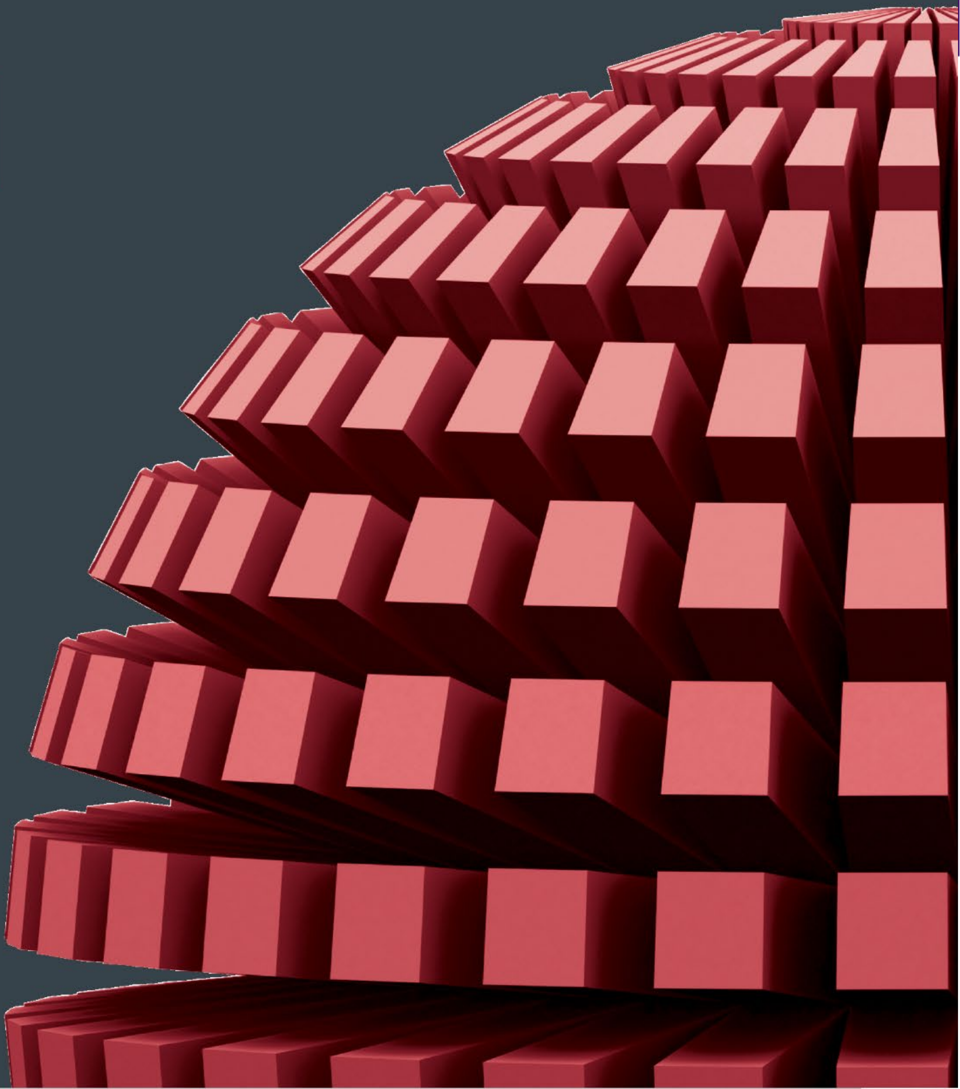
RED BOOK GLOBAL STANDARDS



RICS Valuation – Global Standards

Basis for Conclusions

November 2021

RICS®

Purpose

This document has been prepared to accompany publication of *RICS Valuation – Global Standards* effective from 31 January 2022, commonly known as RICS Red Book Global Standards, in order to explain the refinements made as a result of the public consultation that closed on 8 November 2021. These refinements relate purely to the text in Parts 1 to 5 of Red Book Global Standards. Part 6 reproduces the text of the International Valuation Standards also effective from 31 January 2022, which were the subject of a separate consultation by the International Valuation Standards Council (IVSC), and published by IVSC on 30 July 2021.

It is emphasised that this document has been produced purely to assist the reader and does not form part of the standards.

RICS Standards and Professional Development

November 2021

Overview

The main reason for issuing an update to Red Book Global Standards is to take account of the changes to the International Valuation Standards (IVS), which Red Book Global Standards adopts and applies, effective from 31 January 2022. However, the opportunity has been taken to make some other changes and refinements to Red Book Global Standards in the light of experience and developments since the current edition was first issued.

The rationale for the IVS changes has already been set out in a comprehensive document issued by the IVSC and need not be repeated here. The public consultation for the RICS-initiated changes opened on 27 September and closed on 8 November 2021. RICS is grateful to all those who responded. Comments on the individual Red Book Global Standards sections follow below.

There were 19 written responses to the online consultation to consider proposed changes to Red Book Global Standards. These included detailed commentary from 12 respondents. Responses were mainly from UK stakeholders, though some were also received from those active in Europe, Africa and the Middle East. Though some respondents were anonymous, those who stated their firm were from a range of company sizes and business purposes, the majority being valuers. Valuers who responded were active in residential, commercial and public sector markets and worked for a range of firm sizes from SMEs to multidisciplinary international firms.

Commentary is set out below referencing those sections commented on by respondents. Any further changes agreed from the draft version to reflect responses have been detailed below. Where a suggested change is not considered appropriate, a response and alternative next steps are provided. All changes have been referred to and agreed by the RICS Valuation Standards – Expert Working Group and approved by RICS Standards and Regulation Board following a full public consultation. RICS thanks all contributors to the consultation. **A schedule of agreed changes to be effective from 31 January 2022 is also included in Appendix A to this document**.

Introduction

Commentary was made by three respondents seeking clarity around the relationship between Red Book Global Standards and IVS. Red Book Global Standards as drafted sets out the requirements for its application and that of IVS, but it is agreed that a communication exercise may be required to promote these standards.

The consultation responses did suggest an understanding of the need to apply Red Book Global Standards (as opposed to only referring to national standards), however there was some requested clarification around the application of IVS. Given this is principally a communication issue, it is concluded that that most appropriate way of doing this is through web content on the page where the Red Book Global Standards is hosted (including a Q&A) and in further communication through various RICS social media and web channels.

In an extension of the IVS relationship commentary, two respondents sought clarity around the mandatory nature of IVS requirements and how these squared with mandatory RICS Red Book Global Standards. They also asked what due process was undertaken around the adoption of IVS into Red Book Global Standards. It has been concluded that this should form part of the communication exercise cited above.

Glossary

One respondent sought a definition of 'service potential' within the glossary. The glossary is there to define terms that include 'a special or restricted meaning' but given the scope of Red Book Global Standards, such terms must be global in their understanding and application. It is not possible for all technical and other terms to be defined in the glossary. Furthermore, the term 'service potential' itself is understood to have differing meanings dependent on the application (including differences in use between geographies).

It is understood the respondent was referring to the term with reference to UK public sector valuation and financial reporting. RICS is undertaking a number of workstreams in this area (covering Existing Use Value and IFRS 16) and it is felt that these might be the best place to take forward a definition at this time.

PS 1

Two of the consultation respondents queried how the new requirements at PS 1 4.6 worked in conjunction with the current standard at 6.3.

[4.6] 'Departures from the IVS to comply with legislative and regulatory requirements that are in conflict with the standards are allowed. In such circumstances, a valuer may still state that the valuation has been performed in accordance with the IVS.'

[6.3] 'If the valuation falls to be provided in compliance with prescribed statutory or legal procedures or other authoritative requirements then provided those requirements are mandatory in the particular context or jurisdiction, compliance does not by itself constitute a departure – though the requirement to do so must be made clear.'

They asked whether the valuer could rely only on the proposed 4.6 or whether they also had to explain how the 'authoritative requirement' differs from Red Book Global Standards as well. They also queried whether the 4.6 addition was even needed further to the proposed addition to 6.5: 'The circumstances in which a valuer can make a departure from the IVS are as described in Section 60 of the IVS Framework'.

Red Book Global Standards effectively ask the valuer to make clear where an authoritative requirement has meant an international standard cannot be complied with and where there has been a departure. No change is agreed further to the responses received in respect of the above paragraphs.

PS 1 section 5 / VPS 1

Proposed amendments and additions to the section covering **exceptions** to VPS 1-5 at PS 1 section 5 were commented on by three respondents. Two thought the proposed addition to 5.5 covering the role of the valuer at various stages of a valuation where exceptions may or may not apply would better be included at VPS 1. An addition has been made post consultation as it has been agreed that the proposed exceptions coverage should indeed cross reference with VPS 1, given it covers valuation instructions. The following has been added to VPS 1 3.2 (f): 'PS1 section 5 is mandatory in cases where the purpose of valuation is a named exception. However, in these cases as a matter of good practice VPS 1-5 should be followed where not precluded by the specific requirement or context.'

A third respondent asked whether examples might be given of the use of the terms 'quasi–Red Book' or 'partial Red Book' – or even 'non-Red Book' referred to at the new PS 1 paragraph 5.7. The intention of including such terms in the update was to demonstrate that the consideration of whether a valuation is undertaken in accordance with Red Book Global Standards is a binary one. To clarify this the following has been added post consultation to the start of 5.7: 'Valuations are either compliant with Red Book Global Standards or not.' The glossary definition of valuation has also been amended post-consultation to reflect Red Book Global Standards requirements; a number of respondents thought this should be clear and clarified early on within the standards, which is agreed.

VPS 2

One respondent in response to the amendment at 3.3 asked whether valuers could use their professional judgement when they 'collect and record appropriate and sufficient sustainability and ESG data for the valuation assignment'. The intention of the proposed draft was that the use of professional judgement was implicit in the statement. To make this clearer, 'for the valuation assignment' has been amended to 'that could impact value' post consultation.

A further respondent queried the wording currently included in 2.3 around considering whether sustainability [and ESG] 'factors that could affect the valuation. are likely to have altered'. It is agreed that this wording could be clearer and has been updated to the following: 'The valuer must also consider any sustainability and ESG factors that could affect the valuation'.

VPS 4

One respondent suggested changes to VPS 4 to reflect clarifications around valuation for financial reporting. These have been picked up in the commentary related to VPGA 1 below.

Part 5: Valuation Applications

VPGA 1

Five respondents provided detailed commentary related to the proposed changes to VPGA 1 (Financial Reporting). Two thought the coverage related to IFRS 13 and 16 was limited and therefore could cause issues of misunderstanding without further context. Notwithstanding this, they also felt the coverage was 'premature' and did not see the relevance to valuers at this stage. The other two responses sought enhanced and increased coverage, including in relation to IFRS. It is understood that the intention of each respondent was to achieve greater clarity around the role of the valuer in providing financial reporting valuations, including in respect of the interface with other international standards (and bases). The following additional substantial amendments to Red Book Global Standards have been agreed to promote clarity:

At VPGA 1.2, following on from 'clients have adopted', an additional sentence has been included: 'along with referencing the full definition of the relevant corresponding basis of valuation in reporting'.

Under the heading 'Terms of engagement', it has been agreed to add an additional paragraph (5.9): 'It is the responsibility of the valuer to discuss and agree with their client and include within the terms of engagement, full details of the accounting standards to be adopted in the valuation, and to include the full definition of the basis of value including reference of the basis of value definition (e.g. IFRS 13 or FRS 102 etc), along with details of the accounting standard body whose definition has been applied'.

Under the heading 'Reports', it has been agreed to add an additional paragraph (5.18): 'It is the responsibility of the valuer to include within the valuation reporting, full details of the accounting standards to be adopted in the valuation, and to include the full definition of the basis of value including reference of the basis of value definition (e.g. IFRS 13 or FRS 102, etc.) along with details of the accounting standard body whose definition has been applied'. Where appropriate, the valuer should also clearly state whether the basis of value adopted is considered to be consistent with the basis of market value and identify if the specific application of the accounting basis of value definition leads to different values.'

It has been agreed to add an additional paragraph (5.19) under 'Reports': 'Valuers should be familiar with the measurement requirements of the relevant accounting standards to which they are applying their opinion of value. It is also important that the valuer clearly identifies within the valuation report, the client's classification of the asset(s) being valued along with reference to the corresponding accounting standard.'

VPGA 4

One respondent felt that there 'continues to be confusion by clients/readers of valuation reports that are prepared on the basis of a fully fitted operational asset between the value of a physical property and the value of a business where the property is valued using the profits method'. This was felt to particularly be the case in relation to financial reporting valuations. Amendments to VPGA 1 set out above are hoped to clarify aspects of that valuation purpose. Communication with client stakeholders outside Red Book Global Standards on this issue is felt to be the best way of addressing the specific point raised.

Another respondent felt that the proposed IVS 230 inventory reference was out of place and could cause confusion. 'Trade inventory' as referred to within VPGA 4 is used in a different context. Further to reviewing the respondent's comments the IVS 230 reference has now been removed.

There were no other comments related to VPGA 4, although further to stakeholder engagement on the valuation of data centres, this asset class has now been removed as an example in paragraph 1.4.

VPGA 8

Changes to VPGA 8 were among the most supported but also the most commented on, and in some cases criticised. Overall, the changes were welcomed, and it was recognised that issues related to sustainability and ESG had increased in the public, client and professional mindset since the previous Red Book Global Standards edition. Two respondents were concerned about the addition of 'ESG' wherever 'sustainability' was already referenced in Red Book Global Standards. They felt this was indiscriminate and did not consider the potential differences in the meaning of the two terms – emphasising that ESG considers social and governance issues as well as environmental. These respondents also did not consider the change of the heading 'environmental matters' at 2.6 to 'Sustainability and environmental, social and governance (ESG)' was appropriate given that the following section principally relates to physical environmental risks. A further comment from these respondents was that requirements for a valuer to consider sustainability issues expressed throughout 2.6 potentially conflicted with the necessity for appropriate levels of expertise set out in the introduction to this section.

Other respondents welcomed the adoption of the term 'ESG' as the more relevant terminology for their work, indeed questioning the use of the term 'sustainability'. There was disagreement in responses as to whether one was a synonym for the other, though it was noted that the Red Book Global Standards definition of sustainability went beyond environmental matters, essentially covering all of the aspects of ESG. One respondent felt that it was incorrect to suggest (in the glossary) that there wasn't a universal definition of sustainability – referring to the 1987, United Nations Brundtland Commission, which defined sustainability as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'.

Given the crossroads that the issues of sustainability and ESG are at in terms of market understanding and professional application, it is very difficult to balance the need for continuity with a visible direction towards more extensive coverage and revised terminology (for some stakeholders). Proposed changes to this edition seek to provide continuity and address recognised challenges. This is an area of ongoing evolution and is expected to be revisited in future editions. The pending RICS guidance note *Sustainability and ESG in commercial property valuation and strategic advice* (December 2021) is intended to address some of the issues. The suggested reference to this guidance in the Red Book Global Standards update has been removed as the guidance will not yet have been published. Reference to the now outdated 2013 guidance has also been removed.

To address some of the concerns raised in the consultation in respect of VPGA 8, the following changes have been agreed. The introduction to 2.6 will now include the sentence ‘There may also be sustainability and ESG factors beyond the directly physical, such as carbon emissions’. Further to the related suggestion of one respondent who felt rating schemes were of increasing importance, the following has been added to 2.6 (c) (iv): ‘Where available, this might include details of rating schemes related to the asset.’

‘Such valuations may also be the principal place to consider the ‘social’ and ‘governance’ aspects of ESG.’ has been added to the valuations on the basis of investment value commentary at 2.6 (c) (vi).

Other

One respondent asked whether links to related sections in IVS could be cross referenced with embedded hyper-links in Red Book Global Standards. RICS will review this for application in a future edition, along with other digital improvements to aid accessibility and referencing.

One respondent was of the opinion that an item in the defined ‘hierarchy of evidence’ previously included in a valuation information paper related to comparable evidence should be introduced to Red Book Global Standards or the guidance note *Comparable evidence in real estate valuation* (1st edition, October 2019). The respondent felt that the statement ‘where the subject property, or one very similar to it, has been marketed and, although offers may have been made, a binding contract has not been entered; this assumes that full and accurate information is available concerning the offers received’ should be reintroduced towards the the top of a hierarchy of evidence, suggesting that ‘deals subject to contract are (potentially) the best evidence’.

RICS will consider the current comparable evidence guidance note in light of its 2019 publication date. It has been noted in the development and application of this guidance that when viewed on a global basis in respect of all valuation purposes and asset types, a hierarchy of evidence is perhaps less defined, hence the more general headings at 4.6 of the 2019 guidance. Any decision on amending the hierarchy of evidence would be subject to the aforementioned review, as well as public engagement and consultation.

Appendix A – Schedule of agreed changes to RICS Red Book Global Standards effective 31/1/22

Red Book Global: Proposed additions and updates for 2022

The material below is selectively extracted from *RICS Valuation – Global Standards effective from 31 January 2020* (Red Book Global Standards), showing proposed additions and updates to take effect from 31 January 2022 highlighted in yellow, with further post consultation changes highlighted in turquoise.

Title page

Effective from 31 January 2022

Preface

This updated global edition of the *RICS Valuation – Global Standards*, or the RICS 'Red Book Global Standards' as it has become widely known, reflects, among other things, the recent changes made and incorporated into the *International Valuation Standards* (IVS), as well as continuing progress in the development of international standards for ethics and for measurement. Other refinements include, but are not limited to:

- articulating in more detail the need for clear, unambiguous and documented terms of engagement when members apply any exceptions to VPS 1-5 under **PS 1 section 5**, *Exceptions*
- definitions and additional commentary on matters relating to sustainability/resilience and environmental, social and governance (ESG) in the Glossary, VPS 2, VPS3, VPGA 2, *Secured lending* and VPGA 8, *Valuation of real property interests*
- improving and/or clarifying some of the existing Red Book Global Standards text in the light of feedback, experience and evolving needs.

Part 1: Introduction

3 With its focus on practical implementation, this updated edition of the *RICS Valuation – Global Standards*, commonly referred to as the RICS Red Book Global Standards, applies the latest international standards and supplements them with additional requirements and best practice guidance that, when combined, provide the highest levels of assurance to promote and maintain public trust in valuation professionalism and quality.

At its heart this volume adopts and applies the *International Valuation Standards* (IVS) published by the International Valuation Standards Council (IVSC). The IVS consist of mandatory requirements that *must* be followed in order to state that a *valuation* was performed in compliance with it. Some aspects of the standards do not direct or mandate any particular course of action, but provide fundamental principles and concepts that must be considered in undertaking a *valuation*.

Effective date, duration and amendments to the International Valuation Standards

26 The International Valuation Standards reproduced with kind permission from IVSC in full in Part 6 are those approved by the IVSC Standards Board with an effective date of 31 January 2022.

Part 2: Glossary

basis of value – A statement of the fundamental measurement *assumptions* of a *valuation*. In some jurisdictions, the basis of value is also known as the 'standard of value'.

environmental, social and governance (ESG) – 'The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company on its financial performance and operations. ESG comprises three pillars: environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.' IVS 2020 Agenda Consultation (p14)

Although ESG principally refers to companies and investors, ESG-related factors are also used to describe the characteristics and, where relevant, operation of individual assets. It is used throughout these standards in this context.

sustainability – *Sustainability* is, for the purpose of these standards, taken to mean the consideration of matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and corporate responsibility that can or do impact on the *valuation* of an asset. In broad terms, it is a desire to carry out activities without depleting resources or having harmful impacts.
There is as yet no universally recognised and globally adopted definition of *sustainability*. Therefore, *members* should exercise caution over the use of the term without additional appropriate explanation. In some jurisdictions, the term 'resilience' is being adopted to replace the term 'sustainability' when related to property assets.

Sustainability may also be a factor in environmental, social and governance (ESG) considerations.

valuation - An opinion of the value of an asset or liability on a stated basis, at a specified date. If supplied in written form, all valuation advice given by members is subject to at least some of the requirements of the Red Book Global Standards – there are no exemptions (PS 1 paragraph 1.1). Unless limitations are agreed in the terms of engagement, a valuation will be provided after an inspection, and any further investigations and enquiries that are appropriate, having regard to the nature of the asset and the purpose of the valuation.

PS 1 Compliance with standards where a written valuation is provided

4 Compliance with jurisdictional or other valuation standards

4.6 Departures from the IVS to comply with legislative and regulatory requirements that are in conflict with the standards are allowed. In such circumstances, a valuer may still state that the valuation has been performed in accordance with the IVS.

5 VPS 1–5 exceptions

5.5 The circumstances in which valuers are instructed to provide valuation reports and advice vary widely and may, in some cases, take several years to reach a conclusion. During this time, the instruction may be significantly amended – resulting in an instruction that began as an 'exception' ceasing to be so. Valuers should always focus on the actual task in hand at a specific point in the valuation process. If a valuer's role changes during this process, it is imperative that their actions are transparent, the application of Red Book Global Standards at any given point in time is fully documented and the client is made aware of any change to the valuer's role or undertaking.

5.6 Even though the content of VPS 1 may not be mandatory in 'exception' cases, it cannot be too strongly emphasised that terms of engagement are still required and that they must be clear, unambiguous and appropriately documented (PS 2 section 7 paragraphs 7.3 and 7.4). This is as much in the interests of the valuer as of the client, as it ensures that there is no ambiguity about what is being requested and what is being supplied.

5.7 Valuations are either compliant with Red Book Global Standards or not. Terms such as 'quasi–Red Book' or 'partial Red Book' – or even 'non-Red Book' – must not be used in terms of engagement or reporting. Any appropriate exceptions to VPS 1–5 should be explicitly stated and explained in the terms of engagement and valuation report.

6 Departures

6.5 The circumstances in which a valuer can make a departure from the IVS are as described in Section 60 of the IVS Framework.

PS 2 Ethics, competency, objectivity, and disclosures

2. Member qualification

2.1 Members and firms must ensure that services are provided by competent individuals who have the necessary expertise. The test of whether an individual is appropriately qualified to accept responsibility for, or supervise the inputs into, a *valuation* involves satisfying the following criteria:

VPS 1 Terms of engagement (scope of work)

3 Terms of engagement (scope of work)

3.2

f) Purpose of the valuation

The purpose for which the valuation assignment is being prepared must be clearly identified and stated as it is important that valuation advice is not used out of context or for purposes for which it is not intended.

The purpose of the valuation will also typically influence or determine the basis(es) of value to be used.

Where the purpose of valuation is a named exception (see PS1 section 5), as a matter of good practice VPS 1-5 should be followed – where not precluded by the specific requirement or context.

Implementation

1 If the client declines to reveal the purpose of the valuation, valuers should be aware that it may be difficult to comply with all aspects of these global standards. If the valuer is willing to proceed with the valuation, the client must be advised in writing that this omission will be referred to in the report. In this case the report must not be published or disclosed to third parties.

2 If an unusually qualified valuation is to be provided, the terms of engagement must state that it is not to be used for any purpose other than that originally agreed with the client.

VPS 2 Inspection

1.5 VPGA 8 provides detailed commentary on matters evident or to be considered during inspection of real estate, including those matters that fall within the general heading of 'sustainability and ESG matters'. Such factors are commonly important in terms of market and societal perception and influence, and valuers should have proper regard to their relevance and significance in relation to individual valuation assignments.

2.3 The valuer must obtain from the client information of current or anticipated changes in rental and other relevant income from investment properties, and any material changes to the non-physical attributes of each property, such as other lease terms, planning consents, statutory notices and so on. The valuer must also consider any sustainability and ESG factors that could affect the valuation.

3.3 Valuers should collect and record appropriate and sufficient sustainability and ESG data for the valuation.

VPS 3 Reporting

2.2 (l) 3 In the case of assets or liabilities that are interests in real estate, attention is drawn to VPS 2 paragraph 1.5 and the fact that, wherever appropriate, the relevance and significance of sustainability and ESG matters should form an integral part of the valuation approach and reasoning supporting the reported figure.

VPS 4 Bases of value, assumptions and special assumptions

1 Bases of value

The valuer must ensure that the *basis of value* adopted is appropriate for, and consist ent with, the purpose of the *valuation*.
If one of the *bases of value* defined in these global standards (including IVS-defined bases) is used, then it should be applied in accordance with the relevant definition and guidance, including the adoption of any *assumptions* or *special assumptions* that are appropriate.
If a *basis of value* not defined in these global standards (including IVS-defined bases) is used, it must be clearly defined and stated in the report, which must also draw attention to the fact that it is a departure if use of the basis in the particular valuation assignment is voluntary and not mandatory.
A valuer can only depart from the IVS as described in section 60 of the IVS Framework.

Part 5: Valuation applications

Introduction

Members are expressly reminded that the IVS include the following IVS Asset Standards, the full text of which is reproduced in Part 6 of these global standards:

- IVS 200 Businesses and Business Interests
- IVS 210 Intangible Assets
- IVS 220 Non-Financial Liabilities
- IVS 230 Inventory
- IVS 300 Plant and Equipment
- IVS 400 Real Property Interests
- IVS 410 Development Property
- IVS 500 Financial Instruments

VPGA 1: Valuation for inclusion in financial statements

1.2 Valuations for inclusion in financial statements require particular care as they must comply strictly with the applicable financial reporting standards adopted by the entity. Valuers are strongly advised to clarify at the outset which standards their clients have adopted along with referencing the full definition of the relevant corresponding basis of value in reporting.

2.2 In March 2021, the International Accounting Standards Board published the exposure draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. The exposure draft sets out a proposed new approach to developing and drafting disclosure requirements in IFRS standards, as well as new disclosure requirements for IFRS 13 *Fair Value Measurement*. From the valuation community perspective, the most noteworthy potential change is the expectation or requirement that information will be provided to clients as a matter of course on what are described as 'reasonably possible alternative fair value measurements', to reflect any uncertainty that may exist regarding the significant inputs used to determine fair value.

2.3 IFRS 16 *Leases*, introduced in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Terms of engagement

5.7 It is especially important in the context of financial reporting that there are terms of engagement which are clear (PS 2 section 7), leaving no areas of doubt as to what the member undertakes to do, however comprehensive or otherwise the valuation assignment will be, including the manner in which the valuation opinion will be reproduced (see VPS 3 section 2 j) paragraphs 2 to 14). Members are reminded that any changes to the scope of work that are subsequently agreed or necessitated are to be brought to the client's attention and appropriately documented prior to the issue of the valuation report (see VPS 1 section 1 paragraph 1.6).

5.8 In addition to the comprehensive list of matters set out in VPS 1, it is important to ensure that the responsibilities of the client, insofar as they impact on the fulfilment of the valuation assignment and on the valuation opinion, are set out clearly – this will include, but is not necessarily confined to, specifying the nature of the information which the client agrees to supply. It is also expected that the terms of engagement are specific in relation to the timescale within which the report will be produced and issued.

5.9 It is the responsibility of the valuer to discuss and agree with their client and include within the terms of engagement, full details of the accounting standards to be adopted in the valuation, and to include the full definition of the basis of value, including reference of the basis of value definition (e.g. IFRS 13 or FRS 102, etc.), along with details of the accounting standard body or a local regulator whose definition has been applied.

Sources and verification of information

5.10 VPS 1 section 3 j) and VPS 3 section 2 h) address the nature and source of the information and data to be relied on.

5.11 Source documents may include information and data supplied by the entity and may extend to financial information from sources other than its audited financial statements. It may also include information prepared by third-party advisers or specialists retained by the entity. In all cases information provided by or through the reporting entity's management should be considered just as objectively as information from other sources, professional scepticism being applied when forming a view on its credibility (see VPS 2 section 1 paragraph 1.8). See also PS 2 section 3 paragraphs 3.11 to 3.15 if discussions about information are held with the client, or any other form of management interview is undertaken.

Documentation

5.12 Particular care is needed over the documentation, including both source and analysis documents and any other relevant papers or records – such as notes of inspections and investigations (see VPS 2 section 3) – used to derive and support a valuation opinion. This is because of the reliance to be placed by the reporting entity's management on the valuation opinion when producing the financial statements for which they are responsible, which must properly satisfy statutory, regulatory and auditing requirements. Members' attention is expressly drawn to PS 2 section 5.1 where the public has an interest and PS 2 section 5.2 (in particular paragraph 5.2.2) where third-party reliance may or does arise.

Reports

5.13 It is essential that valuation reports provided in support of financial statements should 'clearly and accurately set out the conclusions of the valuation in a manner that is neither ambiguous or misleading, and which does not create a false impression' – see VPS 3, which sets out a comprehensive list of mandatory requirements designed to fulfil this objective. The following paragraphs provide additional guidance on certain aspects in the specific context of financial statements.

5.14 The extent of description of the valuation approach(es) adopted and method(s) used should always be proportionate to the task (see VPS 3 section (l) paragraph 2) as should the description of the reasoning, but in the particular context of valuation for financial reporting, the presumption is towards a fuller description in order to assist understanding by the client and other intended users. It helps ensure that management decisions concerning the coverage and content of the financial statement in relation to the assets (or liabilities) concerned are properly informed and that the entity's management can in turn report in a way that is neither ambiguous or misleading.

5.15 Members should be particularly alert in relation to information or data that appears to provide contrary evidence to the valuation opinion reached and should ensure that adequate explanation of how this was considered is included in the valuation report.

5.16 While VPS 1 and VPS 3 refer to valuation date and amount of the valuation, as those italicised terms are defined in the RICS glossary, members may find that clients refer to the 'measurement date' and 'measurement' amount, as used in accounting standards. As noted in IVS 104 Paragraph 10.1, basis of value may sometimes be termed 'standard of value' by clients.

5.17 If any subsequent events are referred to in the report (see VPS 3 section 2 m) paragraph 7), the relevant date should normally be provided.

5.18 It is the responsibility of the valuer to include within the valuation reporting, full details of the accounting standards to be adopted in the valuation, and to include the full definition of the basis of value including reference of the basis of value definition (e.g. IFRS 13 or FRS 102, etc.), along with details of the accounting standard body or a local regulator whose definition has been applied. Where appropriate, the valuer should also clearly state whether the basis of value adopted is considered to be consistent with the basis of *market value* and identify if the specific application of the accounting basis of value definition leads to different values.

5.19 Valuers should be familiar with the measurement requirements of the relevant accounting standards to which they are applying their opinion of value. It is also important that the valuer clearly identifies within the valuation report, the client's classification of the asset(s) being valued along with reference to the corresponding accounting standard.

VPGA 2 Secured lending

6.1 Sustainability and ESG factors (see VPGA 8) can be a significant market influence and valuations for secured lending should always have appropriate regard to their relevance to the particular assignment.

6.2 (b) (i) Additional report contents should include: ...comment on maintainability of income over the life of the loan (and any risks to the maintainability of income), with particular reference to lease breaks or determinations and anticipated market trends – this may well need to be considered in a broader sustainability and ESG context, such as potential future cost liabilities related to meeting regulatory and investor requirements...

VPGA 4 Individual trade related properties

1 Background

1.1 Certain trade related properties are valued using the profits method (also known as the *income approach*) of *valuation*. The guidance below sets out the principles of this method of valuation but does not concern itself with the detailed approach to a *valuation*, which may vary according to the property to be valued.

1.2 This VPGA relates only to the *valuation* of an individual property that is valued on the basis of trading potential.

1.4 Other types of properties, such as car parks, garden centres, caravan parks and crematoria, fulfil the requirements at 1.3 and are valued in some jurisdictions with reference to trading potential using a profits approach. This list is not intended to be exhaustive. A further subset of properties includes those where the adaptation in use or restraint on flexibility is less marked, but a valuation based on an income approach, including many aspects of this VPGA, may still be regarded as the best indicator of value. A non-exhaustive list of examples includes self-storage, flexible workspace and purpose-built investment student housing. The choice of method will be a matter for valuer judgment having regard to the specific type, form and use of the property and market circumstances prevailing, and evolving, at the time.

VPGA 8 Valuation of real property interests

This guidance provides additional commentary on certain specific topics and issues that arise in relation to the valuation of real estate, and is supplemental to IVS 400 Real Property Interests, IVS 410 Development Property and VPS 2. It expressly covers inspections and investigations, and includes important material on sustainability and ESG issues, which can be a market influence in relation to real estate.

1.3 (c) where relevant, information on any substantial outgoings and running costs, and the level of recovery from the occupier – energy efficiency and carbon emissions may be among a number of relevant factors when considering sustainability and ESG issues (see below)

2.6 Sustainability and environmental, social and governance (ESG) matters

Potential or actual constraints on the enjoyment and use of property caused by sustainability and ESG issues may result from natural causes (such as flooding, severe storms and wildfires), from non-natural causes (such as contamination) or sometimes from a combination of the two (such as subsidence resulting from the historic extraction of minerals). There may also be sustainability and ESG factors beyond the directly physical, such as carbon emissions. Despite the considerable diversity of circumstances, the key question is always the extent to which the factors identified affect value. Particular care should be taken when assessing or commenting on ESG factors, as valuers may not have the specialist knowledge and experience required. In appropriate cases, the valuer may recommend making further enquiries and/or obtaining further specialist or expert advice in respect of these matters.

The following paragraphs consider the matter in more detail.

a) Natural environmental constraints

i. Some property will be affected by environmental factors that are an inherent feature either of the property itself or of the surrounding area, and which have an impact on the value of the property interest. Examples include ground instability issues (such as swelling and shrinking clay, subsidence consequent on historic or current mineral extraction, etc.) and the risk of flooding from any mechanism. Resilience protection measures may alleviate the impact of the factor.

ii. Although detailed commentary on both the risks and the effects may be outside the realm of the valuer's direct knowledge and expertise, the presence, or potential presence, of these factors is something that can often be established in the course of a valuation inspection through normal enquiries or by local knowledge. Use of the relevant Property Observation Checklist from appendices A to C of the RICS guidance note *Environmental risks and global real estate*, 1st edition (2018), may be of assistance when undertaking inspections. It is not just the risk of a particular event occurring that needs to be considered, but also the various consequences. For example, if the property has suffered a recent event such as flooding this may affect the availability of insurance cover, which, if material, should be reflected in the valuation.

iii. The valuer should be careful to state the limits that will apply to the extent of the investigations and the assumptions that will be made in relation to environmental matters, and should state any sources of information relied upon.

b) Non-natural constraints (contamination and hazardous substances)

i. A valuer may not be competent to advise on the nature or risks of contamination or hazardous substances, or on any costs involved with their removal. However, a valuer who has prior knowledge of the locality and experience of the type of property being valued can reasonably be expected to comment on the potential that may exist for contamination and the impact that this could have on value and marketability.

ii. The nature and risks may of course be directly attributable to the use of the property itself. For example, a number of businesses depend on activities that involve the use of hazardous substances or operate waste management activities that may be regarded as a nuisance by third parties. Although detailed commentary on such effects may be outside the realm of the valuer's expertise, their presence, or potential presence, is something that can often be established in the course of a valuation inspection through normal enquiries or by local knowledge.

iii. The valuer should state the limits on the investigations that will be undertaken and state any sources of information or assumptions that will be relied on. Any historic or existing use matters observed can again be recorded on the relevant Property Observation Checklist from appendices A to C of the RICS guidance note *Environmental risks and global real estate*, 1st edition (2018).

c) Sustainability and ESG – assessing the implications for value

i. While not a term that has a universally recognised definition yet (see the RICS glossary in Part 2), in a valuation context sustainability encompasses a wide range of physical, social, environmental and economic factors that can affect value and of which valuers should be aware.

ii. The range of issues includes, but is not limited to, key physical risks such as flooding, heat, wildfires and severe storms, and transitional risks such as energy efficiency, carbon emissions and climate impact. The impact of these risks can be influenced by current and historic land use as well as matters of design, configuration, accessibility, legislation, management and fiscal considerations. Sustainability matters can impact occupier preferences and purchaser behaviour, and may also be a consideration for investors, secured lenders, insurers and public bodies.

iii. The pace at which sustainability and ESG is feeding directly or indirectly into value has jurisdictional variations. In order to respond appropriately as markets change, valuers should continuously seek to enhance their knowledge. The role of valuers is to assess value in the light of evidence normally obtained through analysis of comparable transactions. While valuers should reflect markets, not lead them, they should be aware of sustainability features and the implications these could have on property values in the short, medium and longer term. The issues may extend to:

- Sustainability and ESG matters (see above) including, where applicable, climate change and resilience to climate change
- configuration and design including use of materials and concepts increasingly associated with 'wellness'
- accessibility and adaptability, including access and use by those with disabilities
- carbon emissions, energy efficiency, building 'intelligence' and other 'costs in use'
- fiscal considerations.

iv. Valuers should identify and collect sustainability and ESG-related data. Where available, this might include details of rating schemes related to the asset.

v. Only where existing market evidence would support this, or where in the valuer's judgement market participants would expressly reflect such matters in their bids, should sustainability characteristics directly influence value(s) reported.

vi. Valuers are often asked to provide additional comment and strategic advice. In these cases, the valuer should, subject to their competence and expertise, consult with the client on the use and applicability of sustainability and ESG metrics and benchmarks that are applicable in each case. For example, when preparing valuations on the basis of investment value or worth, sustainability and ESG factors that could influence investment decision-making may properly be incorporated, even though they are not directly evidenced through transactions. Such valuations may also be the principal place to consider the 'social' and 'governance' aspects of ESG.

vii. Where appropriate, in order to comply with best practice in reporting, valuers should:

- assess the extent to which the subject property currently meets the sustainability and ESG criteria typically expected within the context of its market standing and arrive at an informed view on the likelihood of these impacting on value, e.g. how a well-informed purchaser would take account of them in making a decision as to offer price

- provide a description of the sustainability-related property characteristics and attributes that have been collected
- provide a statement of their opinion on the relationship between sustainability factors and the resultant valuation, including a comment on the current benefits/risks that are associated with these sustainability characteristics, or the lack of risks, and
- provide an opinion on the potential impact of these benefits and/or risks to relative property values over time.

viii The latest edition of *Sustainability and ESG in commercial property valuation and strategic advice,* RICS guidance note provides guidance on the identification, assessment and impact of sustainability and ESG issues for commercial real estate valuations.

Part 6: International Valuation Standards

The *International Valuation Standards* (IVS) are reproduced in full in this Part, with kind permission from IVSC. Effective from 31 January 2022, they are adopted and applied through these RICS Red Book Global Standards, being cross-referenced throughout Parts 3 to 5.

Members are reminded that IVSC reserves the right to make further amendments to IVS at any time. Any consequential amendments to this Red Book Global Standards will be made in accordance with the arrangements described in paragraph 27 of Part 1: Introduction.

Summary of main changes to IVS 2020 – effective from 31 January 2022

Core Principles – A list of 'core principles' for standard setting and valuation has been added to the Introduction.

Glossary – The Glossary has been extended.

Framework – Two clauses have been added to explain what is meant by compliance with the standards and when a departure may be made. Other changes indicate that an individual or group of individuals responsible for preparing a valuation must be appropriately qualified, competent and unbiased, and act ethically.

IVS 101 Scope of Work – Valuers preparing valuations for their own employers are now referred to as 'employed valuers'. Valuers preparing valuations for a third-party client are called 'engaged valuers'.

IVS 104 Bases of Value – A section on 'allocation of value' has been added.

IVS 105 Valuation Approaches and Methods – wording has been reinstated to clarify that market, income and cost approaches are not exclusive and may be used in any combination.

IVS 200 Businesses and Business Interests – the Introduction has been amended to better describe the scope of the standard.

IVS 230 Inventory – This is a new standard and addresses the valuation of goods that will be used in future production, work in progress and goods awaiting sale. It excludes real estate and buildings under construction.

IVS 400 Real Property Interests – the Introduction has been amended to provide additional clarification of what this standard covers, including the valuation of agricultural land and unregistered land.