Valuology
Reducing Valuation Risk

RICS Consultation Draft

proposed changes to Global Red Book for 2025

VPGA 10 – Matters that may give rise to material valuation uncertainty

This VPGA has been changed piecemeal on a regular basis since the original GN5 was introduced in 2003 in response to recommendations in both the Mallinson and Carsberg reports. This is evident from both the existing and proposed versions of VPGA 10.

Our Comments:
The proposed alterations do not solve the problems with the existing and proposed VPGA. A few of the issues are:

- The title. "Material Valuation Uncertainty" would be better. The verbosity of the current title arises elsewhere in the VPGA.
- Material Valuation Uncertainty (MVU) is not used consistently throughout, being referred to also as valuation uncertainty or material uncertainty. Emphasising the importance of the uncertainty being "material" is important. For example, in the EU Capital Requirements Regulations (CRR) lending institutions are required to understand the materiality of any uncertainty around fair value estimates. In the UK the Financial Conduct Authority has actions that fund managers must take if an independent valuer indicates that over 20% of a funds real estate assets are subject to Material Valuation Uncertainty, as defined by RICS.
- The proposed 1.2 illustrates this confusion by saying "Material uncertainty must not be confused with market uncertainty…". Market uncertainty can be one of the prime causes of MVU.
- One of the proposed examples of MVU in 2.5 refers to the valuer being faced with "unprecedented" circumstances. Guidance was introduced more than 20 years ago because there had previously been examples of unexpected and sudden market disruption, and there have been at least two global examples since then. In local markets there will have been many more. An event causing MVU may be abnormal or unexpected but rarely unprecedented.
- The reference to the RICS initiative in 2020 on collating evidence of market activity and indicating when transactions were again taking place in different real property sectors since the WHO declared the pandemic is inappropriate. Firstly, this was a UK specific project and confined to real estate markets. Secondly, while this was a laudable initiative, it does not belong in a RICS standards and guidance publication as it could be inferred that RICS will provide similar advice wherever there is unforeseen market disruption.
- Insufficient mention is made of other causes of MVU besides sudden market disruption. For specific assets the market may be so limited that there are few, if any, relevant transactions that can be analysed to provide reliable inputs into the valuation.

The need for RICS to provide clear and unambiguous guidance on MVU is now even more important given that IVSC has dropped reference to the need to refer to it in its reporting standard, IVS 106 We recommend a rewrite of this VPGA.

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Notwithstanding the recent omission of the subject from the IVS, a good starting point would be Technical Information Paper 4 issued by the IVSC in 2013. This was the direct result of a recommendation by the Financial Stability Board, which was adopted by the G20 in 2008, that "the accounting standard setters should develop protocols for expressing valuation uncertainty." The IFRS Foundation did not see this as being with the remit of the IASB but encouraged IVSC to take it forward. The near four-year project involved extensive consultations with stakeholders across many markets and asset classes.

A more recent resource is the paper published by JPIF in 2021 "Valuation uncertainty – when and why this is important". This was authored by our director, Chris Thorne, but did win the publisher's "Outstanding Paper" award in 2022.

Both of these papers are more detailed than appropriate for a VPGA, but the key principles they contain can be summarised more clearly than in the proposed consultation draft.

VPGA 11 - Relationship with auditors

This is a new VPGA in the Global Standards but is based on a UK VPGA which was updated in 2022. It was recognised that this is a global issue, since auditors in many jurisdictions are under pressure from their regulators to more thoroughly investigate valuation estimates in financial statements, and thus are increasingly interacting with their clients' valuers. A few amendments were required to remove specific UK references from the UK VPGA but the principles of the actions that a valuer needs to take are the same.

Our Comment:
We have no comment other than to disclose that our director, Chris Thorne, was involved in the drafting of both the UK VPGA and this proposed document.