



27 June 2019

via email:
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International Valuation Standards Council
1 King Street
LONDON EC2V 8AU
United Kingdom

Dear Board Members

Re: IVS 2017 Additional Technical Revisions Exposure Draft

RICS would like to thank the International Valuation Standards Council (IVSC) for their time and effort in preparing a consultation paper on the **IVS 2017 Additional Technical Revisions Exposure Draft** (the 'Exposure Draft') dated 28 March 2019. We appreciate the opportunity to provide observations and comments, which we set out in detail on the pages that follow. We would naturally be happy to discuss any aspect of this response if you would find that helpful.

Yours sincerely

David Park MA FRICS
Chair, RICS Global Valuation Standards Board

Copy: RICS Global Valuation Standards Board
RICS Valuation Professional Group Directorate
David Tretton
John Baguley
Steve Choi

About RICS

RICS promotes and enforces the highest professional qualifications and standards in the valuation, development and management of land, real estate, construction and infrastructure.

Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit over 130,000 professionals and any individual or firm registered with RICS is subject to our quality assurance.

Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our professionals are involved the same standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in valuation, land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

Question 1: Do you believe that IVSC should seek to harmonise valuation standards with other standards such as CUSPAP and USPAP? If so, please discuss why you think the harmonisation of valuation standards is necessary.

RICS Comment:

Yes, the harmonisation of standards will ensure consistency, transparency and confidence in valuations performed throughout the world, which ultimately serves the public interest.

Furthermore, RICS believes that, in addition to drawing on informed contributions from other key stakeholders, the International Valuation Standards (IVS) should continue to be developed by building on the experience and expertise of standard-setters worldwide, in order to support and advance the IVSC's primary objective of building confidence and public trust in valuation. Drawing on elements of respected standards such as CUSPAP and USPAP, as well as others, and promoting commonality in the understanding and use of valuation-specific defined terms, is an important part of that mission – it can be described either as harmonisation or convergence, but really involves the distillation of the best from the best worldwide, in order to achieve globally recognised, universally adopted principles and protocols.

Question 2: Do you believe that IVS should define the term Assignment? If so, please discuss why you think the additional definition is necessary.

Question 3: Do you believe that IVS should define the term Confidential? If so, please discuss why you think the additional definition is necessary.

Question 4: Do you believe that IVS should define the terms Client, Intended Use, Intended User, and Purpose? If so, please discuss why you think the additional definitions are necessary

RICS Comment:

This is a compendium answer covering each of Questions 2, 3 and 4.

It is essential to define terms which do not have the same meaning as that which they convey in the ordinary use of language or where more than one meaning is in common use and it is necessary to be precise about which meaning is relevant to the interpretation of valuation standards. Beyond that, some discretion may properly be exercised where there is a benefit in underlining or expanding on the everyday meaning - but that discretion should be exercised sparingly.

As both *client* and *purpose* are already defined terms in IVS 2017, it is assumed that they would appear as per the proposed wording in the Exposure Draft: the remaining terms would be new entries in the IVS Glossary and RICS has no difficulty in principle with their inclusion. It would however like to offer the following detailed observations:

- *Assignment*: Two points arise on this:
 - Firstly, IVS 101 paragraph 10.2 already refers to valuation assignments (which by and large have an equivalence with valuation engagements, the term used immediately above in paragraph 10.1) but, inter alia, distinguishes between assignments performed for

employers (sub-paragraph a)) and those performed for clients (sub-paragraph b)). If the client is redefined as per the Exposure Draft proposal, there would need to be some consequential amendments to IVS 101, but these consequential amendments are not addressed in the current Exposure Draft. However, such amendments would be necessary to ensure internal consistency within the IVS.

- Secondly, it is recognised that the term “appraiser” is preferred or prescribed in certain jurisdictions, and it is helpful for the IVS to recognise this, but there again needs to be internal consistency. This could be achieved by expanding the Glossary definition of *valuer* so that it is clear that valuer and appraiser are treated as equivalent terms. Having a mix of such terms will cause difficulties in the remainder of the IVS, which at present use the term valuer consistently throughout. This second point is also relevant to the definitions proposed below.
- *Client:*
 - Subject to the point about “appraiser” already raised, this revised definition does not cause any particular difficulties. It also usefully dispenses with the reference to “third party” in the current Glossary, which is a term which has different meanings in different jurisdictions.
- *Confidential information:*
 - This is a useful clarification of a term that would in principle be generally understood. In this instance the point already raised above about “appraiser” could be resolved simply by omitting the words “to an appraiser.”
- *Intended use:*
 - It is less obvious that this term requires explicit definition, as its meaning is pretty clear e.g. where it appears in IVS 103 paragraph 20.2. But no harm would be done by its inclusion in the IVS Glossary. Some caution might be needed about the limitation to “time of assignment”, unless this can be read as embracing changes to the scope of work during the course of assignment (see IVS 101 paragraph 30.1).
- *Intended user:*
 - Similar remarks apply as for “intended use” above.
- *Purpose:*
 - The wording is virtually identical to that already adopted, and RICS has no difficulty with the proposed small change. Specifically, in answer to Question 4, it is nevertheless difficult to see that the change is actually necessary.

Question 5: Should IVS change Section 50.1 to a “should”? If not, please provide your reasons.

RICS Comment:

No. RICS has some difficulty with the proposed change and does not consider that this is the correct way to address the problem. The IVS are formal standards, not aspirations, and clearly cannot be satisfied if valuations are undertaken by those with insufficient technical skills, experience and knowledge. In developing markets, it may be more difficult to demonstrate competence as there may be few, or even no, recognised qualifications or paths to qualification. The current wording of paragraph 50.1 in the IVS Framework does not exclude those who do not have formal qualifications - the wording of paragraph 30.1 (and the definition of “valuer” in the Glossary) might be thought to provide a greater hurdle, but they do not actually precede the word “qualifications” with either “formal” or “professional” or anything equivalent. In jurisdictions where no formal systems of training or qualification exist, adoption of IVS may still be proper provided competence in terms of skills, experience and knowledge can be demonstrated. But the challenge is better addressed by engaging with the relevant jurisdictional stakeholders – be they governments, regulators, VPOs (where they exist) or others – to agree the parameters within which IVS are content to see IVS adopted. A simple amendment to paragraph 50.1 of the IVS framework cannot resolve the issue.

Question 6: *Should IVS change Section 20.4 to state “Inputs provided to the valuer (e.g., by management/owners), should be considered, investigated and/or corroborated””? If not, please provide your reasons.*

RICS Comment:

RICS agrees that the use of the limitation “significant” is better dropped. But the second limb of paragraph 20.4 of IVS 102 should be kept consistent with the first in that inputs “should be considered” but the wording to follow should read “and as appropriate investigated and/or corroborated”. Not all inputs will be inherently questionable.

Question 7: *Must a report that is the result of an assignment involving the valuation of an asset or assets, in addition to the other requirements stated above, also convey the intended use? If not, please provide your reasoning.*

RICS Comment:

Yes, in RICS’s view, being clear about the intended use is essential and it has been an integral part of the RICS “Red Book” standards for its members for a considerable length of time. It is inextricably linked to the subject of liability, including limitations on liability. RICS is therefore in favour of the proposed addition to IVS 103.

Question 8: *Should IVS 2017 use the term ‘allocation of value’ or ‘apportionment of value’ or both?*

RICS Comment:

Yes, as both terms are in common use across a number of jurisdictions, it is helpful to recognise this. The wording of IVS 104 paragraph 220.1 would be better if it referred to “.attribution of the total sum reported to identified component elements” or words to that effect.

Question 9: *Should it be mandatory for the valuer to state the reason for the sum of the assets/components being greater or less than the whole as stated in 220.3? If not, please provide your reasoning.*

RICS Comment:

RICS believes this change would be justified where an allocation or apportionment is necessary. One always needs to be clear about the purpose of an allocation and any particular requirements concerning its outcome. For example, an apportionment of a total disposal sum may be required for taxation purposes and this might in some instances be based on an allocation on a pro-rata basis (i.e. the sum of the parts valued on an individual basis is less than the whole). This, and other possible examples, appear to be sufficiently covered by paragraph 220.3 as proposed.

Question 10: *Section 220.4 states that “If the value of the asset includes an element of assemblage value or portfolio premium/discount the valuer must report the overall value separately from the value of the individual assets or components.” Are there any instances where you feel that this is not the case, if so, please provide examples?*

RICS Comment:

Section 220.4 flows logically from Section 220.3 in instances where it applies, and it is important that the client, and any other valuation user, is clear about what is being reported.

Question 11: *Section 220 has been drafted to apply to all specialisms. Should additional Information be Included within the Assets Standards for Business Valuation, Financial Instruments or Tangible Assets? If yes, please provide examples of the initial information to be included.*

RICS Comment:

RICS does not believe that additional information is essential.

Question 12: *Do you think that IVS should include a section within the General Standards on Modelling for Valuation purposes? If not, please provide your reasoning.*

RICS Comment:

RICS believes that the proposed Section is a useful and indeed important addition, given the widespread adoption of valuation modelling in increasingly sophisticated forms.

Question 13: Do you believe that IVS should define the term valuation model? If so, please suggest a definition and discuss why you think the additional definition is necessary.

RICS Comment:

RICS believes that the wording of the proposed paragraph 90.1 covers the position, subject to the addition of the word “modes” at the end. What constitutes a “model” for valuation purposes is potentially rather subjective e.g. the difference between a sophisticated spreadsheet and a relatively simple algorithm-based calculator may be minimal.

Question 14: Do you believe that IVS should define the term valuation calculation? If so, please suggest a definition and discuss why you think the additional definition is necessary.

RICS Comment:

RICS does not believe a definition of valuation calculation is necessary – the meaning in the ordinary use of language is sufficiently clear.

Question 15: Section 90.2 states that “When using a valuation model the valuer must take responsibility for the output of valuation model....” Are there any instances where you feel that this is not the case, if so, please provide examples?

RICS Comment:

It is a fundamental principle of the IVS that a valuer takes responsibility for the value reported. Whilst it may be possible to place a high degree of reliance on a particular valuation output from a model, the adoption of that output – whether further refined or not – by the valuer adds the crucial element of assurance that the output is sound for the purpose for which it is supplied and that it satisfies the IVS requirements regarding objectivity (see IVS Framework Section 40).

Question 16: Section 90.2 also states that “When using a valuation model the valuer must.... keep appropriate records to support the selection of the model.” How long are you required to keep valuation records in the market(s) in which you operate? Please provide details of any relevant valuation record keeping legislation within the market(s) in which you operate.

RICS Comment:

The period for which records must be kept will be influenced by, and subject to, the requirements of the jurisdiction under which they are assembled. Relevant legislation is not normally restricted, or expressly, directed to valuation record keeping, but applies more widely.

Question 17: Do you agree with Section 80.3 [sic] that “when using a valuation model the valuer must take responsibility for the output of valuation model and keep appropriate records to support the selection of the model?” If not, please provide instances when this is not the case.

RICS Comment:

This duplicates Questions 15 and 16 - see answers above.

Question 18: Do you feel that additional valuation standards on valuation modelling are required within the Asset Standards (i.e. IVS 200 Business and Business Interests, IVS 400 Real Property Interests, IVS 500 Financial Instruments)? If so, please provide an indication of the proposed content and where within the IVS Asset Standards you think this additional content should be contained.

RICS Comment:

Yes, but these need to be developed with considerable thought and care in liaison with the Valuation Professional Organisations and other key stakeholders.

