

Authorized Valuation Activity in Romania

Subjects: **Others**

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A formal valuation process involves a professional reasoning based on a systematic analysis and appreciation of the value, importance, performance, merit, efficiency, effectiveness, capacity, quality of an asset, either a person or entity, resource, tangible/intangible assets, service, plan, program, situation, event, etc. This reasoning starts from a set of collected data and is carried out by reporting to a desirable level, set by specific standards.

Valuation

Valuer

ANEVAR

TEGoVA

Business Ethic

1. Introduction

In a very simple manner, the Oxford Dictionary defines valuation as the estimation of the monetary value of “something” ^[1] and which is performed by a valuer, namely the person whose job consists of estimating the value of that “something” to be traded ^[2].

In Encyclopaedia of Evaluation, Fournier ^[3] delimits the authorized valuation from other types of valuations in that it is considered to be a process of investigation applied for the collection and synthesis of evidence, which is finalized with conclusions about the condition and value of a business, about the merit, significance, value or quality of a good, program, product, person, policy, offer or plan.

Thomas and Gup ^[4] opportunely point out the fact that the results of the valuation process lay the foundation for decision-making, which often “involves large sums of money or assets transferred from one side to the other”. In turn, Damodaran et al., cited by Gil-Lafuente, Castillo-López, and Blanco-Mesa ^[5], consider that valuation activity supports the management of a business in key situations, such as in the process of acquisition (purchase-sale) of companies, assets and shares, in quantifying value creation, in identifying the factors that lead to the creation or destruction of company value, in the strategic analysis of the activity and the product/process portfolio, as well as in the evaluation of the impact of the strategic decisions. In addition to these key situations, Thomas and Gup ^[4] also add other spheres circumscribed to the authorized valuation activity, among which there exists: determining the property tax owed to authorities, clarifying the situation when a minority shareholder wants to leave the business, making a valuation report necessary for financial statement audit reporting or in missions related to financial audit, determining the value of compensation owed to people with managerial roles or key persons within an entity (directors, division or business units managers and owner-employees).

2. Professional Perspective

From a professional perspective, the Appraisal Institute ^[6] considers the valuation to be that act or process of elaborating an opinion about value, which can be expressed numerically as a specific quantity, as a range of numbers, or as a relation (for instance, no more than.).

With reference to business evaluation, McDaniel ^[7] defines it as a process in which a set of procedures is used in order to estimate the value of an owner's interest in a business. Important for obtaining a fair business value, all these three components of the definition (process, set of procedures and value estimation) must be approached from an ethical perspective.

An interesting facet in relation to the opinion of value expressed by a valuer in his report is highlighted by Fournier ^[3] in a sense that it is a field in which several people are involved at some point and different or even contradictory interests may arise. In this context, valuers may face various ethical challenges, conflicts or dilemmas during the valuation process, an aspect highlighted as well by Morris ^[8] in *Encyclopaedia of Evaluation*: "The nature of valuation generates many circumstances in which practitioners may encounter challenges, conflicts or dilemmas during their work that are considered to be of an ethical nature".

The unethical behavior of valuers is pointed out by na Ayuthaya and Swierczek ^[9] in the first phase of contracting the valuation and in the last phase of communicating or using the results, phases in which there is the highest probability for the ethical difficulties to occur, whereby the results may be deliberately biased and influenced. From a deontological perspective, Trugman ^[10] considers that, before accepting a commitment for a valuation, the authorized valuer must consider whether there is the possibility of a conflict of interest or even if it is just about its possible occurrence. Therefore, in the event of a certain or potential conflict, the recommendation for the valuer is to protect himself by refusing the commitment or to make a signed agreement informing the client that this conflict of interest may possibly occur, if the client still wishes to continue the collaboration process ^[10].

The conflicts of interest along with the poor training of valuers represent major factors with a considerable impact in substantiating decisions on the financial market, as highlighted by the US Authority for Financial Services in 2005 in a report in which these were included in the list of weaknesses of the valuation of speculative funds, ultimately contributing to the decline in their reliability ^[11].

The potential ethical dilemmas that may arise in the activity of the authorized valuers are equally the focus of the authorities that regulate this sector of activity, also of the academic world and of the practitioners. In this regard, an article on the page of the financial and litigation consulting company Markham Norton Mosteller Wright & Company ^[12], addresses to valuers an awareness message about "ethical lapses", in order to minimize the number and the effect of errors by improving the reasoning applied in valuation, especially regarding the stages of development and reporting of a commitment, by respecting the professional standards.

3. Organization of Authorized Valuation Activity in Romania

According to the available public information ^[13] the ANEVAR “aims to organize, coordinate and authorize the exercise of the profession of a certified valuer in Romania, representing and protecting the professional interests of its members, ensuring the independent exercise of the profession of an authorized valuer respecting professional ethics and a high level of professional qualification, as well as the promotion of evaluation standards, methods and techniques throughout the activity of the authorized valuers”.

Important normative acts that regulate the profession of the authorized valuers are ^[14]: regulation on the organization and functioning of the ANEVAR—approved by the Romanian Government Decision no. 353/2012; the law for the approval of the Government Ordinance no. 24/2011 on some measures in the field of property valuation (Law no. 99/2013); the code of ethics of the profession of authorized valuer.

ANEVAR member valuers can be the following: trainees, full members, accredited members (individuals), corporate members (legal entities), inactive members, honorary members ^[15]. ANEVAR accredited membership is obtained only if the person has at least three years of experience in the evaluation profession and after passing an organized exam ^[16].

According to the Romanian Law that regulates the valuation profession ^[17] (Ordinance on some measures in the field of property valuation, CHAPTER III Organization and exercising of the profession of an authorized valuer. Rights and obligations, p. 6), the authorized valuers have the right to receive fees for the activity carried out, fees that are not set as a percentage of the estimated value through the valuation report (Art. 23. a), and the following obligations (Art. 24. b): to elaborate valuation reports according to the standards of evaluation adopted by the Union and (c) to respect the code of ethics of the profession of an authorized valuer, as well as the regulations adopted by the governing bodies' leadership of the Union (association). It is worth mentioning that valuers are responsible for carrying out their activity and they can be subject to disciplinary, civil or criminal repercussions, as the case may be (Art. 25.).

Accredited membership in ANEVAR is granted for five years from the date of the accreditation examination and may be renewed by passing a new examination conducted in accordance with the specific accreditation rules ^[18].

The European Group of Valuers' Association (TEGoVA) awarded ANEVAR the recognition of the right to grant the status of A Recognized European Valuer (designated using the REVTM mark) to its members who meet the necessary conditions ^[19].

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