17 September 2019

via email:
comments@ivsc.org

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

Dear Board Members:

Re: IVSC Financial Instruments Agenda Consultation 2019

RICS would like to thank the International Valuation Standards Council (IVSC) for their time and effort in preparing a consultation paper on the IVSC Financial Instruments Agenda Consultation 2019 (the ‘Consultation Document’) dated 7 August 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

David Park MA FRICS
Chair, RICS Global Valuation Standards Board

Copy:  RICS Global Valuation Standards Board
       RICS Valuation Professional Group Directorate
       David Tretton
       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.
Preamble

The valuation of financial instruments is an important topic and it can sometimes be a contentious issue among various stakeholders such as valuation practitioners, investors, auditors, regulators and the wider financial services industry. There are no or very little in terms of consistent valuation practice standards for financial instruments that have been generally accepted. Concerns have been expressed by financial regulators and auditors about the quality and consistency of financial instrument valuation practice. We believe the IVSC can address this gap by developing consistent valuation standards of financial instruments.

Within the valuation sector, RICS has over 25,000 valuation professionals in over 100 countries. Their expertise primarily covers valuations of real estate, machinery and equipment, intangible assets, and businesses. Some of the RICS professionals provide valuation services of financial instruments but for the most part RICS and its professionals do not have financial instrument expertise. However, when developing or revising valuation standards of financial instruments, the IVSC should take note when these standards could impinge on standards that could or may impact tangible assets (real estate and machinery & equipment), intangible assets and businesses/entities. Thus, the valuation standards of financial instruments should consider the standards of the other asset classes.

Finally, although various organisations provided insight and expertise to the initiative either through the original task force or subsequent working groups, it is vital for the IVSC to continue to engage with regulators, auditors as well as the standard setters to ensure that the IVSC financial instruments standards are ‘endorsed’ and ‘regulated including enforcement.’
Observations and Comments

Question 1: To what extent is the scope of revisions to IVS 500 as outlined above appropriate?

- The Consultation Document articulates the focus of the Financial Instruments (FI) Board as developing "a more comprehensive standard for the valuation of financial instruments." This is perfectly acceptable as a high-level statement, but a key point that must not be lost sight of is the opening sentence of the current IVS 500: "The principles contained in the General Standards apply to valuations of financial instruments." The IVS are intended to apply to all forms of asset (or liability) - see the IVS Introduction and also the IVS Glossary - and it is therefore important that the use of the phrase in the Consultation Document "a standard for the valuation of financial instruments" is not seen as implying something which is self-contained or, worse still, exclusive. There clearly will be characteristics of financial instruments that require additions or modifications to the "core" IVS. Those should however be seen as supplemental, just as they are for business, intangible asset and tangible asset valuations.

- On page 11, the second of the guiding principles refers to "process" but the IVS are also about the principles underlying valuation practice - an appropriate balance needs to be maintained between the two.

Question 2: Should IVS 500 keep the current definition of a financial instrument? If not, should the definition be removed or revised? If revised, what should the definition be?

- The Consultation Document states (Background: page 10) that "the FI Board views the IVS 2017 definition of a financial instrument as the basis for its review", taking the first sentence (only) of IVS 500 paragraph 20.1 as comprising the definition ("A financial instrument [is] a contract that creates rights or obligations between specified parties to receive or pay cash or other financial consideration"). Overall, we do not see a particular reason to amend it.

Question 3: When considering guidance on governance as it applies to financial instruments, to what extent should detail be provided on the areas outlined in the previous section: management and others' roles and responsibilities, segregation of duties, and valuation risk and escalations through the chain of command?

- On page 11, there is a passage on Governance which - inter alia - refers to segregation of duties, independence etc. and also risk "escalation through the chain of command", it is difficult to see why the basic principles and requirements for independence, objectivity and the avoidance of conflicts of interest should be materially different from those required in connection with the valuation of businesses, intangible or tangible assets. Intangible assets in particular might be cited as an example of where there will be many parallels with the valuation challenges relevant to financial instruments. This is not to say that there will not be specific issues relevant to financial instruments that will justify a specific focus, but again there is a feeling of something of an "inward looking" approach by the FI Board.
Question 4: When considering guidance on data as it applies to financial instruments, to what extent should IVS standards address measuring the quality of data, exercising judgement in the use of data, and producing valuations when insufficient data are available?

- Regarding data and data standards, again it is doubtful that the issues around financial instruments should be considered in isolation. Indeed, if one is thinking of a context such as valuations for financial reporting, one would expect data standards for all assets to meet certain common objectives and criteria, albeit there may again be some differentiation at the margins.

Question 5: When considering guidance on methods and models as it applies to financial instruments, to what extent should details be provided regarding how methods and models are selected, validated and risk managed? To what degree should the evolving market practices, such as XVAs, be addressed?

- Regarding use of methods and models, there is a lack of clarity as to whether the FI Board’s focus really is on standards - or at the very least, best practice - or on more descriptive material. It is doubtful that the IVS are the right place for consideration of “evolving market practices”, though an article or publication on them might well be very worthwhile - but is this really territory for IVSC itself?

We do not have specific responses for questions 6 through 9.