

**The World Bank**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
REGIONAL OFFICE  
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January 23, 2020

Reg. No. 2020/01/23-1

H.E. Oksana Markarova  
Minister  
Ministry of Finance of Ukraine  
11, Mezhygirska Str.,  
Kyiv, Ukraine

Mr. Dmytro Sennychenko  
Head  
State Property Fund of Ukraine  
18/9 General Almazov str.  
01133, Kyiv, Ukraine

Your Excellency,  
Dear Mr. Sennychenko,

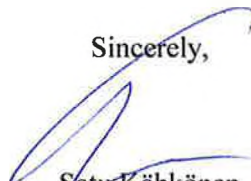
***Re: Aide Memoire for the World Bank (WB) mission on the review of appraisal standards in Ukraine,  
December 9-17, 2019***

The World Bank mission led by Vahe Vardanyan, Lead Financial Sector Specialist (WB) and Karlis Bauze, Senior Financial Sector Specialist (FinSAC) and comprising of Krzysztof Grzesik, Consultant (WB), Yevhen Hrebenuk, Financial Sector Specialist (WB) has been visiting Kyiv on December 9-17, 2019 to the review the current appraisal standards and regulatory framework of appraisers in Ukraine as well as propose amendments to align it with good international practice. The Technical Assistance in this regard was requested by the State Property Fund (the SPF).

The WB's team held discussions with various Government officials and stakeholders including counterparts in the SPF, self-regulated associations of valuers, the Ministry of Justice, the State Service of Ukraine for Geodesy, Cartography and Cadaster, the National Bank of Ukraine, the Deposit Guarantee Fund, the National Securities and Stock Market Commission, the Notary Chamber of Ukraine, the State Tax Service, and individual banks. As a result of this work, the team has found a number of ways in which the appraisers framework deviates form best international practices and can be improved, in particular, via reduced segmentation of the regulation of the valuation sector, updating the outdated national valuation standards as well as ethical standards of appraisals, broadening access to valuation data, and cutting currently overly excessive requirements for mandatory valuations. The details of the finidng and recommendations can be found in the attached Aide Memoire.

The World Bank stands ready to provide technical assistance in certain aspects of this important reform and is ready to discuss further engagement. Should you have any questions, your staff can contact the World Bank Country Office in Ukraine at 490-66-71 (contact person – Hanna Ponomarenko, [hponomarenko@worldbank.org](mailto:hponomarenko@worldbank.org)).

Sincerely,



Satu Kähkönen  
Country Director  
Belarus, Moldova and Ukraine  
Europe and Central Asia

Copied to:

- Mr. Vasyl Shkurakov, Deputy Minister, Ministry of Finance of Ukraine
- Mr. Taras Vysotsky, Deputy Minister, Ministry of Economic Development, Trade and Agriculture of Ukraine
- Mr. Tymur Khromaiev, Head, National Securities and Stock Market Commission
- Mr. Denys Bashlyk, Head, The State Service of Ukraine for Geodesy, Cartography, and Cadastre
- Ms. Kateryna Rozhkova, First Deputy Governor, National Bank of Ukraine
- Mr. Koen Davidse, Executive Director, World Bank
- Mr. Roman Kachur, Senior Advisor to Executive Director, World Bank

## UKRAINE

### World Bank (WB) mission on the review of the valuation framework in Ukraine December 9-17, 2019

#### *Aide-Memoire*

1. A World Bank mission led by Vahe Vardanyan, Lead Financial Sector Specialist (WB) and Karlis Bauze, Senior Financial Sector Specialist (FinSAC, WB) and comprising of Krzysztof Grzesik, Consultant (WB), Yevhen Hrebenuk, Financial Sector Specialist (WB) visited Kyiv on December 9-17, 2019.
2. The mission objective was to review the current regulatory framework of valuers in Ukraine and propose amendments to align with good international practice. The State Property Fund requested WB's technical assistance in this regard.
3. The WB's team held discussions with various Government officials and stakeholders (see *Annex 1* for a full list of meetings held), including counterparts in the State Property Fund (SPF), four self-regulated associations of valuers (Associations), the Ministry of Justice (MoJ), the State Service of Ukraine for Geodesy, Cartography and Cadaster (Cadaster), the National Bank of Ukraine (NBU), the Deposit Guarantee Fund (DGF), the National Securities and Stock Market Commission, (NSSMC), the Notary Chamber of Ukraine (Notary), the State Tax Service, and individual banks.

#### **Main findings**

4. **The valuation framework in Ukraine needs to be improved.** The WB's work on improvements in the non-performing loans (NPL) resolution framework in Ukraine, initiated in 2017, identified the valuation framework as a problem area. While some progress has been achieved in several other problem areas (see *Annex 2*), the valuation framework remained as an un-reformed sector up to 2019.
5. **The regulation of the valuation sector is segmented.** While the SPF plays the major role in regulating the sector, Cadaster and MoJ were allowed to regulate parts of the valuation sector (i.e., land valuers and court experts). This created a situation where the regulatory focus has been diluted with heavy consequences to valuation quality and standards of the sector.
6. **Problems in the valuation sector have spillovers to other sectors.** Deeply rooted problems in the sector created a situation where a number of regulators of other sectors (NBU, NSSMC, DGF) have issued or planning to issue regulations that affect the valuation framework. This further impedes a smooth and coordinated regulation of the sector.
7. **The national valuation standards are outdated.** The National Valuation Standards, which were issued some 15 years ago, do not adhere to latest international good practice. The Global Financial Crisis put a focus on poor quality valuations in Europe, lack of methodological harmonization and the diversity of the valuer education and qualifications. This led to a significant review of the internationally recognized valuation standards, namely International Valuation Standards (IVS), European Valuation Standards (EVS) and RICS Valuation Standards. The Ukrainian National

Valuation Standards have not been updated in line with the latter standards and need to be done so as a matter of urgency.

8. **The practice used in Ukraine to value land and a building on it separately is unique.** It is unique in so far as it is normal practice to value land and a building on that land separately and adding the two values to arrive at the market value of the whole property. In accordance with good international practice, a valuer should first arrive at the market value of the whole property (land and building). Then if necessary, for taxation, financial reporting, or other purposes a valuer may apportion the assessed value between land and the building typically by deducting the market value of the land from the total market value of the property to arrive at the apportioned value (but not market value) of the building. The practice of valuing land and buildings separately often leads to the reporting of an incorrect market value of the whole property. This is because a building on its own without the land can seldom be sold. Therefore, it will not have a market value as defined by internationally recognized valuation standards.
9. **The quality of valuations and ethics of the profession need improvements.** The common complaint amongst those receiving and relying on valuation reports is i) the lack of in-depth market analysis to support the market values being reported, ii) flawed methodology, and iii) the inability of many valuers to resist pressure from receiving clients' instructions. This is the result of i) a flawed valuer certification system, ii) an insufficiently rigorous valuer education and examination system, and iii) too little focus on conduct and ethics during valuation courses and disciplinary proceedings.
10. **Broader access to valuation data would bring much needed transparency to the industry.** Currently data related to valuations is scattered across several individual databases of official institutions: i) on valuation reports (SPF), ii) on land (Cadaster), iii) on transactions (Notary). This data segmentation and the habit of not sharing information with other authorities hinders the flow of information and transparency in the sector.
11. **Excessive requirements for mandatory valuation.** In Ukraine, every real estate transaction done by private individuals (land or real estate) requires a market value valuation of the transacted property because the taxes in such cases are levied on the higher value: valued or transaction price. This norm seems to be the legacy of past practices fighting shadow economy and tax evasion. However, this does not correspond to best international practice. Artificially elevated demand for mandatory valuations drives up the number of valuers involved, reduces the quality of these valuation, and slows the professional development of the industry. More open access to the actual transaction prices could solve the issue of automatic validation of the transaction prices for tax purposes.

## **Reforms needed**

### **Regulatory framework**

12. **Good practice requires a single regulator of the profession.** The regulation of the profession, including certification, needs to be the responsibility of a single body. The current practice with three regulators in one sector is not efficient and should be optimized. The laws on "Valuation of Property, Property Rights and Professional Appraising Activities in Ukraine" and "Land Valuation" need substantial amendments. Minor amendments could be required in the Law on "Court

Experts”. SPF seems to be best positioned, as per the current legal framework, to undertake the responsibility of certifying, training<sup>1</sup>, and disciplining valuers, including land valuers. Under this approach, MoJ would retain the right to certify court experts, however for the areas covered under the SPF mandate, court experts would need to have a valuation certificate from SPF before applying for court expert certificate.

13. **Cadaster should maintain normative valuation for tax purposes but should not certify valuers.** By its nature, Cadaster is dealing with issues of land. Currently, Cadaster certifies valuers who are conducting both normative valuation and expert valuation (for market transactions) of the land. In the context of the consolidation of regulatory functions under one entity, it is rational to transfer the function of certification of land valuers to SPF. Cadaster, however, should continue to be responsible for land valuation for tax purposes (normative valuation). Land valuation for market purposes should be done by experts holding SPF certificates.
14. **An advisory committee could be a coordinating body for stakeholders’ discussions.** A new coordinating body should be a forum where new initiatives and problems of the profession are discussed. SPF should provide the secretariat functions to this body and have regard to the views expressed by this body or its members under its regulatory responsibilities (i.e., certifying, training, and disciplining). The members of this body would be representatives of self-regulated valuer associations, Cadaster, MoJ, NBU, DGF and any other authority whose work is related to valuation. Participation rights in this body might be graded from a member to an observer. No member should have the right to a veto. This body would be consultative in nature.
15. **The proposed regulatory framework could need to be revisited in the medium term.** When the mandate of SPF is fulfilled, the valuation oversight function may be transferred to a different state body. As the valuation profession evolves and matures some oversight functions could be also delegated to self-regulated association(s). However, at this stage the delegation of some oversight functions to self-regulated association(s) could be pre-matured.

### **Standards**

16. **The current Ukrainian National Valuation Standards need to be updated.** The standards need to be rewritten having regard to the internationally recognized valuation standards namely: i) IVS, published by the International Valuation Standards Council, ii) EVS, published by The European Group of Valuers Associations, and iii) RICS Valuation Standards, published by the UK’s Royal Institution of Chartered Surveyors.
  - a. Of particular relevance are the valuation provisions of the European Union’s Mortgage Credit Directive (2014/17/EU 04.02.14). In particular, Article 19 on “Property Valuation provides:  
  
*“Member states shall ensure that reliable standards for the valuation of residential immovable property for mortgage lending purposes are developed within their territory....”*
  - b. Furthermore, Recital 26 states:

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<sup>1</sup> SPF designs the training framework and supervises the curriculum but training itself is done by independent education entities (see para 20).

*“...In order to be considered reliable, valuation standards should take into account internationally recognised valuation standards, in particular those developed by the International Valuation Standards Committee, the European Group of Valuers’ Associations or the Royal Institution of Chartered Surveyors....”*

While the above provisions relate only to valuations for bank lending purposes in respect of residential property, they have had significant influence across all valuation sectors.

17. **Countries in Europe tend to develop national standards.** The trend in Europe is for countries to develop their own national valuation standards having regard to the internationally recognized standards whilst adapting them to local law, customs, and market practice. The countries which have developed their own national standards or valuation laws include Bulgaria, France, Germany, Italy, Poland, Romania, Serbia and Spain. The United Kingdom has adopted RICS Valuation Standards and Ireland recognizes valuations undertaken in accordance with IVS, EVS or RICS.
18. **International standards are built on common grounds.** It should be noted that the above mentioned internationally recognized valuation standards do not run counter to each other in terms of i) valuation concepts, ii) definitions, and iii) methodology. Rather they each have a different emphasis and complement one other. More details on different international standards in *Annex 3*.

#### **Certification and education**

19. **The valuer certification system needs to be improved.** The implementation of the National Valuation Standards consistent with internationally recognized standards is not in itself sufficient to improve the standard of valuation practice in Ukraine. Such standards should be implemented in parallel with a reformed valuer certification system. This system should include enhanced provision of valuer education through the delivery of courses which follow a harmonized national curriculum. The study curriculum should set out topics to be covered and the minimum duration of the teaching of each topic.
20. **The quality of initial and continuous education should be of higher quality.** The mission heard from many certified valuers that the quality of initial and continuous education is poor. Currently there are 13 centers that provide these services. Consolidation and stricter licensing of them would mobilize high quality teachers for the benefit of all profession. The experience from other countries shows that it is the self-regulating valuation associations or universities which are best placed to organize and offer such teaching.
21. **Study curriculum needs to be broad.** Valuation is a multidisciplinary profession. A property valuer, for example, requires a basic understanding of economic theory. In addition, a more in-depth understanding of i) economic aspects of the real property market, ii) business and finance, iii) construction, iv) constitutional and property law, v) professional standards, vi) valuation methodology, and vii) the principles of ethical behavior. Typically, the duration of a modern-day valuation course should be of around 150 hours duration compared to the 40 hours or so required currently under the Ukrainian system.
22. **Examination standards should be high to increase profession’s prestige.** The current examination of valuers needs to be reviewed to ensure that valuers are properly tested before being certified as competent to embrace the risk undertaking valuation work. Each certified valuer should follow a defined program of continuous professional development of at least 20 hours per year in line with the accepted international norm.

23. **Sanctioning mechanisms need to be strengthened.** The current disciplinary procedures also need to be reviewed. Specific sanctions against poorly performing or unethical valuers should be defined, ranging from a warning to deprivation of a certificate for a fixed length of time.

#### **Databases**

24. **The interconnectedness of data sources will facilitate price transparency in the market.** The current practice of scattered databases with data related to valuations and hoarding of data by individual authorities should be improved. The new national initiative on a united system of electronic interaction of state electronic information resources – Trembita<sup>2</sup> – could be a good platform to serve this purpose. It would consolidate all public data on valuations, including land, properties, individual personal data in one platform to increase transparency. The work on database interconnectedness should ensure that information is harmonized. While increasing quality, this would decrease the final cost of valuation.
25. **The team supports the draft law #2047-d.** The World bank team welcomes recent developments and passage of the draft law #2047-d (approved on Dec 05th, 2019). This initiative eliminates mandatory electronic platforms, which are used as an intermediary on transferring valuer's reports to SPF's unified register of valuation reports (starting from February 2020). It also launches an automatic valuation module built in the SPF unified register (starting from July 2020), and prescribes notaries to submit deal prices to this register. The automatic valuation module will reduce demand for valuation services during real estate sales, as from July 2020 the automatically calculated value of the property would be used as a reference for tax purposes, unless the property seller specifically requests independent valuation.

#### **Next steps**

26. **The World Bank stands ready to provide technical assistance.** The World Bank can provide technical assistance in the following areas:
- a. To support SPF in designing the module for automatic approximation of the appraised value of real estate via unified database of valuation reports. The technical assistance is planned to be provided in first quarter of **2020**.
  - b. To review the Law on Valuation of Property and Professional Appraising Activities in Ukraine. This is an umbrella law for the valuation profession. The law should mandate SPF to issue the National Valuation Standards. This will ensure that standards are updated frequently to reflect amendments in international standards. The current arrangement shows that attempts to change standards are impeded by politics. The work should be finished by **June 2020**.
  - c. To create the framework for the work of an advisory committee, which could be a key consultative body for all stakeholders to represent their interests. The work should be finished by **July 2020**.

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<sup>2</sup> The Trembita system is a modern organizational and technical solution, which allows to build secure information interdepartmental interactions to state and local self-government bodies via the Internet by exchanging electronic messages between their information systems. The basis of the Trembita system is the advanced Estonian X-ROAD data exchange platform, which is the cornerstone of the Estonian digital society.

- d. To rewrite the National Valuation Standards. The work should be finished by **September 2020**.
- e. To improve study curriculum for initial and continues education. The work should be finished by **December 2020**.

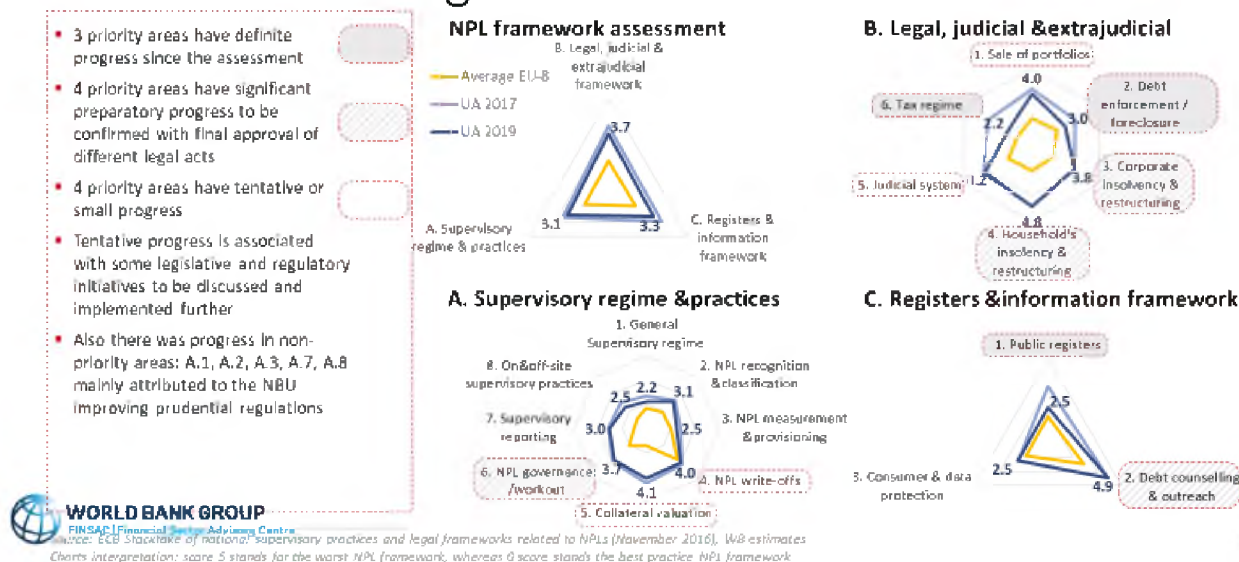


Annex 1. A list of meetings held by the mission.

Counterpart	Name	Title
State Property Fund	Mr. Dmytro Synnychenko	Chairman
	Mr. Andrii Yegorov	Deputy Chairman
State Service of Ukraine for Geodesy, Cartography and Cadaster	Mr. Serhii Prokopenko	Head of Land and Valuation Division
Self-regulated valuer associations	Mr. Dr. Valery Yakubovsky	Vice-President, Pan Ukrainian Association of Valuation Specialists
	Mr. Volodymyr Shalaev	Director, UVECON
	Mr. Serhii Frolov	President, Ukrainian Association of Bank Valuation Specialists
	Mrs. Valerija Zaiceva	Association of Land Valuers
National Securities and Stock Market Commission	Mr. Dmytro Tarabakin	Commissioner
	Mr. Maksym Libanov	Commissioner
National Bank of Ukraine	Mr. Oleh Novakovskiy	Director, Loan Management Department
	Mr. Dmytro Buts	Deputy Director, Loan Management Department
Deloitte	Mr. Artur Ohadzhanyan	Partner
Deposit Guaranty Fund	Mrs. Olga Bilai	Deputy Managing Director
Ministry of Justice	Mr. Andrii Haichenko	Deputy Minister
Notary Chamber of Ukraine	Mr. Volodymyr Marchenko	President
Raiffeisen Bank Aval	Olga Soroka	Head of Credit Control and Collateral Management Department
Oshchadbank	Oleksiy Antonenko	Deputy Director, Credit Risk and Asset Valuation Department

## Annex 2. Progress in improving the NPL resolution framework.

# Progress in improving the NPL resolution framework during 2017-2019



## Annex 3. A brief description of IVS, EVS and RICS Valuation Standards.

The newly updated IVS 2020 is a 132-page document which constitutes a high-level framework of standards for the valuation of Business Interests, Intangible Assets, Non-Financial Liabilities, Real Property Interests, Development Property and Financial Instruments. The Standards describe and define fundamental valuation concepts including market value, market rent, investment value, fair value and highest and best use. The standards also provide an outline of reporting procedures.

On the other hand, the newly updated EVS 2020 constitute a more detailed 260-page document dealing entirely with the valuation of real estate. A separate book of European Business Valuation Standards will be published by TEGoVA in the New Year. In addition to describing and defining the basic concepts of the bases of valuation and valuation methodology, of significance to valuers in Europe, EVS 2020 also includes guidance on the valuation for insurance purposes, loan security and the apportionment of the value of land and buildings. EVS 2020 also includes a European Valuers' Code of Conduct, a European Code of Measurement and a unique and detailed overview of European legislation in so far as it impacts property valuation.

RICS Valuation Standards 2017 have regard to IVS and include the latter as an appendix. In addition, the Standards comprise 111 pages which are primarily intended to regulate its 15 000 valuer members and provide more detailed guidance on the bases of valuation, valuation reporting and methodology. The standards "a) impose on individual valuers or firms registered for regulation by RICS certain mandatory obligations regarding competence, objectivity, transparency and performance b) establish a framework for uniformity and best practice in the execution and delivery of valuation assignments through adoption of the IVS 2017 and c) expressly comply with the RICS Rules of Conduct".