Valuology

Comments on Proposed Changes to RICS Valuation Global Standards

Introduction paragraph 26

We believe that the proposed change to paragraph 26 would be better worded as follows:

References to the International Valuation Standards (IVS) are those approved by the IVSC Standards Board and effective on the valuation date. The IVS effective on the date of publication of these standards are reproduced with kind permission from IVSC in Part 6.

Reason: The inclusion of the effective date of the IVS in the Red Book creates a maintenance problem for RICS, especially in the light of the declared intention of the IVSC to produce updates as frequently as twice a year. Our proposed wording is also consistent with provision in VPS1 that references to the RICS Red Book without reference to the year of issue will be taken to mean the version of the RICS standards operative at the valuation date.

A further consideration is that the decision by the IVSC to use an effective date rather than the date of publication to identify different versions has potential to cause confusion. The IVSC has no power to determine the date when its standards are effective. This can only be set by those who adopt the standards, whether they be professional bodies or government agencies. Many adopters will have a process in place to determine if and when new versions of the IVS are adopted within their jurisdiction. Consequently, the IVS will potentially have different effective dates in different jurisdictions set by those with the power to require their use. This will include jurisdictions in which RICS members operate.

It is also surely in RICS's interests to consider a transparent process for critical review before adopting standards set by another body rather than its current policy of unconditional acceptance, but that is a discussion for another time.

PS2 1.5

It is proposed that a new sentence is inserted concerning the need for professional scepticism.

In principle we support this change. However, we are concerned that many members will not understand what the term "professional scepticism" means and that some further explanation will be required. Those of us who have had regular contact with accountants and auditors may be familiar with the term but that is a minority of the RICS valuation members. The ICAEW describe it as: *"…an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."* That could be adapted to ***"Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may cause information provided to be misleading, and critical assessment of evidence relied on in the valuation process."***

VPS1 3.2 (d)

It is proposed to add a sub para 6 referring to the new IVS 220.

We support this change but question whether some additional words are required to explain what a non-financial liability is?

We also believe that RICS needs to provide some additional guidance. Unfortunately, a project that was originally intended by the IVSC to address the valuation of most liabilities except for those arising from holding financial instruments such as swaps or derivatives has emerged dominated by methods applicable only to liabilities arising in valuations of businesses and business interests. It may therefore be overlooked that it does have relevance to liabilities attaching to an interest in real estate, e.g. environmental clean ups or liabilities under a lease. These are the types of liability most likely to be encountered by RICS members and supplementing the IVS standard with material relevant to them is essential if the principles in the IVS standard are to be properly applied.

VPS3 2.2 (l)

It is proposed to add the following paragraph:

3 In the case of assets or liabilities that are interests in real estate, attention is drawn to VPS 2 paragraph 1.5 and the fact that, wherever appropriate, the relevance and significance of sustainability and environmental matters may or will be an integral part of the valuation approach and reasoning.

We recommend that the words "or will" be deleted. Any characteristic of a property MAY be relevant to the valuation approach and reasoning but without knowledge of the all the facts, the required valuation basis and the purpose of the valuation it is wrong to assert that it WILL be relevant. It is also ungrammatical to use both modal verbs MAY and WILL together. It is effectively saying "…sustainability and environmental matters possibly or definitely will be an integral part of the valuation…". Possibly allows for something to definitely happen or not happen so does not need further elaboration.

VPS3 2.2 (o)

It is proposed to add words to subparagraph 4 to emphasise that material uncertainty must be "expressly signalled in the report". Following the unfortunate decision of the IVSC to remove disclosure of material uncertainty from the list of matters that must be disclosed in a report in 2017 we agree this added emphasis is helpful.

In our experience of auditing and reviewing valuation reports the problem we see is not that members are failing to disclose material uncertainty but that they make unnecessary and inappropriate comments about uncertainty. Confusion is still rife between market risk (i.e. the risk that values will change in the future) and uncertainty in the reported valuation caused by a lack of reliable data or a significant unexpected event just before the valuation date which means the available data is not reliable. It is the latter that requires disclosure, as originally explained by IVSC (and before that by Sir Brian Carsberg in his report for the RICS in 2002). It is not the fact that the valuer cannot predict the future, which is how many interpret the current requirement and, I regret to say, are even taught from looking at some RICS training material. The risk, or opportunity, of values changing in the future is reflected in current prices and is a matter that should be reflected by the valuer. Inappropriate disclosures suggesting valuations that properly reflect market risk are somehow unreliable imply that the valuer is not doing this and needlessly undermine confidence in those values. We therefore recommend that a sentence or two is added to VPGA10 to emphasise this point.

VPGA1

Proposed new Section 5.

Nothing in this proposed new section is wrong but we question why it is considered necessary. Are there any valuer members who do not understand that the PSs and VPSs apply to ALL valuations apart from the exceptions in PS1.5? To be accessible and readily understood by members it is important that the standards are kept as brief as possible. While a certain amount of cross referencing is necessary, extensive reiteration of requirements that appear elsewhere should be avoided. The explanation for this new section given in the Covering Note that "*This draws attention to a number of mandatory requirements in earlier parts of the Red Book and may serve as a useful reminder or checklist.*" could be applied to other practice areas covered in the VPGAs. Adding words for words sake is never a good idea either from the perspective of the user or RICS given that it adds to the burden of future editing. Say it once and say it clearly should be the approach.

VPGA 7

We have no comment on the proposed changes. However, we note that the changes mainly relate to antiques and fine arts. This calls into question whether the VPGA is appropriately titled? "Personal Property" is a term more common in North America for any property that is not real estate, including plant and equipment. Since plant and equipment is the subject of VPGA 6, and in the interests of brevity, should not the title of this VPGA be amended simply to "Antiques and Fine Arts"?

VPGA 8

We agree with the proposed changes. The proposed change to 2.6 (c) (v) reinforces the point we made about the proposed changes to VPS3 2.2 (l). Here it is clear that "sustainability characteristics" should only influence values where this is supported by market evidence. Since it is correctly indicated that this is not always the case, it emphasises that the use of "will" in VPS3 is incorrect.