

International Valuation Standards Council (IVSC)

Consultation Paper

IVSC EXPOSURE DRAFTS FOR IVS 2017 OF 2nd June 2016

These observations relate to the sections of the International Valuation Standards (IVS) 2017 issued for consultation by IVSC on 2nd June 2016, namely:

IVS 101: Scope of work

IVS 102: Investigation and Compliance

IVS 103: Reporting

IVS 200: Business and Business Interests

IVS 300: Plant and Equipment

IVS 400: Real Property Interests

IVS 410: Development Property

IVS 500: Financial Instruments

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

Contact:

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Monday 29th August 2016

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Our Ref: BE/CD Aug 16

The Standards Board
International Valuation Standards Council
1 King Street,
London,
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Dear Sirs,

I am pleased to attach herewith the RICS's formal feedback on the IVSC Consultation Exposure Drafts for IVS 2017 of June 2016 covering:

IVS 101: Scope of work
IVS 102: Investigation and Compliance
IVS 103: Reporting
IVS 200: Business and Business Interests
IVS 300: Plant and Equipment
IVS 400: Real Property Interests
IVS 410: Development Property
IVS 500: Financial Instruments

We welcome the opportunity to comment on the exposure drafts and wish to complement the endeavours of the Standards Board in producing the documentation.

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.

RICS adopts the International Valuation Standards (IVS) 2013. 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:

- VPS1 – Minimum terms of engagement;
- VPS2 – Inspections and investigations;
- VPS3 – Valuation reports;
- VPS4 – Bases of value, assumptions and special assumptions.

More specifically the standards relating to compliance with standards and practice statements where a written valuation is provided and ethics, competency, objectivity and disclosures are set out in Professional Standards PS1 and PS2.

The global standards are accompanied by detailed national standards. For more information please visit <http://www.ricsvaluation.org/>

RICS OBSERVATIONS ON IVSC EXPOSURE DRAFTS FOR IVS 2017 OF 2nd June 2016

Preface

These observations relate to the sections of the International Valuation Standards (IVS) 2017 issued for consultation by IVSC on 2nd June 2016, namely:

IVS 101: Scope of work

IVS 102: Investigation and Compliance

IVS 103: Reporting

IVS 200: Business and Business Interests

IVS 300: Plant and Equipment

IVS 400: Real Property Interests

IVS 410: Development Property

IVS 500: Financial Instruments

Preface

Overall, RICS would again like to acknowledge the considerable effort that has gone into the process of review of IVS 2013 and the development of the current proposals for IVS 2017. Our responses to the questions expressly posed in the second batch of Exposure Drafts issued on 2 June 2016 are set out in detail below, together with some additional comments and suggestions. As for our observations on the first batch of Exposure Drafts, our comments necessarily focus on the points where revision or refinement is seen as desirable. This should not detract from the fact that – as a long term contributor to, and committed adopter of, IVS - RICS is strongly supportive of the continued development and refinement of international valuation standards.

Before turning to the individual drafts, we would again make the general point that IVSC's objective to focus IVS 2017 content on mandatory standards – removing information and guidance material - is welcomed. However, in some instances, noted in relation to the individual standards concerned, further editing is considered necessary to achieve this objective fully. Thus whilst the standards must be set in context, there is some material remaining which is more discursive. The clarity of the individual standards would be enhanced if the content was better differentiated, and there would also be less risk of misunderstanding or confusion for regulators, the Courts, advisors, clients and other stakeholders.

IVS 101: Scope of Work

Comments on specific questions posed

Qu (a): *Do you agree that it is the valuer's responsibility to communicate the scope of the assignment to all parties to the valuation engagement? If not, why?*

Yes, though this is only part of the picture. The valuer must always be clear about the scope of work and ensure that this is equally clear, well-defined and understood by the client, resolving any areas of doubt so far as possible before work commences, but if necessary doing so during the course of the valuation process, and in any event before a report is issued. Thus the communication must be two-way, and the emphasis must therefore be on mutual acceptance and agreement of the relevant terms of engagement (scope of work).

Qu (b): *Do you agree that a written scope of work for each valuation engagement is not always possible or necessary? If not, why?*

In the absence of a written agreement, it is much more difficult (and may not be possible) for the valuer to be sure that the scope of work is mutually agreed. This introduces a level of risk which may not be acceptable. As paragraph 10.2 recognises, the manner in which a scope of work is agreed may vary widely according to circumstances, for example through standing agreements/instructions or other “umbrella” arrangements, rather than on a case by case basis. Nevertheless such arrangements are normally in documented form. Having no written documentation, and hence no audit trail which in turn makes regulation virtually impossible, introduces a much higher level of risk to all parties which should be recognised and clearly reflected in the drafting of the standard. One of the greatest risks is that the advice might be used for a purpose or in a way for which it was not intended. Other, more elementary, risks might include ambiguity over the definition and extent of the asset eg in relation to intangible assets.

It would be particularly unfortunate if the standard were interpreted as encouraging a more relaxed approach at a time when consistency, transparency and accountability are becoming ever more important. For that reason, the drafting of paragraph 20.4 needs to be tightened so that non-documented agreements are the exception – even for “in-house work” – rather than the rule. If, as might flow naturally, reporting of the valuation advice is also in non-documented form, the risks are heightened.

Additional observations on IVS 101:

- It is noted that paragraph 10.2 (b) treats a client of a firm of valuers as a “third party”, at least for the purposes of IVS 101. It is important that the convention regarding the use of the term “third party” is clear throughout the IVS and avoids ambiguity. At present, the term “third party” is widely used in valuation (and similarly, in other business contexts) to mean “any party, other than the client, who may have an interest in the valuation or its outcome”. This need for clarification is vital as a duty of care may be owed by a valuer and/or a valuation firm to such parties eg to the shareholders of a publicly-listed company. The proposed IVS use of the term is not in accordance with the definition to be found in the Oxford English Dictionary.

IVS 102 Investigations and Compliance

Comments on specific questions posed

Qu (c): *Do you agree that a valuer must perform sufficient investigations and procedures to assess the appropriateness of all inputs and assumptions? If not, why?*

Stated simply, yes, but it is important to recognise that inputs provided by others (including, but not limited to, information supplied by a client) may cover a very broad spectrum, ranging from material from specialist/expert sub-contractors through to opinions or assumptions which may not be readily verifiable and/or not within the valuer’s particular area(s) of competence. This does not mean that it is necessarily

wrong to place reliance on, or have no confidence in those inputs (eg no objection would normally be raised to the careful and considered use of official statistics). The emphasis should be on whether investigations have been carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose. This includes matters that might, or should, be verified through physical inspection. Ultimately, how much investigation is appropriate in individual instances is a matter of professional judgement, and an area for guidance and regulation by the relevant Valuation Professional Organisations (VPOs) and other competent authorities. The views of the courts in relation to individual jurisdictions will also be material.

Qu (d): *Do you agree that significant limitations that impair a valuer's ability to assess the appropriateness of the inputs and assumptions should result in a valuation not being in compliance with IVS? If not, why?*

See the answer to Question (c) above. One might take the view that the valuer has still complied with IVS provided that, when reporting, the client's attention is expressly drawn to matters on which the valuer has had to place reliance, but which – if subsequently proved incorrect – would materially impact on the advice or opinion given. Again the question must always be whether investigations have been carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose with adequate time parameters incorporated to undertake the necessary investigations. .

IVS 103 Reporting

Comments on specific questions posed

Qu (e): *Do you agree with moving from a prescriptive to a principle-based reporting format? If not, why?*

It could be argued that the current version of IVS 103 incorporated in IVS 2013 is essentially principles-based, albeit that it includes additional material to that now proposed. In relaxing the reporting standard, IVSC is increasing the risk of valuation reports failing to satisfy, and potentially falling materially below, the growing expectations on the part of clients, regulators and other stakeholders concerning consistency, transparency, accountability and confidence. Whilst the precise form of report must always be proportionate to the task, the use of the term “abbreviated summary” in paragraph 10.3 is subjective (and also tautologous) – “concise” would be more consistent with the overriding objective. If the new IVS 103 is issued in this form, the RICS – no doubt along with other Valuation Professional Organisations – will need to consider issuing additional requirements for its members to safeguard the position both for valuation providers and for valuation users.

Qu (f): *Do you accept that a report can take any form providing it sets out a clear and accurate description of the scope of the assignment, its purpose and intended use and discloses of significant inputs assumptions? If not, why?*

It is not clear what is intended under paragraph 30.1 (a) when it refers to “the elements noted [sic] in paragraph 20.3 of IVS 101 Scope of Work to the extent that each is

applicable to the assignment” [our underlining]. It is difficult to see the consistency between the fact that IVS 101 **requires** these matters to be covered whilst IVS 103 does not, the discretion apparently allowed by paragraph 30.2 leaving a further element of doubt. Restrictions on use would be one example of where absolute clarity in the report itself would seem to be essential.

Additional observations on IVS 103

- The inclusion of the second sentence of paragraph 10.3 is undesirable. If the new IVS 103 is principles-based, then it is clearly intended to be of universal application. The “challenge” of complying with the standard, if the proposed form or format of report in any individual case is unlikely to embrace the principles sufficiently, is a matter for the valuer (and client) to address. It is not appropriate to write this into the standard itself.
- Paragraphs 20.2 and 20.3. It is unclear what the purpose of the differentiation is between a report being understandable to a client (paragraph 20.2) and separately to an “appropriately experienced valuation professional” (paragraph 20.3). Is the implication that paragraph 20.3 imposes a higher standard? If so, it would be helpful to have a fuller rationale, and explanation of exactly how this reconciles with the “abbreviated summary” (paragraph 10.3) envisaged as adequate in some cases.
- Paragraph 30.1. For the avoidance of doubt it is assumed that the wording “an asset or assets” in the first sentence is intended also to embrace liabilities wherever appropriate.

IVS 200: Businesses and business interests

Comments on specific questions posed

Qu (a): *In IVS 2013, all substantive portions of IVS 200 Business and Business Interests were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory.*

The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?

The Basis of Conclusions underlines that one of the key drivers in IVSC’s mind here is “to reduce diversity in valuation practice”. A broader articulation of this objective, which the RICS strongly supports, is to promote greater consistency and transparency in both valuation approach and reporting. It believes that the clarity of IVS 200 would be enhanced, and the IVSC’s objective more readily achieved, if there were greater differentiation between the (mandatory) matters that should be taken into account in all cases, and the supplemental “discussion” material, as the Introduction to this chapter itself describes it, which is clearly purely informative and/or advisory. For example, whilst material such as that included in Sections 50, 60 and 70 may be of assistance in less developed markets, it clearly does not have equal status with the material comprising the core part of the standard.

Qu (b): *The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of business and business interests regardless of the purpose of the valuation (acquisitions, mergers and sales of businesses, taxation, litigation, insolvency proceedings and financial reporting). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?*

In principle, a standard of this nature should be of wide application but care must always be exercised that any special features or requirements are observed. Thus the first sentence of paragraph 20.1 in the exposure draft underlines the fact that the definition of what constitutes a business is itself dependent on the exact purpose of the valuation.

Qu (c): *Are there any further topics or special considerations that you feel the Board should add or remove from IVS 200 Business and Business Interests? If so, what are they and what is your rationale?*

No further comments.

Additional observations on IVS 200

- Section 40 Valuation Approaches and Methods: The general statement at paragraph 40.1 is slightly contradicted by the (correct) statement in the first sentence of paragraph 70.1.
- Paragraph 60.3: The phrase at the end of the first sentence – “although the use of post-tax income is more common” – should be deleted, as it is not universally true. What should be emphasised is that tax must be considered whichever approach is adopted.
- Paragraph 60.11: The implication that EBITDA is only considered in these circumstances is misleading.
- Paragraph 100.1: “Must perform analysis” is both unclear and – in certain circumstances – may not be straightforward or indeed possible (see, inter alia, the comments under IVS 102 above).
- Paragraph 130.1: This needs to go on to say – or to acknowledge - that a straightforward allocation might be appropriate if valuing the entire business, but if valuing a class of share or individual holding in isolation, other factors such as marketability will require consideration.
- The omission of any IVSC standard in the adoption of Arm’s Length Price (ALP) in Transfer Pricing appears to be an area of omission. RICS would welcome the inclusion of ALP into IVS 200 or possibly consider it as a Basis of Value for inclusion in IVS 104 Basis of Value.

IVS 300: Plant and equipment

Comments on specific questions posed

Qu (a): *In IVS 2013, all substantive portions of IVS 220 Plant and Equipment were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure*

Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?

No - the general observation in response to Question (a) in relation to IVS 200 above is equally relevant here.

Qu (b): *The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of plant and equipment regardless of the purpose of the valuation (secured lending, sales of plant and equipment, taxation, litigation, insolvency proceedings and financial reporting etc.). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?*

The answer must necessarily be yes subject to complying with any requirements specific to a particular context. In particular, it is appropriate to recognise the reality of IFRS and US GAAP principles being the direction of travel for global commerce.

Qu (c): *Are there any further topics that you feel the Board should add or remove from IVS 300 Plant and Equipment? If so, what are they and what is your rationale?*

Flowing from the answer to question (b), greater and more resolved reference to the valuation of plant and equipment under IFRS, including the new lease accounting standards, should be considered.

Additional observations on IVS 300

- Paragraph 10.1: It would be more helpful to recognise that the standards apply to most fixed asset classes, including plant and equipment, bearing in mind that Property Plant & Equipment (PP&E) tends to be used as a single accounting category in balance sheets, and may often be advised upon in concert or tandem with real estate and/or business valuations.
- Paragraph 20.1:
 - Given the reference to “personal property”, it may be appropriate to retain the clarification currently contained in IVS 2013 IVS 220 paragraph C1.
 - Insert “usually” after third word on line two, otherwise it could be read as ignoring eg the sale of plant and equipment after foreclosure, distress etc. Indeed plant and equipment that may not be held currently for use accounts for a substantial global auction and sale market.
- Paragraph 20.3:
 - The second line should arguably also refer to its current usage relative to the highest and best use.
 - An explicit reference to “functional (and/or or physical and technological) obsolescence” as a relevant factor is also needed in this section.
 - A cautionary note should be sounded in relation to the reference in subparagraph c(1) to “potential earnings”, as it is unlikely to be a matter to be considered in isolation, but rather in a broader context eg of business valuation, possibly requiring the input of additional expertise .
 - The reference in the last line should be to “paragraph 20.6 below”

- Paragraph 20.6: This needs supplementing along the lines of: “In addition to functional obsolescence plant and equipment values may also need to reflect economic obsolescence in isolation, most likely as part of wider business valuation. The distinction between plant and equipment values arrived at on the assumption of an ongoing wider concern (deemed to be profitable) needs to be established at the outset, including whether the valuation is to be reported in conjunction or connection with or under a wider business and/or intangible assets valuation.”
- Paragraph 20.8:
 - The second sentence should be deleted. It would clearly not be reasonable to expect a specialist plant and equipment valuer to comment on matters where they are outside his or her expertise.
 - The reference in the first sentence should be to “paragraphs 20.4 to 20.7”
- Paragraph 20.9: Although the list is not intended to be comprehensive, it would be proper to insert “accounting, leasing” directly after “including”
- Paragraph 30.2:
 - There could be advantage in linking the references to orderly liquidation and forced liquidation back to the proposed new IVS 104 paragraph 80.1, with some further clarification about the context and use of the proposed new basis of “Liquidation Value”.
 - The last sentence should read “The value of most plant and equipment.....”
- Paragraph 40.1: This should read “...also apply to the valuation of plant and equipment.....”
- Paragraph 50.1: A market valuation does not automatically shift to cost or income just because data is poor. It is suggested that the existing text is deleted after the comma on the last line and replaced with: “care must be exercised in offering an income or cost approach opinion of value when available market data is poor or non-existent. This is because eg a valuation for secured lending or leasing is based on the premise of what an asset will realise *in the market* at the time of foreclosure/lease termination, and whilst income and/or cost may be related, the actual market value is what is required under the market approach (and by association, the lender/lessor).”
- After Paragraph 60.2 it is suggested that a new paragraph 60.3 is inserted: “Care must be exercised when plant and equipment is valued on an income approach, if all or part of the income also forms part of the wider enterprise and/or intangibles valuation.”
- Paragraph 70.1: Add a final sentence to clarify the matter regardless of jurisdiction: “In any event, adjustments made to any particular replacement cost should be designed to produce the same cost as the modern equivalent asset from an output and utility point of view”.
- Paragraph 70.2:
 - Sub-paragraph (b): This is very confusing. It would be sufficient to say: “Care must be taken when adopting a particular market participant’s own costings or profit margins, as they may not represent what other market participants might have paid.”
 - The section’s wording does not actually state that historical costs should be inflated. It is suggested that a line or section is added stating that: “Historical costs will need to be trended using appropriate indices.”

- Paragraphs 70.4 to 70.6: It is not clear why the cost-to-capacity method is given such prominence as it is just one of many ways of calculating cost. It is a very specific illustration of content within a standard clearly self-evidently not being mandatory, but with the risk that less expert readers may see the method as promoted above all others. On a rigorous view of what a standard should cover, these paragraphs would be better deleted.
- Sections 80 and 90: These paragraphs do not reflect the current position from the perspective of the new lease accounting standards. It is suggested that the sections are combined into one with the following changes incorporated:
 - “90.1 [*Retain existing text*]
 - 90.2 Insert “lease or” before “financing”. [*From a global perspective, the absolute statements in the second and third sentences are not helpful in that in many jurisdictions, leased assets can be and are sold without lessors being paid the balance outstanding*].
 - 90.3 Insert following additional text at end of first sentence after “lessee”: “, subject to the lease meeting certain conditions.” The following additional text after the second sentence will also help users: “In any event, prior to undertaking a valuation, the valuer should establish (in conjunction with client and/or advisors) whether assets are subject to operating lease, finance lease or loan, or other secured lending. The conclusion on this regard and wider purpose of the valuation will then dictate the appropriate basis and valuation methodology.”

IVS 400: Real property interests

Comments on specific questions posed

Qu (a): *In IVS 2013, all substantive portions of IVS 230 Real Property Interests were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?*

The IVSC Board’s objective is not reflected in the text. Thus paragraphs 50.1 to 50.4, 60.5 to 60.10 and 70.6 to 70.7, and 90.1 to 90.3 are mostly descriptions of “how to”, and the removal of the label “commentary” has not changed their character or status. Whilst this illustrative material may be seen as helpful in some markets, it cannot be treated as itself comprising a mandatory standard. Indeed there is a risk that less experienced/non-specialist readers will see the IVS as circumscribing their actions.

Qu (b): *Do you agree with Section 20.5, which states it is the valuer’s responsibility to state the extent of the investigation and source of the information to be relied on? If not, why not?*

The text needs to be tied back to IVS 102. Clearly each asset class will bring different considerations into play. The general principles covering a valuer’s responsibilities should be covered in IVS 102. IVS 400 should simply supplement that by drawing attention to matters specific to real property interests that should not be overlooked.

Despite the drafting of the currently proposed text, it is not necessarily the valuer's responsibility to assign responsibility eg for the identification of potential environmental risks. Instead, the focus should be on the (reasonable) limitations on the valuer's own investigations, coupled with the highlighting of where risks may arise, rather than the determination of who may be best placed to assess them.

Qu (c): *The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of real property interests regardless of the purpose of the valuation (secured lending, sales of real property, taxation, litigation, insolvency proceedings and financial reporting. etc). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?*

The standard is sufficiently general to have wide application. IVSC will recognise that in a limited number of cases there will be statutory, regulatory or other authoritative requirements that set out specific parameters in the particular jurisdictional context – compliance with such requirements is already adequately acknowledged in the new draft IVS Introduction and Framework at Section 60.

Qu (d): *Are there any further topics that you feel the Board should add or remove from IVS 400 Real Property Interests? If so, what are they and what is your rationale?*

No further comments.

Additional observations on IVS 400

- Paragraph 20.4: The reference in line 2 should be to “paragraph 20.3(d)”
- Paragraph 20.5: The reference in line 2 should be to “paragraph 20.3 (i) and (j)”
- Paragraph 30.2: The wording of the first sentence could be improved. Correct identification of the asset ranks equal in importance to definition or clarification of the purpose of the valuation and, associated with that, the adoption of the appropriate basis of value.
- Paragraph 90.4 might with advantage be moved up to precede paragraph 20.1

IVS 410: Development property

Comments on specific questions posed

Qu (a): *In IVS 2013, all substantive portions of IVS 233 Investment Property Under Construction were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?*

Again the consequence of removing the “Commentary” label without any differentiation across the text in terms of its status is to submerge the key points in arguably questionable detail. In particular much of the section devoted to the “residual method” is purely descriptive or discursive in nature. There is also some inconsistency between the use of the terms “must” (see paragraph 30.1) and “should” (see paragraph 20.3), the

latter more generally underlining the fact that it is not possible to make the whole of the content mandatory.

Qu (b): *The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of both commercial and residential development property regardless of the purpose of the valuation (ie. establishing whether proposed projects are economically viable, loan security, acquisition, taxation, litigation, financial reporting etc.). Do you agree? If not, for what purpose(s) do you not believe this standard can be applied? Why?*

The RICS would suggest that the emphasis is on its application to real estate interests – since commercial and residential are not exhaustive descriptions or categories – for which it believes that the mandatory elements would have wide application. Possible exceptions could include (i) valuations for statutory purposes, where in individual jurisdictions there may be specific statutory or regulatory requirements that need to be factored in, and (ii) entity specific valuations, where an entity wishes to establish the feasibility of a project having regard to its own criteria rather than those of the general body of market participants.

Qu (c): *Are there any further topics that you feel the Board should add or remove from IVS 410 Development Property? If so, what are they and what is your rationale?*

It is noted that the draft omits many of the deliberations and recommendations from a consultative group between 2012 and 2014 established to consider with IVSC a number of aspects of earlier material on the valuation of investment property under construction and development property. It is not clear whether IVSC intends to bring forward more of this work in further exposure drafts.

Additional observations on IVS 410

- Paragraph 20.1: The first sentence should be deleted for two reasons:
 - it does not automatically follow that existing use value is below market value – whilst commonly true, it is not a pre-condition for development to be considered, initiated or completed (on the last point, see paragraph 30.4)
 - the definition, or rather, specific use of the term “development property” for the purpose of the standard is contained in the second sentence
- Paragraph 20.6: It is noted that the phrase “material uncertainty” is retained in this draft whereas the Basis of Conclusion for the draft new IVS 103 indicates IVSC’s intention to replace it with “significant uncertainty”.
- Paragraph 30.1: Generally this would be market value, but in particular cases another basis may be appropriate though the rationale must always be clear.
- Paragraph 30.2: Rather than stating that significant assumptions and special assumptions should be “communicated to all parties to the valuation engagement” – which is somewhat vague – the requirement should be that such matters are agreed and confirmed in the scope of work. Particular care may also be required where reliance may be placed by third parties (in the Oxford English Dictionary sense) on the valuation outcome.

- Paragraph 40.1: It is presumed the intention was to refer to the residual “method” (see paragraph 60.2) rather than the residual “approach”, and in any event the market consensus would not be to regard this as a “hybrid” of all three approaches. At its heart is the need to determine various income-related parameters.
- Paragraph 90.9: “Value on completion” would be better than “gross development value” as it is clearer – if the latter is to be used it would need to be defined.
- Paragraph 90.30: In the first line, “ie” should be substituted for “or”

IVS 500: Financial Instruments

Comments on specific questions posed

Qu (a): *In IVS 2013, all substantive portions of IVS 500 Financial Instruments were labelled as “commentary” (except for scope and effective date). This label seems to have created some confusion amongst stakeholders as to whether the standard was mandatory. The Board’s position is that all aspects of IVS 2017 should be mandatory and this Exposure Draft has removed the “commentary” label for clarity. Do you agree with the removal of the commentary label?*

The particular phrasing of this question is less applicable here, as IVSC intend this content only to be an “interim” or “placeholder” document pending review by the Financial Instrument Task Force. Additionally it cross-refers to earlier IVSC guidance issued as “Credit and Debit Valuation Adjustments”, placing additional emphasis on the fact that this is not intended to carry the same weight as the remaining elements of the current set of Exposure Drafts. It is suggested that IVSC either mark this more prominently as an interim standard which may be adopted but is not yet mandatory, or defer its release until a later date.

Qu (b): *The Board believes that the standard presented in this Exposure Draft can be applied in the valuation of financial instruments regardless of the purpose of the valuation (acquisitions, mergers and sales of businesses or parts of businesses, financial reporting, regulatory requirements, internal risk and compliance procedures and regulatory requirements). Do you agree? If not, for what purpose(s) do you believe this standard cannot be applied? Why?*

See response under Question (a) immediately above. This is a matter for further consideration by the Financial Instrument Task Force.

Qu (c): *Are there any further topics that you feel the Board should add or remove from IVS 500 Financial Instruments? If so, what are they and what is your rationale?*

See response under Question (a) immediately above. This is a matter for further consideration by the Financial Instrument Task Force.

Additional observations on IVS 500

Paragraph 20.7 (b): It is noted that the phrase “material uncertainty” is retained in this draft whereas the Basis of Conclusion for the draft new IVS 103 indicates IVSC’s intention to replace it with “significant uncertainty”.

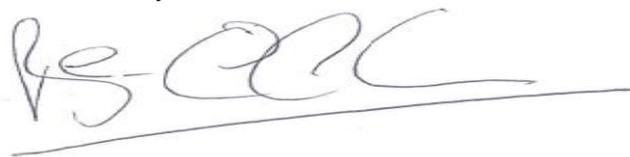
Paragraph 60.3: In the penultimate line it is presumed the intention was to refer to “the cash flows” and not “the tax flows”

Conclusion:

In the light of the significant number of comments received in relation to Part 1 of the IVS’s public consultation and an anticipated similar response volume to Part 2, RICS would encourage the Standards Board to consider a second public consultation to allow proper and appropriate consideration of the full version of this very important document before publication.

Thank you again for the opportunity to comment on the draft documentation

Yours faithfully

A handwritten signature in black ink, appearing to read 'Ben Elder', written over a horizontal line.

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