



**International Valuation Standards Council (IVSC)**

**Consultation Paper**

**Structure and Scope of the International Valuation Standards**

**Response of the  
Royal Institution of Chartered Surveyors (RICS)**

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## **Introduction**

The Royal Institution of Chartered Surveyors (RICS) has noted the publication of the Consultation Paper – Structure and Scope of the International Valuation Standards – produced by the International Valuation Standards Council (IVSC) in July 2014 and welcomes the opportunity to comment.

## **About RICS**

RICS is the global leading organisation for professionals in real estate, land, construction and related environmental issues as well as working in the personal property and business assets sectors.

Over 120,000 RICS members, who are Chartered Surveyors, exist globally and operate out of 146 countries, supported by an extensive network of regional offices (detailed on our website) located in every continent. RICS Headquarters is based in London and our international work is supported by a network of regional offices and national associations.

RICS members play a vital role throughout the entire asset life cycle – from initial inspection and measurement, development through to investment in, and the use of physical structures and other assets, as well as financial and business interests. In the valuation field our members' expertise covers a very wide range of disciplines, including business valuation. We also provide impartial advice to governments, policymakers and non-Government organisations.

RICS is an independent professional body, which was established in 1868 and has a UK Royal Charter. It is committed to setting and upholding the highest standards of excellence and integrity, providing impartial and authoritative advice on key land and asset issues affecting businesses and society.

RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector. This regulation includes a specific focus on valuation via Valuer Registration.

As well as technical standards there are also rules of conduct for members and rules for the conduct of business for firms. These rules are coupled with ethical standards for all members.

## **RICS and Valuation Standards**

A significant proportion of our members are involved in valuation practice on all manner of assets. The first RICS Valuation Standards publication was produced in 1976 and the current standards are the "RICS Valuation – Professional Standards" effective from 1st January 2014. The standards are commonly known as "the Red Book" and contain mandatory rules and best practice guidance for valuations of real estate and other assets.



1 October 2014

Our Ref: BE/AA/CD2

IVSC,  
1 King Street,  
London EC2V 8AU,  
United Kingdom.

Dear Sirs

**Re: RICS OBSERVATIONS ON THE CONSULTATION PAPER ON THE STRUCTURE AND SCOPE OF THE INTERNATIONAL VALUATION STANDARDS**

RICS is in accord with the stated objectives in the introduction to the consultation paper on the structure and scope of the international standards, as reproduced below:-

1. Building Confidence and Trust
2. Narrowing Differences in Valuation
3. Promoting Convergence

RICS is also in agreement with the following opening paragraph of the IVS Framework:

*"Applying the principles in these standards to specific situations will require the exercise of judgement. That judgement must be applied objectively and should not be used to overstate or understate the valuation result. Judgement shall be exercised having regard to the purpose of the valuation, the basis of value and any other assumptions applicable to the valuation."*

RICS regards this as complemented by the statement contained in 4 of the consultation paper introduction that; *"If the objective of narrowing differences in the valuations of similar assets is to be met, something other than a list of requirements is needed in order to provide guidance on the exercise of judgement in different situations."*

In RICS' view, this is the crux of the matter – and that the focus of IVSC should be on high level principles and their embodiment in high level international standards rather than attempting to provide guidance on the exercise of judgement in different, often very diverse, situations. . There are more appropriate bodies such as VPO's, who are able to fill any actual or perceived gaps in information and practical implementation at this level. Extending IVSC's activities into this territory risks undermining its critical role as a standard setter. RICS do not feel that work of this nature is sustainable and would not be supportive of a standard setter moving in this direction. We understand that this is the opinion of the majority of the IVSC Advisory Forum Executive Committee. The RICS's responses to the Consultation Paper questions set out below must be read in that context:

**Question 1. Paragraph 15.1 describes two alternative views on what constitutes a “standard”. Please indicate whether you agree with either statement a) or b) below:**

**a) the word standard in the context of the IVSs should be reserved only for rules or principles that have to be applied, or**

**b) the word standard in the context of the IVSs means a required level of quality and will necessarily include not only rules and principles but also guidance and supporting information to assist consistent application of those rules and principles?**

RICS believes that the key point is for there to be no risk of confusion between what constitutes an individual “valuation standard”, which should indeed be high level, principles-based and clearly defined, and what constitutes a level of excellence or quality in professional performance and delivery (including consistent adoption of best practice) which may properly be represented by the collective word “standards” but which will normally embrace a broader range of requirements (including performance standards on behavioural matters such as conduct and ethics), benchmarks (including technical guidance) and/or conventions (such as codes of practice).

It is therefore the opinion of RICS that an individual international valuation standard should comply with the description at a).

**Question 2. Question 2: Paragraph 15.2 describes two alternative views on what is meant by the word “mandatory” in the context of standards. Please indicate whether you agree with either statement a) or b) below:**

**a) a satisfactory level of compliance with the IVSs can be achieved by following only the Requirements in the standards and that all other material issued by the IVSC is of no relevance in determining compliance, or**

**b) a satisfactory level of compliance with the IVSs can only be achieved by following the Requirements and also having regard to the supporting information and guidance included in the standards.**

RICS recognise that the difficulty here is the extent to which supporting information and guidance can, in a practical sense, “carry the same authority” (a phrase also used in IFRS) as the standard itself – which is not the same as saying the content is automatically mandatory. An allied difficulty is how the action or process of “having regard to” such content can itself be made mandatory. Both may be thought less difficult issues for VPOs than for an independent standard-setter, as they can be addressed through CPD, registration and - to the extent appropriate – regulation.

RICS support statement b) on the grounds that the 'supporting information and guidance is included in the standards' and not in any separate documentation.

RICS would question the use of the word "guidance", which as is the case with "standards", is capable of multiple meanings. Therefore RICS would repeat the point made in our introductory response to this Consultation Paper: *"The focus of IVSC should be on high level principles and their embodiment in high level international standards rather than attempting to provide guidance on the exercise of judgement in different, often very diverse, situations. There are more appropriate bodies such as VPO's, who are able to fill any actual or perceived gaps in information and practical implementation at this level. Extending IVSC's activities into this territory risks undermining its critical role as a standard setter."*

### Question 3.

**Paragraph 15.3 describes confusion that has been identified by some around the purpose of the current TIPs. To assist the Board in considering whether changes are appropriate and if so what those changes should be, please answer the following questions:**

**3a Do you consider that the title "Technical Information Paper" is an appropriate description for the content of the TIPs issued to date and for those proposed TIPs for which public exposure drafts have been issued?**

- a) yes or
- b) no

**If you have answered no please provide reasons for your view and suggest a preferred alternative.**

RICS strongly oppose the production of TIP, and in addition consider that Technical Information Paper is an inappropriate title. RICS and other VPOs already provide guidance and information not only on the practical implementation of the international valuation standards but also across a very much broader range of subject matter for their members. In the case of RICS, the 'RICS Valuation Professional Standards January 2014 ('Red Book') defines the Guidance Notes it produces as: *"Further material and information on good practice appropriate for particular types of circumstances. Where procedures are recommended for specific professional tasks they are intended to embody 'best practice' and are procedures which, in the opinion of RICS and IRRV, members should normally adopt in order to demonstrate the required level of professional competence."*

Moreover IVS 2013 states that "TIPs "are available as separate booklets" and further states that "because TIPs do not require any specific actions to be taken or avoided they have no specific date". RICS do not believe that there is a need for IVS to provide guidance and information on practical valuation matters, which in any event are often specific to particular jurisdictions or

situations, as a supplement to the international valuation standards – this role is best undertaken by the VPO's (including RICS) who can tailor material to specific needs and specific markets relevant to their members.

RICS would rather the IVSC focus on the high level definition of "requirements" with which all VPO-generated standards material must be consistent, the definition being "The contents of IVS 101, IVS 102 and IVS 103, together with all those matters under the heading of "Requirements" in IVS 200, IVS210, IVS 220, IVS 230, IVS 233, IVS 250, IVS 300 and IVS 310."

**3b Do you find the content of the current TIPs helpful in understanding and applying the IVSs? If you do not, please identify any other material that you rely on to support the interpretation and application of the IVSs.**

IVSC has recently published the following four TIPS; -

- TIP 1 Discounted Cash Flow
- TIP 2 The Cost Approach for Tangible Assets
- TIP 3 Intangible Assets
- TIP 4 Valuation Uncertainty

In respect of the four TIP's issued RICS already provides the following Guidance for members on these topics within RICS Valuation Professional Standards January 2014 and as a separate GN:-

- VPGA 3 Valuation of businesses and business interests (RB)
- VPGA 6 Valuation of intangible assets (RB)
- VPGA 9 Valuation in markets susceptible to change: certainty and uncertainty (RB)
- GN Discounted cash flow for commercial property investments

RICS therefore believes that the publishing of these TIP's on these topics is an unnecessary duplication of existing guidance by RICS and other VPO's, which could provide further market confusion and work against the IVS objectives of '*Building Confidence and Trust*', '*Narrowing Differences in Valuation*' and '*Promoting Convergence*'.

RICS considers that a better approach for the IVSC would be to continue to work in liaison and consultation with the IVSC Advisory Forum to gain global recognition, acceptance and adoption of the International Valuation Standards and to identify areas where the VPOs could provide further guidance.

**3c Is there anything in the current TIPs that you consider should not be included, or that should not form part of the standards? If you believe there is please explain what should be excluded and why.**

RICS are of the opinion that IVSC should focus on IVS's solely and include any explanation necessary for consistent application of the standards within the standards as commentary. RICS

are opposed to IVSC producing TIPS, Professional Standards and Illustrative Examples as we believe this is not the role of a Valuation Standard Setter and is confusing to the market.

RICS would like to express particular concern on the proposed TIP on the valuation of forests, which is not only immensely detailed but also duplicates material already issued by RICS. The content is inappropriate for issue by a standard setter.

RICS is also not clear where the proposed "Illustrative Examples" are intended to sit in the diagram on page 4 outlining the functional relationship between the various components of the IVSC framework. RICS is concerned that this paper currently sits outside the scope of the TIPS outlined in IVS 2013, and also cuts across the objectives which IVSC has articulated in the Introduction. It would appreciate further clarification on this matter.

**Question 4. Do you agree that the Board should issue commentaries, guidance and information to support the concepts, principles and requirements in the standards? If you disagree please explain what alternative sources providers and users of valuations can use and how diversity of application and interpretation across different jurisdictions and markets can be avoided.**

RICS agree that the Board should issue commentaries and information to support the concepts, principles and requirements within the standards – but strictly limited to that.

IVSC have stated that two of their main objectives are to "Narrowing Differences in Valuation" and to 'Promoting Convergence'. From RICS's point of view the creation of IVS guidance such as TIP's is in fact contrary to this objective, as it is establishing a direction of travel away from liaison with VPO's and securing of their support.

RICS believe a reduction in diversity of application and interpretation across different jurisdictions and markets can be achieved by working with VPO's to agree an overall framework. This would help narrow differences and promote convergence across the VPO's, who can collectively work together to reach common application and interpretation across different jurisdictions and markets, ensuring consistent implementation by their members.

**Question 5. This consultation paper highlights four other sets of international standards that are in use in the financial markets and the different types of pronouncement that fall within their scope. An overview of each is provided in the Appendices. Please indicate if you consider that there are any aspects of the way these standards are presented that the Board should consider as a way of improving the presentation and clarity of the IVSs.**

RICS find it interesting to note that there is no consistency in approach between each of the four standards used in the financial market and listed below;

- the International Financial Reporting Standards (IFRSs),



- the Engagement Standards issued by the International Auditing and Assurance Standards Board (IAASB),
- the International Standards of Actuarial Practice (ISAPs)
- the Global Investment Performance Standards (GIPS)

RICS would suggest that the reason that the reason that *"All these standards have adopted very different structures both from each other and from the IVSs"* are that they relate to very different disciplines with varying professional and performance requirements and therefore to a certain extent comparison though useful is not entirely relevant.

RICS believe the IVSC would be better to focus on interaction with these standards in order to achieve its stated objective of *"narrowing the differences in valuation."*

An example of this is the IFRS 13 Fair Value Measurements, which though containing *'Application Guidance covering various valuation approaches and concepts'* has done nothing to reduce market confusion through the coexistence of two differing definitions of Fair Value.

RICS applauds the signed *'Statement of Protocols for Cooperation on International Financial Reporting Standards and International Valuation Standards'* and believe the clarity of IVS could be increased through further similar agreements with international standard setters.

**Question 6. When it adopted a structure for the standards that contained five different categories of pronouncement the Board was responding to requests for a clear distinction be made between those parts that included mandatory requirements and those that contained supporting guidance. It also considered that a taxonomy that grouped similar types of pronouncement together would make it easier for users to navigate to the parts relevant to their needs.**

**However, some other standard setters do not make the same distinction. For example the IFRSs are simply numbered consecutively according to the date of their first issue, with no attempt to group by the type of topic each standard addresses.**

**Do you believe that the current structure of the IVSs that groups pronouncements into five different categories with distinct titles is easy to understand and use? If not, what alternative would you prefer?**

RICS considers that the current structure which groups pronouncements into five different categories with distinct titles and the supporting taxonomy is easier to use than the structure currently adopted by the IFRS.

However as with all structures there is always room for improvement. In respect of the Exposure Drafts and Consultation papers it may also be worth considering a more targeted consultation process, where in addition to the open consultation process, VPO's and other interested parties such as IFRS are automatically sent future Exposure Drafts and Consultation Papers, rather than being reliant on frequent visits to the IVS website.

Moreover the website location of the Exposure Drafts and Consultation Papers within the library tab of the IVSC website is not always the most logical and therefore there is a danger that these consultations can be missed by less practised users.

**Question 7. In the document Scope and Content of the International Valuation Standards<sup>2</sup>, issued in August 2013, the Board explained that the scope and level of detail are examined during the consultation process for each new pronouncement. However, its general approach is to include all those concepts and principles which it can identify as being widely accepted across different geographic regions and that can be applied across different jurisdictions. Simple explanations or illustrations of how those concepts and principles can be applied to different genres of asset or for different valuation purposes may also be included. It also will ensure that there is sufficient detail to address any inappropriate practice that has been identified during the progress of the project.**

The Board will generally exclude from the IVSs any matter that reflects requirements arising from national law or regulation or from established practice in a particular jurisdiction but which either does not arise or that conflicts with those in other jurisdictions. The IVSs may refer to valuation methods or techniques, provide high level explanations of those methods or give examples of when their use may be appropriate.

Finally, the paper confirms that the IVSs are not intended to provide educational material and will not examine methods defined or discussed in the standards at the level of detail necessary to apply them in practice.

**Do you agree with these limitations on the scope of the IVSs? If not, please describe the types of additional material you believe should be included or matters currently included you believe should be excluded.**

RICS broadly support IVS's general approach *"to include all those concepts and principles, which it can identify as being widely accepted across different geographic regions and that can be applied across different jurisdictions"*.

However as already outlined in this response RICS would caution against referring to particular *"valuation methods or techniques or providing high level explanations of those methods"*. In reality the valuer/appraiser will have a number of different valuation techniques and methods at his/her disposal and will often use a variety of approaches as part of the valuation/appraisal. Any attempt to be too prescriptive in approach would remove the need for valuers/appraisers to test their valuation via a number of approaches and could unintentionally lower the quality and depth of some valuations provided. Moreover assets are often individual in nature and therefore it is our experience that a 'one size fits all' approach tends not to work. It is for this reason that RICS has avoided being too prescriptive within the Red Book.

Moreover RICS has tended not to include too detailed examples, as it has been our experience that less experienced practitioners tend to adopt the yields and other variables used cited within the examples for their valuations.

RICS is also in accord with IVSC stated intention to "exclude from the IVSs any matter that reflects requirements arising from national law or regulation or from established practice in a particular jurisdiction but which either does not arise or that conflicts with those in other jurisdictions".

RICS is additionally in accord with the IVSCs confirmation that "IVSs are not intended to provide educational material and will not examine methods defined or discussed in the standards at the level of detail necessary to apply them in practice". Much of the educational material and examination of the standards at the level of detail necessary to apply them in practice is already provided by the VPO's and the academic bodies, which form part of the VPO's qualification process.

Finally RICS is broadly in agreement with "these limitations on the scope of the IVSs", subject to the qualifications contained within this response to the Consultation Paper.

Yours faithfully



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