

## RICS Consultation Draft

### proposed changes to Global Red Book for 2025

#### VPGA 5 – Valuation of plant and equipment (including infrastructure)

The inclusion of infrastructure is to match the grouping of these asset types in the IVS, although as is clear from the narrative, much infrastructure is situated on or under real property. Before any road, rail track, power line, pipeline or reservoir etc can be built, the real estate interest needs to be acquired, so grouping this with P&E is questionable. In each section the following changes have been made:

Section 2 has been significantly simplified. However, 2.1 says that plant and equipment may also be referred to as “tangible fixed assets” or “fixed assets”.

**Our Comment:**

While this is true, so can real property. Since the proposed new 2.2 describes different types of P&E we see no need for 2.1 and recommend it be deleted.

Paragraph 2.4 says:

*Plant and equipment may include assets under construction (also referred to as construction in progress), which may be assets in any of the above categories, where construction is not yet complete, or production has not yet commenced. However, this is often recognised separately in the balance sheet.*

**Our Comment:**

This paragraph states the obvious in at least three different ways! It is unclear what the purpose is. How and when P&E is recognised on the balance sheet is not a matter for valuation guidance. All the valuer needs to know is that if P&E is under construction/construction is in progress/ not yet complete (pick just one) is how they reflect this in their valuation. If considered necessary, any guidance on this should be in Section 9 Valuation Approaches and Methodology. This paragraph should be deleted.

There is a new 2.5:

*Plant and equipment may be physically affixed to real property in whole or in part or may be removable/relocated. The extent and complexity of installation and annexation will vary, depending on the nature of the asset – this may have a significant impact on the valuation outcome. The valuer should also clarify the physical location of the plant and equipment to be valued; assets held at third party premises, remote locations or mobile assets may require further consideration/adjustments in the valuation.*

**Our Comment:**

It may be worth adding that the valuer needs be aware of the real property interest in/on which the asset is located, see our opening comment. P&E in a leasehold property may have to be removed and the real property reinstated at the end of a lease which could have a significant bearing on value.

Section 4, *Inspections, investigations and records*, is effectively a new section replacing the previous section *Plant and equipment separately valued*.

**Our Comment:**

This change seems sensible, and the new content seems reasonable.

Section 5, *Plant and equipment and other valuation specialisms*, is a new section that explains how a valuer of P&E may need to interact with valuers of other asset classes.

**Our Comment:**

We agree this is useful guidance. However, we believe the title should refer to “other asset types” rather than “other valuation specialisms” since this is what the content refers to.

Section 6 is the former section 5, “*Plant and equipment subject to finance, lease and collateral agreements*”. It is proposed to change paragraph 6.3 to:

*In some instances, plant and equipment valuers may be requested to provide guidance regarding potential asset values at a future date. If it is a 'value' of any sort, it will be covered by the Red Book Global Standards - albeit a 'projected value'. While current and historical market data and trends may provide guidance in this regard, it is not possible to provide estimated values with any accuracy. Wider macro-economic factors, obsolescence and usage/maintenance should be considered. Any value forecast can only reflect an opinion of a future market, based on the data currently available. It follows that close liaison with clients, auditors and other valuation skill sets will be required, and at the very least, valuers should be explicit in preparing their terms of engagement.*

**Our Comment:**

While the caution on providing projected values is sensible, a cross reference to **VPS2 section 12** should be included. Since “residual values” are frequently required for finance leases of plant and equipment it would be better if this term was included as well as “projected value”, as it is in the current VPGA.

Section 7 has a slight change to the title, from “*Material Considerations*” to “*Key Considerations*”. In paragraph 7.2 there are additions to the list of examples of assumption that may be appropriate when valuing P&E.

The new 7.2 has a much simplified text on how to deal with situations where there is a marketing constraint and cross references VPS 2 Section 11.

Section 8, is the previous Section 7, *Regulatory Measures*, with a small addition that includes specific reference to “*macro economic factors including relevant sustainability and ESG factors*”

**Our Comment:**

We agree with the above changes, although a cross reference to the Appendix in IVS 104 might be useful.

Section 9, *Valuation approaches and methodology*, is a completely new section.

**Our Comment:**

Although 9.1 is superfluous as this is covered in VPS 2, the remainder of this section is useful as it explains considerations in applying the approaches to P&E.

## **VPGA 6 – Valuation of Intangible assets**

This contains minor changes that are intended to clarify the guidance and maintain consistency with IFRS. We highlight the following:

However, we start with an existing paragraph that needs changing but hasn't:

*4.2 Valuation bases typically encountered for these types of valuations (not all of which are recognised by IVS or Red Book Global Standards) are definitions such as IFRS fair value, fair market value, and market value. Valuers should be mindful of the requirements of PS 1 section 1, where a written valuation is provided.*

**Our Comment:**

Including “fair market value” as an example of a basis alongside IFRS Fair Value and Market Value is unhelpful. Unlike the latter two it, this not a basis defined by the IVS or RICS nor one required by the accounting regulations applicable in a majority of countries. Additionally, the relevance of the cross reference to PS1 section 1 is unclear. Finally, if no written valuation is provided the Red Book is not applicable anyway. Better would be:

*The valuation of intangible assets may be required under the terms of an agreement between interested parties, which may define a bases of value other than one defined by the IVS or RICS or in any applicable regulatory requirements. In such cases, valuers should be mindful of the requirements of PS 2 sections 1 and 2.*

There are simplifications to section 6, *Valuation Approaches*.

Section 7 has been retitled *Discounted cash flow techniques* instead of *Present value techniques* with similar changes throughout the text. 7.6 has been amended to clarify that the WACC rate is not the only discount rate that is may be applicable when valuing intangible assets.

**Our Comment:**

We agree with these changes.

## VPGA 7 – Valuation of personal property, including arts and antiques

The significant changes are:

In Section 1, *Introduction and Scope*, Non-Fungible Tokens (NFTs) and Intellectual Property have been added to the list of “personal property” covered by the VPGA.

**Our Comment:**

This VPGA should focus on antiques and fine arts. The wider definition of “personal property” provided in 1.3 includes moveable plant and equipment and intangible assets which are the subject of separate, specific VPGAs. They should therefore be outside the scope of this VPGA. This also means the title can usefully be shortened. It follows that references to personal property throughout should be changed to arts and antiques.

We appreciate that NFTs are often, but not exclusively, associated with works of art so, providing the scope is narrowed to just arts and antiques, we agree with this inclusion.

Section 2, “*Terms of Engagement*”, has a number of changes but nothing that is specific to arts and antiques

**Our Comment:**

As now drafted this section adds nothing to the requirements of VPS 1. There is also a cross reference to VPS 6 at the end of 2.3 which is not relevant to the Terms of Engagement. One of the only two examples in the existing VPGA of matters that may need to be clarified that are specific to arts or antiques, whether a group of objects is to be valued as a collection or individually, has been deleted.

We recommend that 2.1 and 2.2 be deleted as they add nothing to VPS 1 and the example of collections be reinstated to 2.3, which should also reference VPS 1 rather than VPS 6

Section 3, Identifying the market”. 3.2 is now:

*Personal property valuers should recognise that there are different markets within which a particular asset may be traded and that each may generate its own sales data. In particular, an asset may have a different value at the wholesale level of trade, the retail level of trade, or when trading at auction. The valuer should identify and analyse the relevant market consistent with the asset being valued and the purpose of the valuation undertaken. The valuer should identify or take into consideration the identity of the parties involved, whether it is the court, individual, trader, insurance company.*

The final sentence is an addition to the existing paragraph.

**Our Comment:**

Market Value is the best price in the market to which the seller has access. It may well be that the current owner does not have access to the market that would obtain the best price, but this paragraph needs rewording to make it clear that this is a matter that the valuer must clarify in the ToE and report.

The final sentence is about identifying the parties involved. How does this differ from the identity of the party for whom the valuation is being prepared, as is required for all valuations under VPS 1? Furthermore, if a valuation is for a court, the Red Book may not be applicable, see PS 1 Section 5, and if it is for an insurance company the basis of value to be determined will be in the policy, similar to any other valuation required under a contract. It is a muddle and adds nothing.

There are minor changes to other sections but none that materially alter the existing guidance.