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Document Section RICS Valuation - Global Standards 2017 ...
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UK VPGA 2.1 Valuation reports in prospec... (no name) /

Comment ID 18

Respondent [Chris Thorne - Valuology](#)

Response Date 02 Jul 2018

Comment

General Comment on Proposed UK VPGA 2

The iconult system does not permit a general comment on the whole VPGA, so I have no alternative but to make it under the first section dealing with valuations for listing particulars or circulars.

This VPGA is inappropriately titled. Sections 2.1 to 2.6 are nothing to do with financial reporting whatsoever. 2.7 to 2.9 do cover financial reporting, although 2.8 is effectively only a cross reference to UK VPGA 4. The only thing most have common is that they are Regulated Purpose Valuations under the definition in UK VPS 3, although not even that applies to 2.5 or 2.6. The definition of Regulated Purpose Valuations in UK VPS 3 does recognise that valuations under the Listing and Prospectus Rules, the Takeover Code and for Collective Investment Schemes are not valuations for financial reporting, but this has not been reflected in the composition or title of this VPGA.

Sections 2.1-2.4 could be grouped into a VPGA called "Other Regulated Purpose Valuations". Sections 2.7 to 2.9 should be either merged into VPGA 4 or two VPGAs dealing with public sector financial reporting created, one for valuations under the FReM and one for valuations under the CIPFA Code.

Sections 2.5 and 2.6 are concerned with valuations connected with insurance companies' or financial institutions' solvency ratios. I have never met or heard of a member being involved in valuations for this purpose. The only indirect connection is when a valuation of either assets owned by an insurer or financial institution have been valued for their financial statements. Loans made by lenders are also assets and there are rules about the risk weighting of these that depend on the value of any security. RICS members may be involved in the valuation of owned assets or security but the applicable standards for these activities are covered elsewhere. The calculation of solvency ratios under these regulations is highly specialised work and not something that falls within the skill set of a chartered surveyor. While an

article about solvency ratios may be of interest to the small number of members engaged within the banking or insurance industries, it is total inappropriate for RICS to presume to issue professional guidance on matters outside of its remit and the competencies of its members.

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Respondent [Chris Thorne - Valuology](#)

Response Date 03 Jul 2018

Comment

UK VPGA 2.1 Valuation reports in prospectuses and shareholders circulars to be issued by UK companies

This title is unnecessarily cumbersome compared to its equivalent in the 2014 Edition, "FCA Listing Rules." Since the content of a valuation referenced in a prospectus must comply with the Listing Rules there is little point in also referencing prospectuses in the title. However, if a change is needed, a more concise (and therefore memorable) title would be "Valuations for Listing and Prospectuses".

I note that the text from paragraph 4 onwards is as appears in the current UK Appendix 7, with two additional paragraphs at the end. Since the Listing Rules have not changed in relation to the points covered since 2002 this is to be expected. However, the references to RICS and the Appraisal and Valuation Manual in the Listing Rules are out of date and begs the question of whether there has been any recent liaison with the FCA to discuss whether Chapter 18 needs revision or updating in the light of the significant developments in markets, regulation and valuation standards over the past couple of decades.

A few detailed points:

Paragraph 8 – The Listing Rules do not use the term "Independent Expert" in Chapter 18. They simply state that the valuation should be carried out by an external valuer (as defined in the RICS Manual) unless the FCA approve the use of an internal valuer.

Paragraph 13 – Since 2005 all listed companies in the UK have been required to use IFRS so the reference to UKGAAP should be deleted.

Paragraph 19 - The Listing Rules allow condensed reports in circumstances where the properties held are too numerous to enable the company to comply with the

normal requirements for a valuation report. There is no reference to a minimum number.

Paragraph 21 – No mention is made of the only mandatory reporting requirement in the Listing Rules, ie the “Preamble” in Schedule 8 and referenced in 18.10(a). To a large extent this is otiose as all the points included are required by the RICS standards, but it may be material to the way in which a valuer is asked to present the report, for example the company may require the preamble in the body of the its documents with other information as an Appendix.

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Comment ID 20

Respondent [Chris Thorne - Valuology](#)

Response Date 03 Jul 2018

Comment

UK VPGA 2.2 Takeovers and mergers.

Apart from an extended and improved introduction, the text from the third paragraph onwards is materially the same as the current UK Appendix 8. The only material change is the addition of the final paragraph which cautions against the valuer providing advice that could mean that they could be deemed to be a financial adviser under the FSMA 2000 if they are not a registered to act in this capacity by membership of a regulated professional body under the provisions of the Act. This paragraph would be more appropriately positioned after the current paragraph 9 under the subheading “Status of the Valuer”.

Paragraph 15 of the draft, which reproduces 29.2(e) of the Code would be more appropriately positioned in paragraph 12 beneath the recital of 29.2 (a) to (d). The selection of a representative sample comes before the reporting stage where it is currently positioned.

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Comment ID 21

Respondent [Chris Thorne - Valuology](#)

Response Date 04 Jul 2018

Comment

UK VPGA 2.3 Collective investment schemes

A paragraph has been introduced referring to the SORP for Collective Investment Funds produced by the IMA. This is misplaced as it conflates the protocols for producing the financial statements required under the Companies Act with the valuation requirements for the management of such funds required by the FCA, which are addressed in every other paragraph of this section. This is a further example of the confusion in recent Red Books between valuations for financial reporting and valuations for other regulated purposes. SORPS should be discussed under UK VPGA 1.1, see my Comment ID 9.

While there may be some value in listing some of the SORPs that may be commonly encountered by valuers, I would avoid discussing their detail, both in the interests of brevity but also because of the problems of maintenance. This latter point is illustrated by the incorrect statement in paragraph 3 that the basis of value under the SORP is open market value. In the 2014 SORP it was fair value and further amendments were made in 2017 to align the fair value disclosures with FRS 2, which in turn is aligned with IFRS 13.

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Comment ID 22

Respondent [Chris Thorne - Valuology](#)

Response Date 04 Jul 2018

Comment

UK VPGA 2.3 Collective investment schemes

The introduction refers to the “New” Collective Investment Schemes Sourcebook. While it might have been new in 2002 when the first RICS GN was written about it, New is not part of the title. The current version is Release 28, dated June 2018. This illustrates the need to avoid excessive recitals of third party material because of the danger of it becoming out of date.

Specific comments on the content:

Paragraph 6 – this is superfluous. An RICS member does not need to concern themselves over the legal status of the fund for which they are being instructed to provide a valuation.

Paragraph 9 – there is a problem with the extract from the COLL 5.6.20 on page 40 of the draft concerning the appropriate basis of value. It is purported here that the valuations of a fund’s immovable investments must assume a forced sale or marketing constraint. Apart from being contrary to paragraph 7, in my experience this is NOT how such valuations are reported in practice.

The actual wording of the June 2018 version of the COLL under 3(f) is:

“Any valuation by the standing independent valuer must be undertaken in accordance with UKPS 2.3 of the RICS Valuation Standards (The Red Book) (9th edition published November 2013) or, in the case of overseas immovables, on an appropriate basis but subject to COLL6.3 (Valuation and pricing).”

The 9th edition is the edition dated 2014, which was then updated in April 2015. Neither of these versions had a UKPS 2.3, although there is a UKVS 2.3 headed “Collective Investment Schemes”. This UKVS refers to the COLL (and the IMA SORP, see my previous comment), but refers to UK Appendix 9 for the detailed reporting requirements. Paragraph 3 of this Appendix indicates that the basis of value used shall be market value and “any special provisions in the instrument constituting the scheme.” This is the basis on which all fund valuations I have seen for the last twenty years have been produced.

Later in the Appendix there is the same alleged extract from the then COLL which refers to a forced sale or marketing constraint. There is therefore a circle of uncertainty in which an incorrect quotation appears to have been cross referenced in the original quotation. Such a nonsensical outcome was clearly unintended, with the reference to a non-existent section quoted in the COLL suggesting there was some breakdown in communication between RICS and FCA.

If an attributed extract from the COLL is included then it must at least be verbatim, which the current draft is not. That would leave a problem because the COLL

reference to the Red Book is out of date and therefore an explanatory note will be needed to clarify that the reference to UKPS 2.3 should be read as UK VPGA 2.3.

There should of course be liaison with the FCA to ensure that this is what they intended in their reference to the Red Book and that their cross reference is updated in the next update of the COLL

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Comment ID 23

Respondent [Chris Thorne - Valuology](#)

Response Date 04 Jul 2018

Comment

UK VPGA 2.5 Adequacy of financial resources of insurance companies

This section does not belong in the Red Book. While INSPRU requires insurers to hold sufficient assets to cover their liabilities, this is mainly an actuarial function and outside the typical training and competency of chartered surveyor. Directing members towards INSPRU is therefore unhelpful and risks members misinterpreting the requirements and giving advice which they are not qualified to provide. While an RICS member may have indirect input by providing valuations of certain assets, or even liabilities, for an insurer this activity is already adequately covered in the Global and UK Red Book. I recommend this section be deleted as INSPRU contains nothing that alters or varies what a valuer complying with the Red Book should be doing anyway.

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Comment ID 24

Respondent [Chris Thorne - Valuology](#)

Response Date 04 Jul 2018

Comment

UK VPGA 2.6 Adequacy of financial resources for financial institutions

This section does not belong in the Red Book. BIPRU regulates the actions of banks and other similar financial institutions and prescribes how the required solvency ratios have to be calculated. Chartered Surveyors have no professional role in the governance of banks. BIPRU contains no directions on the detail of how valuations are to be carried out that would be relevant to an RICS valuer. While banks are required to monitor the value of property held as security and to commission an independent valuation if there is evidence that the value may have declined materially, the valuation produced by the member will already be covered by the provisions of VPGA 2 in the Global Red Book.

I recommend this section be deleted as BIPRU contains nothing that alters or varies what a valuer complying with the Red Book should be doing anyway

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Comment ID	25
Respondent	Chris Thorne - Valuology
Response Date	04 Jul 2018

Comment

UK VPGA 2.7 Central government assets

In my comment at the beginning of UK VPGA2 I indicated that while the three final sections were the only parts that involved valuations for financial reporting, because UK public sector accounting is based on IFRS rather than what is colloquially known as UK GAAP, they would be better grouped in a separate UK VPGA Valuations for Public Sector Accounting. This is also where the definition of EUV should appear.

I note that apart from the addition to the introduction referencing the parallel NHS standards, the text is as it appears in UKVS 1.14 of the current Red Book.

One minor correction required to paragraph 5 is that the FReM requires operational assets to be valued at their **current value in existing use**. For non-specialised

assets, current value in existing use is interpreted as market value for existing use, which the manual defines as Existing Use Value (EUV) as appearing in the RICS Red Book. For specialised assets, current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

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Comment ID 26

Respondent [Chris Thorne - Valuology](#)

Response Date 04 Jul 2018

Comment

UK VPGA 2.9 Registered social housing providers' assets

This is a discussion about a SORP. As SORPs deal with the application of UK GAAP to industry sectors I have previously suggested that these should be listed in UK VPGA 1, although with limited commentary. However, where a distinct valuation basis is required, as in this case, I accept that this is information that a valuer needs to know. I also note that SORPS are not necessarily available free of charge (certainly the social housing one is not) so there is a case for the RICS to seek consent to reproduce essential valuation information.

Since the EUV-SH definition is currently under review have no specific comment on this section other than the type and extent of the detail is a good illustration of how I feel the Red Book should address SORPs.

I note from the FRC website that there are currently seven approved SORPS and SORP setters. These involve Charities, Further and Higher Education, Social Housing, Authorised Funds, Investment Trusts and VCTs, Limited Liability Partnerships and Pension Schemes. Three of these are currently referenced in the draft. There is potential for valuation provisions that vary from FRS2 in the others. I suggest that the best solution is to research the remaining drafts and then present a summary of all of them with any specific valuation variations as either an Appendix to UK VPGA 1 or as a standalone VPGA.