Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… Content **/**
Comment ID	7
Respondent	Chris Thorne - Valuology
Response Date	29 Jun 2018

Comment

UK VPGA 1 - Valuation ('measurement') for financial statements in the UK

Paragraph 1 reveals a fundamental flaw in the approach taken by RICS to guidance on this topic. It is acknowledged that IFRS are used by listed companies in the UK (and in over 100 other countries) as well as many larger unlisted entities. Public sector accounting in the UK is also primarily based on IFRS, although with some modification to the valuation requirements for local authorities. However, it goes on to say that the guidance focuses on UK GAAP. While this can still be used by non listed entities, increasingly these are smaller companies and consequently the least likely to require professional valuation support for their assets. Most work members will do in this area will be for entities using IFRS. However, while the Global Red Book has minimal (and frankly inadequate) guidance on IFRS valuation requirements, there are over 20 pages of detailed commentary on UK GAAP, much of which is concerned with accounting rather than valuation. This unbalanced and disproportionate approach is unhelpful and risks confusing members who are more likely to need a basic knowledge of IFRS 13 than the limited valuation applications under UK GAAP.

I recommend that the guidance here should be much reduced, and that for IFRS increased. Given that the global Red Book is unlikely to be updated for a few more years, putting all financial reporting guidance in standalone Guidance Notes would be a more appropriate option.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… UK VPGA 1 Valuation ('measurement') of r… (no name) **/**
Comment ID	8
Respondent	Chris Thorne - Valuology
Response Date	30 Jun 2018

Comment

Valuation ('measurement') for financial statements in the UK

Subject to my overriding comment (ID7) regarding the inappropriate focus and excessive detail on UK GAAP, I comment on the content of this draft VPGA as follows:.

The very title of this section is unhelpful in its adoption of the accounting term "measurement". In accounting standards, measurement is used to describe how the financial quantum of an asset or liability is to be stated in accounts, whether that be based on cost or value. However, chartered surveyors understand measurement as establishing the size or quantity of an asset, usually the area of a parcel of land or a building. The RICS has a Practice Standard that describes measurement thus. If there is a need to describe the accounting use of the word this should be done in the text. Including "measurement", with or without brackets, in the title does not help members understand the nature of the content or what they need to know if requested to produce a valuation for accounting purposes. It is unnecessary and a potential source of confusion.

Once again the confusion between IFRS and UKGAAP is evident in paragraph 3. It correctly states that IFRS is used by many private sector entities in the UK and is the basis of most public sector accounting, subject to some modifications on the valuation requirements. This being the case, why is the this VPGA titled as being about UK GAAP? The contents include discussion of matters not included in UK GAAP.

A more appropriate title would be Valuation for Financial Reporting in the UK. The list of FRSs that make up UK GAAP is superfluous. Editions of the Red Book before 1995 were concerned ONLY with valuations for accounting under UK accounting standards but even then it was not considered necessary to provide an inventory of all the individual accounting standards. RICS Guidance should be confined to what the valuer needs to know and do when undertaking a valuation for inclusion in financial statements. Paragraph 6 indicates that it does not cover all aspects of compliance by the reporting entity. This is absolutely correct, but this caution would be unnecessary if the VPGA stuck to valuation. The RICS is exceeding its competence by providing extended commentary on accounting matters.

Finally, in paragraph 3 there is a completely erroneous statement that *value in use* is the required basis for most UK public sector assets. Under the FReM, operational assets are to be measured at their current value in the existing use, which is then explained as being EUV as defined by RICS. Similarly, the CIPFA Code requires operational asset to be measured at current value, which it explains can be established in one of three ways, EUV as defined by RICS, EUV for Social Housing or for specialised property using DRC. The words "Value in Use " (ViU) are NOT used. ViU is an accounting concept under IFRS (IAS 36) which is only applicable for establishing whether an asset is impaired. IAS 36 has prescriptions on how ViU should be calculated but in essence it is a measure of the present value of the future cash flows that an entity expects from an asset.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… UK VPGA 1 Valuation ('measurement') of r… UK VPGA 1.1 UK GAAP Basis of measure… (no name) ***/***
Comment ID	9
Respondent	Chris Thorne - Valuology
Response Date	30 Jun 2018

Comment

UK VPGA 1.1 UK GAAP Basis of measurement for property, plant and equipment (FRS 102)

While the list of definitions in the box at the start of this section may be helpful in helping a valuer understand that the cost model in accounting is not the cost approach to valuation, the concluding paragraph (which is repeated in 2 of the "Commentary") would be more useful if it emphasised that the guidance in this VPGA applies only to estimating fair value.

If an RICS valuer has a role in determining the appropriate measurement basis to use in their role as a director of the reporting entity this is completely outwith their role as a valuer and is not something RICS should be implying they should be involved in. The recommendation that the measurement should be agreed between valuer and auditor is also completely inappropriate. The decision as to the measurement basis to be used is solely a matter for the entity's management. The nature of the valuer's relationship and interaction with the auditor is described in VPGA 6 and this does not involve discussing the entities accounting policies. This statement should be removed.

Most of the "Commentary" is of minimal relevance or assistance to a valuer. While some valuers may be interested in the cross references to accounting standards due to the fact that these are subject to change (especially the IASs and IFRSs) these could become wrong during the life of this publication.

While the valuer does need to be alerted to fact that the accounting requirements for certain types of business in the UK may be modified by a SORP, it is illogical to bring this topic up as a comment under a sub section that describes the measurement requirements under UK GAAP. The potential for a SORP to extend an accounting standard (which could be an IFRS or UKGAAP standard) with provisions for a specific type of business should either be discussed in the introduction, or preferably made a separate section, with a few examples that may be encountered by RICS valuers, eg pension funds.

The final paragraph under 1.c) reinforces the point in my earlier comment about the inappropriate reference to value in use in the "Scope and Overview" section.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… UK VPGA 1 Valuation ('measurement') of r… UK VPGA 1.2 Fair Value ***I*** (no name) ***I***
Comment ID	10
Respondent	Chris Thorne - Valuology
Response Date	30 Jun 2018

Comment

UK VPGA 1.2 Fair Value

The most appropriate place for a discussion on IFRS 13 Fair Value would have been in VPGA1 of the Global Red Book. The UK Book could then have just explained that while the FRS2 definition uses different words there is no difference in the underlying concept.

One omission is that the clarification that FV under IFRS 13 and FRS 2 is effectively no different from IVS MV under most practical circumstances, the only material difference being the way in which IFRS requires "blockage factors" to be ignored (the effect on the market value of the size of a shareholder and whether or not it is a minority or controlling interest). This used to be stated in IVS 300 and followed extensive exploration of the issue between practitioners from around the world and discussion with the staff of the IASB and FASB. In spite of the fact that IVS 300 was developed in close consultation with IASB staff in accordance with an MoU between IVSC and the IFRS Foundation, in its "wisdom" IVSC has not included an equivalent of IVS 300 in the 2017 IVS. Together with the complete absence of any useful guidance on the subject in the global Red Book this has left a void in guidance for valuers on the practical application of IFRS 13.

Understanding that the market based approach and underlying concepts are no different between MV and FV is probably the most useful piece of guidance that RICS can provide to its members undertaking valuations for financial reporting.

The comment in paragraph 5 that "fair value for financial reporting is defined in less specific terms than market value and is a broader concept running across most asset classes from an accounting consistency perspective" is inaccurate and misleading.

The statement in paragraph 11 that *"A general reference to RICS and/or IVSC valuation guidance would generally be considered insufficient when explaining the methods and significant assumptions"* is misleading. A valuation report provided in accordance with these standards will include the methods and any significant assumptions, and the other disclosures required. Also, the reference to the "cost model" in paragraph 11.d) is inappropriate. If the cost model has been used, then i) no valuation is involved and ii) no valuer is involved.

While the text in this draft VPGN needs revisiting, a far more appropriate solution would be to remove ALL guidance related to financial reporting valuations from this publication and issue a standalone GN dealing with Valuations under IFRS, which would have global application, and a supplementary GN for the UK dealing with any variations under UK GAAP or any of the public sector standards.

Comment Information

Document Section RICS Valuation - Global Standards 2017 …
1. Valuation ('measurement') for financial s…
UK VPGA 1 Valuation ('measurement') of r… UK VPGA 1.2 Fair Value
I
(no name) *I*

Comment ID 12

Respondent Chris Thorne - Valuology

Response Date 30 Jun 2018

Comment

UK VPGA 1.2 Fair Value

The heading of UK VPGA 1 indicates that it is about UK GAAP. If this is the case, the statement in the second bullet point of paragraph 7 "*Where the market value of any asset is materially different from its existing use value (see UK VPGA 1.4), it would be advisable - when reporting fair value - to alert the client (entity) and explain the rationale both to the client..."* is misplaced. This applies also to the definition of EUV that appears later in this VPGA. EUV is not a basis that is applicable under UK GAAP. Its only application is under public sector financial reporting (based on IFRS rather than UK GAAP) and which should have its own dedicated VPGA.

Comment Information

Document Section RICS Valuation - Global Standards 2017 …
1. Valuation ('measurement') for
financial s… UK VPGA 1 Valuation
('measurement') of r…
UK VPGA 1.3 Property categorisation for c… (no name) *I*

Comment ID 11

Respondent Chris Thorne - Valuology

Response Date 30 Jun 2018

Comment

UK VPGA 1.3 Property categorisation for company accounts prepared under UK GAAP

Once again this section starts with an inappropriate statement *"Valuers should identify and agree with the entity the categories of property that should be valued..."* This IS NOT the role of the valuer. It is inappropriate for RICS to encourage its members to opine on matters which are not part of the normal professional role of the valuer. Issuing ill-considered guidance such as this could have serious ramifications for the liability of members should a dispute arise over a company's accounting policies. The choice of the accounting treatment is solely a matter for the reporting entity.

Most of this Commentary is either superfluous, inappropriate or even misleading. All that a valuer needs to understand is that, for most property plant and equipment, accounting standards allow the reporting entity the choice of reporting as either depreciated cost or value, although once the decision is made for a class of asset, it will apply to all assets of that type. An exception is investment property, which always has to be reported at fair value unless this involves undue cost or effort. The implication for the valuer is simply that different clients may adopt different policies and therefore require assets to be reported on differently. It is wrong to suggest that the valuer has any role in advising the client on the appropriate accounting policy

Erroneous or irrelevant content in this section includes:

2 Owner Occupied Property - the is no basis at all in FRS 2 (or for that matter IFRS 13) for the fair value model to assume vacant possession.

3 VPS5, and more particularly, IVS 105 provide guidance on the nature and use of the market approach, income approach and cost approach. All that is needed is confirmation that these are all applicable when applying fair value under FRS (or for that matter IFRS 13). Quite apart from valuation approaches having nothing to do with the accounting treatments permitted for different types of asset, introducing a limited discussion on approaches in this VPGA potentially creates doubt as to the applicability of the global guidance.

4 Inventories - under FRS 2 these are only valued in the exceptional case of stock being acquired without consideration of equal value. The whole of what is written here is about cost accounting and has absolutely nothing to do with valuation. There is further incorrect guidance that HMRC requirements for farm stock taking should be followed. Tax procedures have no relevance for financial reporting. While it may be recognised practice for these to be adopted in the accounts of a farming enterprise, again it is a matter for the preparer of the accounts, not the valuer. This section should be deleted in its entirety.

5 Most property falling into this category will fall within the scope of VPGA 4 in the Global Red Book, and therefore the comments here are superfluous

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6 The reference to EUV for social housing in 6b is misplaced and should be moved to the later VPGA dealing with Social Housing. 6a simply repeats advice in 1 so this subsection can be deleted. 7 This contains no information relevant to valuers of mineral assets, just a summary of the accounting treatment - delete.

8 The statement that the valuer needs to consider the value of p&e as an integrated package is incorrect. It is for the reporting entity to determine the appropriate "unit of account" or "cash generating unit" and then ask the valuer to value it. This may be an "integrated package" of assets or individual assets. The valuer needs to ask the reporting entity how related assets are accounted for and value accordingly. This subsection then moves into a discussion of valuation methods for plant and equipment. The techniques for valuing plant and equipment are already adequately covered in VPGA 5 in the Global Red Book and the limited discussion here adds nothing. This section too should be deleted.

9 Says nothing that a valuer following VPS1 would not be doing anyway for the valuation of any type of asset and is therefore superfluous.

I recommend that the whole of this section be replaced with a simple paragraph explaining that assets do need to be categorised according to the accounting polices permitted by the applicable accounting standard and that the valuer will need to establish from the client what these are and any assumptions that need to be made, eg whether the assets are surplus or valued as part of the business as a going concern.

Comment Information

Document Section RICS Valuation - Global Standards 2017 …
1. Valuation ('measurement') for financial s…
UK VPGA 1 Valuation ('measurement') of r…
UK VPGA 1.4 Existing use value (EUV) **/** (no name) **/**

Comment ID 13

Respondent Chris Thorne - Valuology

Response Date 30 Jun 2018

Comment

UK VPGA 1.4 Existing use value (EUV)

This section is totally misplaced in a VPGA that purports to be about UK GAAP. As is indicated in the introduction, it is a basis that is ONLY used for public sector bodies that produce financial statements under either the FReM or CIPFA code. The bulk of the previous guidance on these accounting standards has been randomly repositioned alongside guidance on matters that have nothing to do with financial reporting standards in UK VPGA 2. It all should be united under a separate VPGA (or GN) covering public sector financial reporting in the UK.

Otherwise I am pleased to see that the definition and commentary on EUV has survived from when it was agreed between the RICS and the then UK Accounting Standards Board almost twenty years ago.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation (’measurement’) for financial s… UK VPGA 1 Valuation (’measurement’) of r… UK VPGA 1.5 Valuations based on deprec… (no name) *l*
Comment ID	14
Respondent	Chris Thorne - Valuology
Response Date	01 Jul 2018

Comment

UK VPGA 1.5 Valuations based on depreciated replacement cost

This section is unnecessary. The use of the DRC method is currently covered in VPS 5 and, more particularly, in IVS 105 in the Global Red Book. Its application in financial reporting is also the subject of the proposed standalone GN that is in consultation in parallel with this document.

Notwithstanding, there are a number of errors or potential misleading statements:

In the "boxed" section:

- the second sentence of the opening paragraph is otiose as it simply repeats the first, apart from the addition of an incorrect statement that the valuation "...*will require adjustments for economic viability/obsolescence and wider market metrics.*" The valuer should reflect these adjustments in applying the DRC approach and its wholly wrong to suggest otherwise (see above mentioned guidance).

- Paragraph 3a is inappropriate. It is not a requirement of any accounting standard that the entity provide a valuation for an alternative use where the cost approach is used to estimate fair value (or EUV in the case of a UK public sector asset). It is therefore totally wrong for RICS to suggest that entities should be put to the additional cost of providing such a valuation where the valuer considers this would be higher. In order to emphasise that the value produced by using DRC is based on the replacement of the service potential of the asset to the existing business it is appropriate for RICS to recommend that IF the valuer considers that the value for an alternative use assuming a cessation of the business is materially higher or lower this should be disclosed, but not that a second valuation is required.

In the Commentary:

- The current GN2 and its proposed replacement are careful to point out in their introductions the need to understand the distinction between the use of the words "depreciate" or "depreciation" in financial reporting and in valuation. The first two paragraphs of the commentary completely undermine this by starting a discussion about impairment in a section supposedly dealing with a valuation method. The third and fourth paragraphs attempt to explain that a fair value of a specialised asset derived using the DRC method may not equate to the "fair value less costs to sell" if an entity is impairment testing. However, this explanation is given as justification for the required caveat, rather than to explain that the depreciation adjustments inherent in a DRC approach are not based on the same criteria as those that a reporting entity has to consider when determining its depreciation policy under the accounting standards.

- Paragraph 5 is not wrong but this point is covered in the current GN2 and in its proposed replacement.

- Paragraphs 6-11 simply use many words to repeat the incorrect advice relating to alternative uses given in the first paragraph 3 of this section. All that is necessary is that if the valuer considers the value for an alternative use assuming a cessation of the business in occupation would be materially higher or lower then a statement to this effect should be made. Once again, this point is (or should be) covered in the standalone GN2 replacement.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… UK VPGA 1 Valuation ('measurement') of r… UK VPGA 1.8 Events after the end of the r… (no name) *I*
Comment ID	15
Respondent	Chris Thorne - Valuology
Response Date	01 Jul 2018

Comment

UK VPGA 1.8 Events after the end of the reporting period

This section would benefit from rewording. At present it suffers from the common fault throughout this VPGA of discussing the accounting treatment rather than providing guidance to the valuer on what they should do. It would also be more useful and relevant as an additional paragraph under 1.6 which deals with the valuation date.
It is worth making the point that where a valuation is prepared after the reporting date, which is the norm, any subsequent request for an adjustment to reflect new evidence needs to be treated carefully by the valuer. The valuer should only amend the valuation if they are satisfied that this is truly reflective of a change in the market which they had not already taken into account (which ought to be rare).

The key point is that the valuer should not be influenced by the client producing evidence of what might be a one off transaction subject to special circumstances, or worse, a deal that was manufactured with the aim of influencing the reported value. These things happen.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… UK VPGA 1 Valuation ('measurement') of r… UK VPGA 1.9 Leasehold interests and thei… (no name) /
Comment ID	16
Respondent	Chris Thorne - Valuology
Response Date	01 Jul 2018

Comment

UK VPGA 1.9 Leasehold interests and their classification

Once again, this guidance is compromised by the absence of any global guidance on the operation of IAS17 and IFRS 16. To make sense of the position under UK GAAP one first needs to understand the situation under IFRS.

When the UK adopted IFRS in 2005 there was a rush of activity as companies had to classify their leases as operating or finance leases under IAS17 and for about 18 months valuers were regularly involved in providing valuations to support classification. The RICS Valuations for Financial Statement Group (or which I was a member at the time) issued guidance on this, which was updated frequently as practice evolved. However, once the initial classification exercise had been undertaken, debated and agreed with the auditors of all the major public companies, this work dried up, and with it the usefulness of the RICS guidance.

With IFRS 16 effectively removing the category of operating leases for all but investment property accounted for under IAS 40 the classification issue has disappeared. While the draft says in paragraph 6 that the FRC is not intending to introduce IFRS 16 into UK GAAP, this is contrary to the information I received which was that they are intending to adopt it in 2022, in line with the general policy that UK GAAP should reflect IFRS principles but with simpler presentation and disclosure requirements

In any event it is difficult to see what role valuation or valuers will have in accounting for leases. Other than leases that are investment property, which can be valued in the same way as for any other purpose, the current value of the right of use and the current value of the liability on each side of the balance sheet is an accounting function. There possibly could be work for valuers in determining the current rental value to assist in establishing the current value of the right of use but the discount rate used to calculate the present value is not a market rate but the "discount rate implicit in the lease" which is an accounting calculation.

Until there is clarity as to whether the FRC is going to follow the principles of IFRS 16 and some evidence that valuers are being involved in providing opinions to assist in lease accounting calculations I suggest that this matter be left in abeyance. No information is better than wrong information.

With regard to the Commentary in the draft:

- In paragraph 10 it states "*Leases classified and accounted for as operating leases cannot usually be valued for accounting purposes."* This is not strictly correct. Under the current regime operating leases do not appear on the balance sheet as an asset or liability but may still need to be valued for other accounting purposes.
- The discussion of (inter)group leases in paragraphs 13-15 has nothing to do with lease accounting or lease classification, the subject of this section. If a valuer is instructed to value an interest in a lease between connected parties they can do so. It is not their concern as to whether this is permitted under accounting standards. There is a broader issue that where a valuer receives such a request that they should be aware of any effect on the terms that may reflect the relationship rather than those in obtainable in the market, but that applies to valuations of let property for any purpose, not just financial reporting.

Comment Information

Document Section	RICS Valuation - Global Standards 2017 … 1. Valuation ('measurement') for financial s… UK VPGA 1 Valuation ('measurement') of r… UK VPGA 1.10 Publication statement **/** (no name) **/**
Comment ID	17
Respondent	Chris Thorne - Valuology
Response Date	01 Jul 2018

Comment

COMMENT ON UK VPGA 1 GENERALLY

The number of instructions RICS members will receive to prepare valuations under UK GAAP will be small in relation to those under IFRS, which is used by all listed companies in the UK and many larger private companies as well. While some guidance should be provided by RICS, this should mainly be on how this differs from IFRS, which in valuation terms is hardly at all. It certainly does not warrant the amount of detail in this draft, which mostly consists of recitals or paraphrasing of accounting requirements of minimal relevance to the valuer. As I have pointed out in a number of cases, this draft seeks to place inappropriate responsibilities for accounting matters on the valuer.

Global guidance on valuation under IFRS is badly needed. Given that this has inexplicably gone missing from IVS and the therefore the Global Red Book, and the errors, confusion and redundancy in this draft I suggest the best solution is to remove guidance on UK GAAP from the UK Red Book and then produce a standalone GN on IFRS for global application, which can then have an Appendix or codicil for UK GAAP.