



Valuology

A QUICK GUIDE TO THE NEW

RICS professional standards, UK

RICS Valuation – Global
Standards 2017

UK national supplement



RICS Valuation - Global Standards 2017 - UK Supplement

(issued Nov 2018)

This was published online by RICS on 14 November and becomes effective from 14 January 2019. It replaces the edition known as the “*RICS Valuation – Professional Standards UK January 2014 (revised April 2015)*” (the “2014 UK Standards”).

Here is a link to the new [UK Supplement](#) which can be downloaded by RICS members free of charge.

In this document we summarise the changes that have been made from the 2014 UK Standards or the consultation draft issued in June this year, together with our comments and observations.

Overview

There are now just four mandatory elements, one UKPS and three UKVPSs, and one of the latter only applies to valuations of residential property in Scotland. This emphasises that the vast majority of the mandatory requirements for UK valuers are in the 2017 Global Standards which remains the primary document which RICS valuers in the UK need to understand.

Most of the UK Supplement (127 out of 137 pages) consists of guidance on valuations required for specific purposes in the UK, with information on applicable laws or regulations and guidance on how the valuer can comply with these requirements. These are styled VPGAs, an abbreviation that stands for “Valuation Practice Guidance Applications”. These are not mandatory but include reference to laws or regulations that may impose a mandatory obligation on the valuer, and otherwise include what RICS recognises as best practice. So, while a valuer may vary from the guidance, it remains highly persuasive and they would need to have a justifiable reason for not following it.

Key Changes from Consultation Draft

We had some significant concerns with the consultation draft. In no particular order these were:

-) An illogical grouping of guidance under the heading of “Valuations for Financial Statements” which included material on valuations for other purposes but excluded some valuation work that would be required for this purpose.
-) The guidance on valuations for financial statements had unnecessary detail on accounting and also suggested that the valuer should be party to decisions on accounting policy, including inappropriate advice on involvement with their client’s auditor.
-) The implications of suggesting in the revised guidance for residential mortgage valuations that the valuer could provide advice on the loan terms – in contrast to the current prohibition on such advice in UK Appendix 10.

We are pleased to see that our concerns have mostly been addressed in the final version. The guidance on valuations for financial statements is much improved and the contents of each VPGA now much more logical. A significant change has also been made to VPGA 11 Valuation for Residential Mortgage Purposes where it is now been clarified that the valuer **must not accept instructions to advise on the mortgage term, size of advance or lending outcome**. While the use of “must” is contrary to the overall designation of the VPGA as non-mandatory guidance, its use in this context is appropriate in view of the consequences for valuers’ liability of being drawn into giving such advice.

On the negative side we still think some of VPGAs are over detailed and contain too much which is of peripheral relevance to most valuers. Two new VPGNs, those for commercial secured lending and compulsory purchase, are unnecessary since there is more relevant material published elsewhere in either the Red Book or other RICS standards.

We also believe many members will be puzzled by the distinction, if indeed there now is one, between a VPGA and a Guidance Note. Is it just that the former is issued as part of the Red Book and the latter is published separately? If so the criteria for deciding which should be which appears muddled. Surely the Red Book should include guidance that is relevant to most of its members' valuation activity, with specialist applications of interest to only a minority issued as standalone documents. Instead we have esoteric subjects such as capital adequacy regulations within the Red Book but guidance on matters that are important to most members, such as the use of comparable evidence or contamination and environmental considerations being published separately.

Mandatory Standards

There are no material changes from the draft. Although there is no direct equivalent of the new UKPS1 in the 2014 UK Standards, its provisions have always been implicit if not expressly stated. The three VPSs all have an equivalent in the existing standards. The mandatory standards are:

New	Description	2014 Equivalent
UKPS 1	Requires members operating in the UK to follow applicable law or regulation when providing valuation services as defined in PS1 of Global standards	None specific but implicit in other requirements.
UKVPS 1	Any reference to the "RICS Red Book" in the terms of engagement or report for work in UK shall be deemed to be to the current Global Standards and this UK Supplement	None – although it repeats an existing provision in VPS1 3.2(n) of the Global Standards.
UKVPS 2	Terms of Engagement for residential property in Scotland	UK Appendix 12
UKVPS 3	Regulated Purpose Valuations	UKVS 4

There are therefore no new mandatory obligations for UK valuers in the UK Supplement

Guidance

The bulk of the UK Supplement consists of the UK VPGAs, eighteen in total. These VPGAs sometimes have a direct equivalent in the 2014 UK Standards, but in many cases do not. Some previously mandatory provisions have been recast as guidance, and in a number of cases a new VPGA has drawn its contents from more than one former UK Appendix or UK Guidance Note.

On the following pages we provide quick overview of each of the new UK VPGAs together with our comments. Please note that the overviews are not intended to provide a comprehensive account of the contents of each VPGA and should not be relied upon as such. Likewise, our comments reflect our own opinions and should not be relied upon as advice on how the RICS guidance should be interpreted or applied.

VPGA 1 Valuation for Financial Reporting – General Matters

Replaces: UKVS 1, UK Appendix1, UK Appendix 2. UK Appendix 4 and UK Appendix 6

Summary:

Explains that in the UK financial statements may be prepared under IFRS (compulsory for listed companies) or UK GAAP.

Explains nature of UK GAAP and the role of Statements of Recognised Practice (SORPS)

Describes valuation requirements under UK GAAP, drawing comparison with equivalents in IFRS and discusses meaning of “fair value”

Summarises the valuations permitted or required for different asset types under UK GAAP.

Explains use of DRC method in estimating fair value, with cross reference to new separately published GN.

Draws attention to rules for when and how post balance sheet events may influence a valuation.

Summarises rules for classification of leases and their valuation treatment.

Examines depreciation accounting and role of valuer (currently UK Appendix 4).

Summarises meaning of impairment and how it is measured.

Comments:

The text has been significantly improved from both the consultation draft and the current UKVS1, and the errors that appeared in the draft have been corrected, eg inappropriate references to “Value in Use”, “Existing Use Value” and “Useful Economic Life”. However, it remains excessively wordy, and while a high-level understanding of where the valuation requested fits into the accounting process is important, too much exposition on accounting obscures the key points of relevance to the valuer.

It is also odd that the guidance is firmly focussed on UK GAAP, with secondary references where appropriate to IFRS. All companies listed in the UK must use IFRS, and many non-listed companies adopt it voluntarily. IFRS is also the basis of public sector financial reporting in the UK. Therefore, most entities likely to instruct RICS members to produce valuations for use in their accounts will be using IFRS. The main focus of RICS guidance on this subject should therefore be IFRS, which should be in the Global Standards. All that would then be needed in the UK Supplement is a comparatively short UK VPGA that explains the similarities and differences between UK GAAP and IFRS. Instead we find that the Global Standards have almost no guidance on the valuations needed under IFRS, leaving the UK Supplement to cover both IFRS and UK GAAP.

The conflation of guidance on IFRS and UK GAAP has also led to some of the guidance being less than clear. The advice on publication statements in 1.12 is especially muddled and fails to make clear which disclosures are appropriate for different classes of asset under the different accounting standards. The example also includes a “continuing use” assumption but fails to indicate that this is not always appropriate. Our advice is to ignore the examples provided and produce a statement that reflects the disclosure requirements of the relevant accounting standards.

There is no material difference in the valuation approach or method that the valuer needs to adopt under either IFRS or UK GAAP, so apart from the publication statement, there are limited consequences for UK based members of this conflation of the two accounting standards other than making sure that they know which standards are being used by their client and use the appropriate definitions and references. However, this UK centric treatment of the one genre of valuation that requires consistent application internationally is less than ideal.

UK VPGA 2 Valuations for other regulated purposes

Replaces: UK Appendix 7, UK Appendix 8 and UK Appendix 9

Summary:

Summarises the elements of the FCA's Listing Rules and Prospectus Rules that are pertinent to valuation.

Summarises the current requirements of Rule 29 of the Takeover Code relating to asset valuations referred to in takeover or merger documents.

Provides a brief overview of the regulation of Collective Investment Schemes authorised by the FCA and cross reference to the requirements for the authorised or Standing Independent Valuer in the Collective Investment Schemes Sourcebook, (COLL).

Provides brief guidance on valuations for Unregulated Property Unit Trusts.

Comments:

There are few changes from the current UK Red Book other than updating of the cross references. However, since this UK Supplement was finalised but before it was published, both the Takeover Panel and the FCA have issued public consultation documents on changes to Rule 29 and the COLL respectively. Since the overview of the COLL in 2.3 does not recite the specific requirements of the valuer this is "future proofed" but the same cannot be said for the proposed changes to the Takeover Code since the requirements of the current Rule 29 are reproduced or paraphrased in some detail in 2.2, which means this section is likely to be redundant soon after it becomes effective.

UK VPGA 3 Valuations for assessing adequacy of financial resources

Replaces: UKVS 2.5 and UKVS 2.6

Summary:

Contains references to the capital adequacy requirements for insurance companies (INSPRU) and for banks and other lending institutions (BIPRU) issued by the Prudential Regulation Authority under EU Directives.

Comments:

Although this is only a short VPGA it is unclear what purpose it is intended to serve or how it is relevant to members. Valuations are required in calculating regulatory capital, but these will mainly involve investments in the money markets and loan books, matters far removed from the experience and competency of the vast majority of chartered surveyors.

A member might find it useful to know that a mortgage lender is required to revalue the security for loans exceeding €3m every three years. However, if outsourced, such a valuation would be subject to VPGA 2 in the Global Standards and no further guidance is needed.

Valuations of assets pledged as loan security is one required input into the overall assessment of capital adequacy, but the provider of those valuations is no more involved in that assessment than in the decision to grant a loan. The Red Book expressly counsels its members not to advise on loan terms, so it is illogical to provide guidance on a matter that is much further removed from most member's competency.

UK VPGA 4 Valuation of local authority assets for accounting purposes

Replaces: UKVS 1.11 and UK Appendix 5

Summary:

Introduces CIPFA Code and its application, reflecting changes since 2014,

Explains that although CIPFA Code is based on IFRS, for property, plant and equipment used for operational purposes, instead of fair value as stipulated by IFRS 16, the measurement basis shall be either Existing Use Value (EUV), EUV for Social Housing or Depreciated Replacement Cost.

Highlights the required valuation approaches for other types of asset besides operational PP&E (generally consistent with IFRS equivalent)

Explains that DRC “valuations” under the Code do not use market participant assumptions (as per IFRS) but adopt the artifice of an “instant build”.

Explains use of “Beacon Approach” for council and social housing stock.

Lists asset categories carried at cost – ie where valuations not required.

Comments:

A lot of material is providing commentary on IFRS requirements which are not modified by the CIPFA Code. As in the case of UK VPGA 1 this would not have been necessary if the global standards contained adequate guidance on IFRS valuation requirements.

The CIPFA Code is not freely available (it currently costs £320 and accompanying guidance £980) so the extracts relating to valuation in the VPGA have been produced with the cooperation and consent of CIPFA and are useful to members. However, the Code is updated annually, and while the current valuation provisions have remained unchanged since 2015/16, those involved in this work are advised to check that the VPGA is still current.

UK VPGA 5 Valuation of central government assets for accounting purposes

Replaces: UKVS 1.15

Summary:

Introduces FReM and explains differences in measurement of fair value of operational PP&E from IAS 16.

Comments:

Unlike the CIPFA Code, the FReM is freely available on the internet and therefore this is a far more concise VPGA, which just explains the provenance and application of the FReM, its principal valuation provisions and where it may be found.

UK VPGA 6 Existing Use Value

Replaces: UKVS 1.3

Summary:

This provides the definition of EUV which is the basis required for operational property, plant and machinery by both the CIPFA Code and the FReM (see VPGAs 4 and 5).

Comments:

The definition is unchanged but is now more appropriately positioned as a standalone VPGA rather than being integrated within a VPGA on UK GAAP, where it is not used and has no relevance.

UK VPGA 7 Valuation of registered social housing providers' assets for financial statements

Replaces: UKVS 1.12

Summary:

Explains the basis of EUV-Social Housing, the valuation basis required by the Statement of Recognised Practice (SORP) which governs financial reporting by UK based social housing providers.

Comments:

The definition is unchanged but is now more appropriately positioned as a standalone VPGA rather than being integrated within a VPGA that deals with the general valuation requirements under UK GAAP, rather than a specific variation under one specialised SORP.

UK VPGA 8 Valuation of charity assets

Replaces: UKGN 7

Summary:

Describes the valuation requirements in statutes and associated guidance which registered charities in the UK have to follow when acquiring or disposing of property or including it within financial statements.

Comments:

The only material change from the existing GN7 is that identification of the relevant SORP for financial reporting has been removed as all SORPs are now referenced in VPGA 1.

UK VPGA 9 Relationship with auditors

Replaces: UK Appendix 3

Summary:

This explains the role of the auditor in financial reporting and provides guidance on the different interactions that a valuer may have with an auditor. While there has been some rearrangement of the text and some paragraphs have been rewritten there are no material changes from the existing guidance.

Comments:

This is a useful guide for valuers who are involved in valuations for financial reporting. However, it is oddly placed in the UK Supplement as the auditing standards it references are effectively those issued by the International Auditing and Assurance Standards Board (IAASB) and are applicable not only in the UK but throughout much of the rest of the world. As in the case of VPGA 1, most of the content would more usefully be included within the Global Standards.

UK VPGA 10 Valuation for commercial secured lending purposes

Replaces: no equivalent – new topic

Summary:

This is new content with no equivalent in the 2014 UK Standards. It cross references VPGA 2 in the Global Standards and discusses similar issues using slightly different language. It also discusses liability caps, a requirement of VPS1 and VPS 3 in the Global Standards.

Comments:

The purpose of this new VPGA is far from clear. It repeats or paraphrases requirements or guidance that already appear in the Global Standards. It does not identify anything that is specific to the UK market alone, with the possible exception of the reference to the GN *“Risk, Liability and Insurance in Valuation”*, which is focussed on the UK law concerning professional liability.

UK VPGA 11 Valuation for residential mortgage purposes

Replaces: parts of UKVS 3, UK Appendix 10, UK Appendix 11

Summary:

This represents a significant reorganisation of material which currently appears across three parts of the 2014 UK Standards, with some of the existing content in those three parts now appearing in UK VPGAs 12 and 13.

This UK VPGA includes detailed guidance on accepting instructions, appropriate bases of value, appropriate investigations, common assumptions, factors influencing value and reporting. There is also coverage of the appropriate treatment of leasehold property, developer incentives and property where a lender is in possession.

A major change is that whereas it is currently mandatory under UKVS 3 for a member to follow the specification in UK Appendix 10, everything is now redesignated as guidance. This has resulted in changes from imperative to permissive language. The exception is in 11.1 para 9 which

states that the valuer must not accept instructions to make recommendations on the amount or term of the loan, which is in line with the current specification.

While the above changes mean that it is difficult to make direct comparisons between the current requirements and the new guidance, we have not spotted any material changes in the main provisions.

Comments:

Whether the removal of mandatory status will lead to mortgage lenders introducing bespoke specifications for their panel valuers remains to be seen. There are dangers for valuers if lenders either seek to reduce the scope of the existing specification to the extent that the investigations are inadequate or seek to extend the valuers' responsibilities without commensurate compensation.

On this latter point, we are pleased to see that RICS has amended the wording proposed in the draft which would have permitted a member to provide advice on the loan terms, which could have led to lenders pressurising valuers to extend their liability from simply providing information to help the lender make a decision to advising on that decision. This distinction was made originally by the House of Lords in the SAAMCO case 20 years ago and reaffirmed in 2017 by the Supreme Court in *BPE Solicitors v Hughes-Holland*.

UK VPGA 12 UK VPGA 12 Valuation of residential property for miscellaneous purposes

Replaces: parts of UKVS3, UK Appendix 10, UK Appendix 11

Summary:

This contains material currently appearing UK Red Book which relates to specialised lending products for residential mortgage valuations that may require different assumptions or approaches. These include:

Lifetime Mortgages

Home Reversion

Sale and Rent Back

Islamic Home Purchase Schemes

Shared Equity Schemes

Trustee Mortgages

Comments:

Separating these items from the general residential mortgage guidance helps navigation and gives them more prominence, although a more appropriate title would have been useful.

UK VPGA 13 Residential secured lending guidance for other related purposes including RICS HomeBuyer Service

Replaces: parts of UKVS3, UK Appendix 10, UK Appendix 11

Summary:

This completes the trilogy of reorganised VPGAs on residential mortgage valuations and related products and services. The items covered are:

Reinspections

“Retype Reports” – with warning on potential conflict of interest.

Further advances

Buy to Let properties

Valuations without an inspection

Retrospective Valuations

HomeBuyer Reports

Apart from minor updating this material is essentially unchanged from its equivalent on the current UK Red Book.

Comments:

Overall the rearrangement of the residential valuation material makes for a more logical presentation than the existing, although the titles of both UK VPGA 12 and 13 are hardly indicative of the contents.

UK VPGA 14 Valuation of Registered Social Housing for Loan Security Purposes

Replaces: UK Appendix 13

Summary:

A subtle change is that market value is no longer the required basis. Now it is indicated that the basis is to be agreed between lender and valuer, with EUV-SH indicated as one that may be suitable. The Consultation Draft proposed inserting a section on the assessment of Affordable Rent into this VPGA, but it has been recognised that this has little to do with a secured lending valuation of social housing stock, and the subject is also covered in the current UK Appendix 14 and the new UK VPGA 18.

Comments:

Apart from the change in emphasis on the appropriate bases of value, there are no material changes from the current guidance.

UK VPGA 15 Valuations for Capital Gains Tax, Inheritance Tax, Stamp Duty Land Tax and the Annual Tax on Enveloped Dwellings

Replaces: UKGN3

Summary:

This indicates valuations that may be required by a taxpayer (whether a person or corporate entity) for supporting tax returns or assessments. The main focus is on explaining that the statutory basis of value used for the listed taxes is not the IVS/RICS definition of Market Value and its interpretation is supported by a body of UK case law. Details of the taxes themselves, when they are levied and other rules for their assessment are not included, although references are provided to information freely available from HMRC.

Comments:

Apart from the inclusion of references to ATED and some minor changes of wording and layout there is no material change from the current guidance.

UK VPGA 16 Valuations for Compulsory Purchase and Statutory Compensation

Replaces: No equivalent – new topic

Summary:

This is new material. It describes the roles that a member may have in advising on the value of a property subject to compulsory purchase or the settlement of compensation. It draws attention to the RICS Professional Statement *Surveyors advising in respect of compulsory purchase and statutory compensation, 1st edition*, which has mandatory requirements for members, and also the Practice Statement and Guidance Note *Surveyors acting as expert witnesses, 4th edition*. It advises that PS1 and PS2 of the Global Red Book also apply to valuations for compulsory purchase, and that while not mandatory, the provisions of VPS1-5 can provide a useful framework for advice.

Comments:

This is a curious inclusion as it is effectively a detailed cross reference to existing mandatory RICS requirements published separately from the Red Book. The advice that the requirements of PS1 and PS2 in the Global Standards apply to this work is largely otiose. PS1 excepts valuation advice in contemplation of negotiations and as an expert witness from the VPSs and the ethical requirements of PS2 are effectively covered by both the referenced PSs on Compulsory Purchase and Compensation and Expert Witness work, as well as the PS on Conflicts of Interest. This VPGN is therefore of little relevance to any member undertaking this work who will be aware of, and bound by, the more relevant Practice Standards and Guidance.

UK VPGA 17 Local Authority Disposal of Land for Less Than Best Consideration in England and Wales

Replaces: UKGN 5

Summary:

Sets out the relevant statutory requirements for determining unrestricted value, restricted value and value of voluntary conditions, and the assumptions that are appropriate under different circumstances.

Comments:

There is no material change from the existing UKGN.

UK VPGA 18 Affordable rent and market rent under the Housing Acts in a regulatory context

Replaces: UK Appendix 14

Summary:

Outlines the valuation requirements in the relevant statutes for the assessment of social housing rents, including the appropriate assumptions and the identification and use of comparable evidence.

Comments:

Apart from the unnecessary extension of the title, and a few minor layout changes there are no changes from the existing UK Appendix.

Copyright © 2018 Valuology Ltd.

All rights reserved.

No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without the prior permission in writing of Valuology Ltd

Please address publication and copyright matters to Valuology Ltd by email valuology@valuology.org