

International Valuation Standards Council (IVSC)

Exposure Draft

Credit and Debit Valuation Adjustment

**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 Exposure Draft - Credit and Debit Valuation Adjustments - produced by the International Valuation Standards Council (IVSC) in August 2013 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 30th March 2012. 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.

RICS adopts the International Valuation Standards (IVS) 2011. The adoption of IVS in the Red book provides an implementation and practice framework for the application of IVS globally, ensuring that RICS members follow consistent methodologies throughout the world.

The Red Book is mandatory for all RICS members and regulated firms worldwide when carrying out Red Book specific valuations. It is also widely referred to by non-RICS valuers.

The global section of the Red Book comprises a broad ethical framework which can be applied to valuations of any asset type in any jurisdiction, in harmony with national legislation. They comprise a framework for the following:

- Compliance, competence, independence and ethical requirements;
- Terms of engagement;
- Valuation bases (global);
- Valuation applications;
- Investigations, inspections and verification of information; and
- Valuation reports.

More specifically the standards relating to application, competence, independence and objectivity are set out in Valuation Standards VS1.2-1.9.

The global standards are accompanied by detailed national standards.

For more information please visit <http://www.ricsvaluation.org/>

Dear Sirs

Re: RICS OBSERVATIONS ON THE EXPOSURE DRAFT ON CREDIT AND DEBIT
VALUATION ADJUSTMENTS

You have requested that responses to the discussion paper are set out as answers to specifically posed questions. Please find our answers below:

Question 1

1. Do you agree that the proposed scope is appropriate? If you disagree, please indicate changes that you would recommend.

RICS agrees that the scope of the material covered in this Exposure Draft is appropriate, in terms of contributing to the consideration by Valuation Professional Organisations (VPOs) of how clarity and consistency can be increased and to better understanding by valuation users. The proviso at paragraph 5 regarding statute and regulation is important. In particular jurisdictions there may be other requirements or considerations that need to be taken into account and which may have specific implications for, or effects on, valuations.

Question 2

2. Do you agree with these definitions? If you consider an alternative or additional definition is appropriate then please provide this in your response.

RICS would suggest the addition of a definition of CDS alongside that included of CCDS, as both are referred to and a clear understanding is required.

Question 3

3. Do you believe that other methods should be considered in addition to the Monte Carlo, such as binomial and trinomial trees?

There are specific differences between the the Monte Carlo, binomial and trinomial trees pricing models and their uses can depend on the specific application and level of problem solving required. These must primarily be matters of judgement according to the particular facts and circumstances. RICS strongly take the view, in connection with CVA and OVA adjustments, that the valuer should always have sufficient knowledge and experience to carry out the valuation and as a result should be confident of the method to be used.

Question 4

4. Do you believe that netting sets have been discussed to an appropriate level of detail?

To the extent it is able to comment, RIGS believes that "netting" has been discussed to an appropriate level, given that different counterparties may have different views on pricing relative to their existing exposure with the other counterparty.

Question 5

5. Do you consider that there is a need for the Ivse to augment this with more specific guidance on governance and controls in the financial sector?

RIGS does not believe that specific additions to the IVSG Code of Ethical Principles for Professional Valuers are appropriate or necessary.

Question 6

6. Do you consider that there is a particular issue or issues that arise when considering a suitable governance and control protocol for calculating eVA or OVA that does not otherwise give rise to concern?

None that RIGS would immediately identify.

Question 7

7. Do you agree that it is appropriate to suggest that entities with less complex or smaller derivative holdings in relation to their overall business should adopt less complex methodology, or instead should all entities be expected to implement equally rigorous methodology?

Whilst RIGS would recognise that in principle a less complex methodology for smaller entities might be thought appropriate and proportionate, the matter must always be determined by the particular facts and circumstances. It is not necessarily wise to generalise, and indeed could imply something of a two tier market where the relevant market value is automatically influenced by the size of the entity. As per question 3 above RIGS are of the opinion that the valuer of the instrument should always have sufficient knowledge and experience to carry out the valuation having with regard to duration, risk and asset size.

Question 8

8. Does the discussion about the cost of funding contribute to the objectives of the TIP outlined in the "Scope and Purpose" section on p3?

Overall, yes.

Question 9

9. Given the current debate in this area, do you believe it is appropriate for this TIP to outline the main issues, or should this be removed altogether until there is greater

consensus?

The RICS view is that this be removed until there is greater consensus arising from the current debate in the area of "Cost of Funding" and how best to apply FVA.

Question 10

10. With this in mind, are there any key principles that have been omitted or not fully explained?

RICS would not regard this as an appropriate vehicle to include more.

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