional documents which specify their certain statements. Those are 10 Guidance Notes, 2 Codes and Technical Documents. As a separate part description of EU legislative documents related to property valuation is included.

Being a conceptual part of “Blue Book” valuation standards are devoted to high level principles in relations to key elements of valuation activity. First of these standards is completely de-

voted to fundamental for valuation activity concept of “market value” and related to that issue questions. Already in the introduction of the standard main definitions of market value and market rent are given. They are as follows:

Table 1

**General Structure of the EVS–2016 “Blue Book”**

Part	Part Title	Doc №	Doc title
1 A	European Valuation Standards	EVS 1	Market Value
		EVS 2	Valuation Bases other than Market Value
		EVS 3	The Qualified Valuer
		EVS 4	The Valuation Process
		EVS 5	Reporting the Valuation
1 B	European Valuation Guidance Notes	EVGN 1	Valuation for the Purpose of Financial Reporting
		EVGN 2	Valuation for Lending Purposes
		EVGN 3	Property Valuation for Securitization Purposes
		EVGN 4	Assessment of Insurance Value and Damages
		EVGN 5	Assessment of Investment Value
		EVGN 6	Cross-border Valuation
		EVGN 7	Property Valuation in the Context of the Alternative Fund Managers Directive
		EVGN 8	Property Valuation and Energy Efficiency
		EVGN 9	EMF and TEGoVA Commercial Loan Specification
		EVGN 10	Valuation: Compliance with EVS
2	European Codes	EC 1	European Valuers’ Code of Ethics and Conduct
		EC 2	European Code of Measurement
3	European Union Legislation and Property Valuation		
4	Technical Documents	EVIP 1	Sustainability and Valuation
		EVIP 2	Valuation Certainty and Market Risk
		EVIP 3	Apportionment of Value between Land and Buildings
		EVIP 4	Valuation and other issues for Recurrent Property Tax Purposes
		EVIP 5	Valuation Methodology
		EVIP 6	Automated Valuation Models (AVM)
		EVIP 7	European Property and Market Rating: A Valuer’s Guide
		EVIP 8	Fair Value Measurement under IFRS 13

“Market value – the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion”.

“Market rent – the estimated amount of rent at which the property should be leased on the date of valuation between a willing lessor and willing lessee on the terms of the actual or assumed tenancy agreement in the arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion”.

These definitions practically are identical with those given in the International Valuation Standards IVS–2013 with the only exception that in the last case definition of market value cover not only property but also expands to assets liability [2].

Explaining both terms EVS 1 standards underlines that they do not mean actual sums which will be paid between specific parties. In open market this sum will depend on specific expecta-

tions and preferences of both particular buyer and particular seller as well as from influence of other exogenous market factors. Hence this terms are rather an estimates of the amounts reasonably expected to be paid or the most probable price at the market conditions t the date of valuation. By this, perhaps, first time in the international standards of valuation practice, probabilistic nature of market value is recognized and formulated.

Current European legislation in force contain several definitions of “market value”. It concerns, first of all, European legislation in relation to financial instruments and capital requirements regulation. One of the basic document is the Regulation № 575/2013 on prudent requirements for credit institution and investment firms which materialize classes of international banking agreement Basel III [3].

Market value definition given in par. 4.1 (76) of this Regulation is identical to that formulated in EVS 1. Hence, it could be stated that as of to-day, mentioned above common definition of market value is composed in most respectfull international standards and key European directives. This should be taken into consideration when reviewing current publication of national valuation standards issued in 2003–2007.

Aside from mentioned above market value definition is resent also in several other legislative documents related to financial markets. Shorten list of these documents includes:

- State Aid Communication OJ C 209, 10/07/1997 and Insurance Accounts Directive 91/674/EC;
- Solvency II Directive (2009/138/EC);
- Directive 2006/112/EC on the Common System of Value Added Tax;
- Requation 2909/2000 on the Accounting Management of the European Communities’ non-financial fixed assets.

With all editorial differences of these definitions of market value their meaning in its essence is relevant to that given in the EVS 1 standard, which could be recommended for utilisation in most general cases.

Valuation Bases other than Market Value are described in the standard EVS 2. It includes following valuation bases different from market value:

- Fair Value;
- Special Value;
- Investment Value;
- Mortgage Lending Value;
- Insurable Value;
- Valuers for Taxation Purposes;
- Values for Compulsory Purchase and/or Compensation.

Standard allows also utilization of other types of value if required by law, circumstances or a client’s requirements which should be grounded and clearly stated in the valuation report. The result will not be a market value.

Definition “Fair Value” is normally used in two distinct contexts:

- for identified pair of buyer-seller rather than assuming the wider market place of possible bidders;
- for the accounting purposes.

In first case fair value reflects individual character of actual or potential transaction between specific buyer and specific seller which leads to difference between fair value and market value.

Necessity of second case is determined by its utilization in the International Standard of Financial Reporting IFRS 13 enforced from 01 January 2013. By its meaning this definition is oriented to the property valuation based on the principle of highest and best use. Hence, it’s much closer to the market value comparing to the first case with fixed pair of buyer-seller.

Definition “Special Value” is defined for the cases when property by its characteristics attracts an increased interest to a Special Purchaser which is ready to pay a price higher than market value. Separately as a particular class of special value in this chapter is given definition of “Synergistic Value” also known in some countries as “Marriage Value” which appears when total value of several properties combined is greater than simple arithmetic sum of values of their parts.

“Investment Value”, included in the standard EVS 2, corresponds to its commonly used definition for specific investment project and for known investor.

Definition “Mortgage Lending Value” initially appeared in the Directive 2006/48/EC in the context of real estate collateral for the capital requirements and risk management of credit institutions. Afterwards it was incorporated into mentioned above Regulation 575/2013, named shortly as Capital Requirements Regulation – CRR.

By these documents Mortgage Lending Value is recognized as a valuation basis for the calculation of the risk-weighted exposures of credit institutions secured by mortgages on immovable property. As Mortgage Lending Value is normally used for certain period which corresponds to credit period, it should exclude any speculative elements and hence cannot be higher than market value which in contrast is to be determined for given point in time according to EVS 1 standard.

Three last value bases including insurance value, value for taxation purposes and value for compulsory purchase and compensation do not differ from common meaning and therefore do not require any additional explanations.

Main requirements to qualification and activity conduct of valuers are specified by EVS 3 standard. Underlined is unconditionable necessity of valuation performance by qualified valuer or under his strict supervision. Job performance at all times should follow highest standards of honesty and integrity being not detrimental to the clients, the public and profession.

For confirming high level of professionalism TEGoVA introduces 2 following valuers status:

- Recognised European Valuer - REV;
- TEGoVA Residential Valuer - TRV.

Requirements of valuer’s independence, sufficient competence and responsibility for the valuation results are included in several European legislative documents, namely:

- Communication on State Aid OJ C 209 II.2(a);
- The Capital Requirements Regulation CRR;
- European Banking Administration ID 2014\_1056;
- Bank Recovery and Resolution Directive 2014/59/EU;
- Mortgage Credit Directive 2014/17/EU.

In a separate chapter of EVS 3 standard, valuer’s liability clauses, including professional indemnity insurance issues are presented.

EVS 4 standard describes main stages of valuation process and requirements to them presented in a general format. Activity should start from discussion and fixing of terms and conditions of jobs to be done being followed by collecting necessary information, site visit, analysis and generalization of data, preparation of final report.

Presented in a very general format these requirements are of minimum needed. They could be enlarged at national level.

Trailing of basic list standard EVS 5 reflects main requirements to valuation reporting and in this sense is logical extension of previous EVS 4 standard (table 1). Two types of valuation reports are foreseen: complete and short. Short version of valuation report could be used in case of actualization of previously performed valuation. Standard does not permit to exclude site vis-

its from the scope of initial valuation procedure. Their avoidance is possible for repeat valuation or valuation actualization if valuer received sufficient evidence absence of changes since last on site inspection which could influence valuation results.

Short examination of basic EVS standards show their conceptual character with clear orientation on high level principles. Content of some key elements and specific points is further reflected Guidance Notes and Technical Documents (table 1).

Main requirements to valuation for financial reporting are described in Guidance EVGN 1. European Regulation EC 1606/2002 requires publicly quoted companies to prepare and publish their consolidated accounts for each financial year starting from 01 January 2005. Entities with other legal status may disclose their yearly financial results voluntary.

European Union has not sought to provide separate European Accounting Standards preferring to use for consistency normative documents of International Accounting Standards Board (IASB). Most important among them are:

- International Accounting Standards - IAS;
- International Standards of Financial Reporting - IFRS.

Main clauses of these international documents related to assets value directly included in respective EU Directives and Regulations. As an example, Regulation 1255/2012 contains main clauses of IFRS 13 standards in respect of reporting on the basis of fair value. In more general form current European rules and requirements to financial reporting are present in Directive 2013/34/EU [4].

Regulation EVGN 2 «Valuation for Lending Purposes» to the great extent is also directly linked with European legislative documents which stipulate requirements to the credit institutions being aimed to reduce credit risks. In first turn it concerns Capital Requirements Directive 2013/36 and supporting her Regulation 575/2013, as well as Directive 2014/17/EU on credit agreements [5]. Moreover, article 29 of the last Directive directly refers to the European valuation standards developed by the TEGoVA.

One more example of such interrelation is instructive documents issued by the European Central Bank as a reaction to the last financial crisis. According to these decisions starting from May 2014 all main European banks should prepare and present their Assets Quality Review – AQR [6]. In this document priority for the valuation purposes is also given to EVS standard.

By all these feedback link is demonstrated between European valuation standards EVS and European legislation. This indicates direct incorporation of EVS standards into the legislation framework of European Community. Significance and further prospects of mentioned above should be specially underlined.

Implementation of the last group of regulative documents is a preventive reaction to the last global economic crisis. The main starting reason for that was growing portion of unsecured mortgage credits in the US real estate industry which rapidly initiated global crisis [7].

Following three Guidance Notes including :

EVGN 3 «Property Valuation for Securitization Purposes»,

EVGN 4 «Assessment of Insurable Value and Damages»,

EVGN 5 «Assessment of Investment Value»,

as for their character are close to each other because they include main requirements to the corresponding valuations basis envisaged by EVS 2 standard in addition to the market value.

In accordance with its specificity most capacious among them is Guidance Note EVGN 4, which covers requirements to the valuation process for the insurance purposes including assessment of losses caused by damages or destructions. It also considers the value of compensation or restoration needed for destroyed or damaged assets.

Appearance of Guidance Notes EVGN 6 «Cross-Border Valuation» to great extent is determined by general EC policy on breaking all kinds of barriers between countries. This policy fully covers exercise services which include valuation services in full scope. Directive 2006/123/EC which is called Directive on Services is specially devoted to this question. According to this Directive any limitations on services provision inside EC market should be taken away.

This paves a way for qualified valuers to provide services not only if the country of residence but also in any other EC country. This is also one of the goals of introduction of mentioned above REV and TRV valuers statuses made by TEGoVA.

At the same time legislation basis, market conditions and existing practice of assets valuation in countries still differ. This required unification of general requirements to valuation services in cross-border cases being the subject of consideration of EVGN6.

Energy consumption is often one of the most significant costs of occupying of real estate and commercial property directly influencing costs of buildings purchase and rent. Moreover, analysis show that buildings are source of 40% of CO<sub>2</sub> total emissions in EU. So, energy concerns are now a major factor driving legislation affecting property in the United Europe.

One of the basic European documents in this respect is Directive 2010/31/EU on the Energy Performance of Buildings. Certain development and detailization of this regulation is given in another Directive 2012/27/EU which is called Energy Efficiency Directive. As a general purpose a 30% reduction till 2030 of green houses gases emission in this sector of European economy which is not covered by the European Emission Trading System [8].

All this was the reason of appearance of Guidance Notes EVGN 8 «Property Valuation and Energy Efficiency». Its main content is directly run out from the Directive 2010/31/EU and determine the necessity to consider energy efficiency during valuation process including review of Energy Performance Certificates introduced in Eurozone from 2002.

Guidance EVGN 9 is a joint document prepared by the European Mortgage Federation and TEGoVA. Unlike the Guidance EVGN 2, this document specifies general requirements to the valuation process of non-residential property of commercial type which is used for the purpose of secured lending. Appendixes to this document include general requirements to the scope of site visits, content of valuation reports and types of risks to be considered.

The last Guidance Notes EVGN 10 in a very general form describes requirements of EVS standards to the valuation process and reporting. It is indicated that valuations could be recognised as being compliant with European standards only when they have been conducted strictly in accordance with requirements of EVS 1–5 standards and European Valuers' Code of Conduct and Ethics.

Namely this Code of Conduct and Ethics EC 1 opens next chapter of standards EVS 2016 «Blue Book» (table 1). In accordance with Charter of Fundamental Rights of the EU and specifying recitals of EVS 3 standard, this Code determines main principles and rules which should be followed by European valuer in his professional activity.

Second document in this chapter of EVS–2016 standards «Blue Book» is European Code of Measurement marked as EC 2. It embraces general principles of geometrical measurements of buildings and land where they are erected. EC 2 Code does not substitute national detailed rules of such measurements. Its intention is to describe in generalizes form main requirements to such measurements including metric system and units to be used, rules of measurement if linear, area and volume parameters with their classification.

Chapter 3 of the EVS–2016 standards «Blue Book» in a summarizing format describes interrelation of European legislation with valuation of property. The big volume of this chapter itself confirms a tightness of this link. This analysis was done at the level of EC Directives and Regulations which should be followed by national legislative acts of each country-member.



When describing separate basic EVS–2016 standards documents, some questions of their interrelations with all-European legislative acts were also mentioned. In more general form their enlarged but not exhausted list is given in table 2.

Table 2

**Main EC legislative-normative documents related to property**

<b>Doc №</b>	<b>Title</b>
<b>Valuation of Property for Financial Reporting</b>	
Directive 78/660	4-th Directive on Annual Accounts of certain Types of Companies
Drective 83/349	7-th Directive on Consolidated Accounts
Directive 86/635	Directive on the Annual Accounts and Consolidated Accounts for Banks and other Financial Institutions
	Directive amending Directives 78/660, 83/349 и 86/335 with Regards to the Valuation Rules for the Annual and Consolidated Accounts.
Directive 2001/65	
Directive 91/674	Directive on the Annual Accounts and Consolidated Accounts for Insurance Undertakings
Regulation 2000/2909	Regulation on the Accounting Management of Non-financial Fixed Assets
Regulation 2002/1606	Regulation on the Application of International Accounting Standards
<b>Property Valuation for Financial Institutions</b>	
Directive 2013/36	Directive on Access to the Activity of Credit Institutions and Prudential Supervision of their Activity
Regulation 575/2013	Capital Requirements Regulation on Prudential Requirements for Credit Institutions and Investments Firms
Directive 2014/17	Mortgage Credit Directive
Directive 2009/138	Directive on the Taking-up and Pursuit of the Business of Insurance and Reinsurance (Solvency II)
Directive 2011/61	Alternative Investments Fund Managers Directive
<b>Property Valuation for State Aid Rules</b>	
Document 97/C209/03	Commission Communication on State Aid Elements in the Sale of Land and Buildings by Public Authorities
<b>Value Added Tax and Property</b>	
Directive 2006/112	7-th Value Added Tax Directive
Directive 2009/47	Directive on Reduced Rate of Value Added Tax
<b>Occupational Health and Safety</b>	
Directive 89/391	Directive on the Introduction of Measures to encourage Improvements in the Safety and Health of Workers at Work
Directive 2012/18	Директива по основным видам опасностей некоторых секторов промышленности
<b>Energy and Energy Efficiency</b>	
Directive 2009/28	Energy from Renewable Sources Directive
Directive 2010/31	Energy Performance of Buildings Directive
Directive 2012/27	Energy Efficiency Directive
<b>Environment Protection</b>	
Directive 2004/35	Environment Liability Directive
Directive 2011/92	Environmental Impact Assessment Directive
Directive 75/440	Surface Water for Drinking Directive
Directive 76/464	Water Pollution by Discharges of Dangerous Substances Directive
Directive 2000/60	Water Framework Directive
Directive 2004/35	Environmental Liability Directive
Directive 2008/105	Environmental quality Standards Directive
Directive 2008/1	Integrated Pollution Prevention and Control Directive
Directive 84/360	Framework Directive on Emissions from Industrial Plants

First of all volume of linked with property issues European legislative documents already in force is impressive. In their structure two major groups might be indicated. One of them is represented by documents related to formation of common European market and second is addressed to environment protection, energy efficiency and occupational safety.

From the time of the Treaty of Rome in 1957 which is a starting point of European Community formation as a main idea was a creation of common economical space with free movement of goods, services, people and capital which could be reached only with unification of legislative and normative basis of all member-states.

Despite of the fact that term “free movement” is not applicable to the immoveable property, country barriers removal for capital changed remarkably influenced general situation in the European property market. According to DTZ Research data, cross-border investments into residential and commercial property within Eurozone grew from very modest figure 20 years ago up to 21.4 bln Euros in 2010.

Growing concern of environmental picture leads to necessity of implementation of control and regulation mechanisms. This includes questions of power sources, energy consumption, raw materials depletion, water supply, pollution level, biodiversity, land contamination, etc. Measures provided are putting additional financial pressure both on stages of property erection and servicing. As an example it could be indicated that within the European Trading System, acting from the Year 2005, level of legally fixed penalty for emission of 1 t of CO<sub>2</sub> extra of the allocated quota costs for the company 100 Euros [8]. This, as well as several other environmental protection measures lead to additional investments to be provided for production facilities modernization influencing their market value. Hence, it should be considered during valuation process of these assets.

First among series of Technical Documents which is EVIP 1 «Sustainability and Valuation» is directly linked with the environmental questions as a key elements of the term “sustainability” itself. Origination of this document goes back to the Vancouver Valuation Accord signed in 2007 [9]. Within this representative international valuers’ forum decision was taken to include sustainability issues into the valuation standards.

Number of influencing factors related to sustainability and in particular linked with environmental issues are very big. In addition to that their exposure depends on particular asset under consideration. Moreover all these factors are acting simultaneously with other factors influencing property value.

Hence, it’s quite difficult to rely on any recommendations on level of discounts or premiums to be taken in respect of sustainability factors. To much extent it is the valuer qualification and competence to be applied keeping in mind also that these factors exposure is of long-term nature. That means that possible changes of their influence over time should be considered as well.

Technical Document EVIP 2 contains conceptual provisions on certainty level of valuation results and market risks related to that. General situation is such that valuer fulfilling his activity accumulates and summarizes information related to the valuation object, taking into consideration also market tendencies and personal expertise, determines expected market value at the valuation date. In this process he faces a heap of existing uncertainties which are caused by precision of information collected and its volatility. Valuation results to the great extent depend on qualification and professionalism of valuer himself. That is why it is stated in this document that «... value has no independent objective existence but is the summary of a property’s circumstances and market’s evaluation of expectations into a single figure at a particular moment in time...».

And generally speaking valuation as any expert assessment activity contains some elements of uncertainty that returns us to the EVS 1 standard which underlines probabilistic nature of valuation services. The potential certainty of a valuation is challenged where markets are non-existent, dormant, thin or volatile. In this connection assessment reliability for such markets depends on valuer competence to a much greater extent, including his ability to consider all influencing uncertainties and risks related to them.

Apportionment of the value between land and buildings allocated on land or so called “land improvements” is the topic of the Technical Document EVIP 3. Being rather compact in its volume and informative by its nature, this document describes following general approaches to apportionment used mainly for the purpose of financial reporting according to requirements of IFRS:

- determination of the value of the land in its current utilization, then deducting it from the object value or price to get a value of improvements/buildings;
- determination of depreciated value of the buildings then deducting it from the object total value or price to arrive to the value of the land;
- calculating both values, then determining the apportioned amounts on a pro-rata basis.

Utilization of any of these approaches is subject of assets particulars and market information necessary availability with consideration of its validity.

Technical Document EVIP 4 «Valuation and Other Issues for Recurrent Property Tax Purposes» is also of informative nature. Its appearance is mainly linked with accepted within Eurozone policy on transfer of tax burden away from taxation of labour towards recurrent taxes on property, environmental taxes and consumption taxes. Expediency and practical reasons of such transfer is the fact that property is easier identifiable and immovable to compare with free movement of people that makes taxation system functioning more complicated.

Utilization of property as a basis for recurrent or periodically repeated and more simply annual property taxation requires creation and support of the efficient national property registers including land cadastres. When for countries with developed economy it does not face any big problem, for countries with economy in transition these questions are still to be solved.

Methodology of valuation processes is reviewed in the Technical Document EVIP 5 (table 2). It's not a kind of a regulatory document which stipulates an order of valuation process to be followed. Rather this document is oriented to describe basic principles which should be followed during valuation processes. Namely in this sense three basic valuation approaches, i.e. income approach, cost approach and comparative approach are considered including main valuation methods within these approaches.

Utilization of Automated Valuation Models (AVM) is briefly discussed in the Technical Document EVIP 6. Growing interest to practical application of such models is caused by necessity of processing during valuation activity growing volume of information and from the other side by fast progress in information technologies we are facing nowadays. Advantages which gives AVM utilization in speed of data processing and sharp decrease in cost of valuation are among main factors stimulating growing interest to them.

Usage of such automated models is most efficient for typical types of property for which cost critical parameters are known and statistically assessed. Based on that AVM tools are most efficient for mortgage credit valuation, securitization purposes, taxation, audit and credit risk level determination, etc. As utilization of AVM models usually does not include site visits of assets, their direct usage cannot be considered as compliant with requirements of EVS–2016 standards.

Developed by TEGoVA in 2004 system of property rating is the subject of Technical Document EVIP 7 «European Property and Market Rating: A Valuer's Guide». Initially rating tools

were developed by rating agencies for risk assessment purposes on capital markets. Later on they are also spread out to other sectors of economy like banking supervision and real estate.

The main purpose of TEGoVA rating, which got a name “Property and Market Rating” (PaM), is to assess the quality of real estate coming from middle-term period for value. It shows that PaM is oriented to foreseeable future.

PaM rating covers 4 property types: residential, retail, office, warehousing and distribution. General rating structure includes 10 levels from top to the low. Main rating criteria are divided to clauses and sub-clauses. Recommended weighted coefficients are given for 4 main groups of them: location, marketing, property characteristics and commercial parameters.

The last document of this “Blue Book” section – EVIP 8 is dedicated to the fair value determination in accordance to the IFRS 13 standard. This Technical Document supplement provisions of fair value assessment for financial reporting purposes given in the EVS 2 standard and EVGN 1 guidance notes.

Finally “Blue Book” of EVS–2016 standards includes description of TEGoVA’s minimum educational requirements for valuers and summary of recognition of qualifications of TEGoVA’s Recognised European Value and TEGoVA Residential Valuer statuses.

**Conclusions.** Summarizing analysis of standards EVS–2016 “Blue Book”, the following should be concluded.

By its content “Blue Book” is comprehensive highly structured document which includes not only valuation standards itself but also set of several supplemental documents including Guidance Notes and Technical Documents which detail certain provisions of the standards.

According to their structure and content European Valuation Standards EVS–2016 to greater extent in comparison with their previous edition EVS–2012 are oriented on the European Legislative and Normative Basis. Being a distinctive feature of the EVS–2016 standards this is underlined by including special chapter of “Blue Book” which describes main elements of interrelation between the European Valuation Standards and the European Legislation.

Important particular of such interrelation is its two-sided character when European legislative documents already contain several references to the European Valuation Standards. This also concerns documents of the European Central Bank. All this remarkably increase significance of the European Valuation Standards revealing the prospects of their growing utilization in national and international valuation practice.

## **References**

1. European Valuation Standards EVS–2016. 8-th edition. TEGoVA. – Gillis nv/sa, 2016. – 370 p.
2. International Valuation Standards IVS–2013. Framework and Requirements. IVSC, 2013. – 47 p.
3. Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No.648/2012.
4. Directive 2013/34/EU on the Annual Financial Statements, Consolidated financial Statements and Related Reports of Certain Types of Undertakings.
5. Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property.
6. European Central Bank. Assets Quality Review. Manual. – ECB. March 2014.
7. Mizhnarodniy Biseness / Vergun V. A., Kredisov A. I., Stupnitsky A. I., Yakubovsky V. V. and others (in ukrainian).– K. VPC “Kievskiy Universitet”, 2009. – 623 p.

8. *Yakubovsky V. V.* Systemnyie Metody Menedzhmenta v mezhdunarodnom bisnese. – K.: Vyd-vo “Osvita”, 2014. – 735 p.
9. Vancouver Valuation Accord, March 2, 2007. – Vancouver, B C, Canada. – [https://www.google.com.ua/?gws\\_rd=cr&ei=AZF8Uqz3JMW14AS\\_qoH4DA](https://www.google.com.ua/?gws_rd=cr&ei=AZF8Uqz3JMW14AS_qoH4DA)