RICS Valuation – Global Standards
Effective from 31 January 2020

Basis for conclusions
Purpose
This document has been prepared to accompany publication of *RICS Valuation – Global Standards* effective from 31 January 2020, commonly known as the RICS Red Book Global, in order to explain the refinements made as a result of the public consultation that closed on 11 October 2019. These refinements relate purely to the text in Parts 1 to 5 of the Red Book Global. Part 6 reproduces the text of the International Valuation Standards also effective from 31 January 2020, which were the subject of a separate consultation by the International Valuation Standards Council (IVSC), and published by IVSC on 1 August 2019.

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

RICS Valuation Professional Group
November 2019
Overview

The main reason for issuing an update to the Red Book Global is to take account of the changes to the International Valuation Standards (IVS), which the Red Book Global adopts and applies, effective from 31 January 2020. However, the opportunity has been taken to make some other changes and refinements to the Red Book Global 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 9 September and closed on 11 October 2019. RICS is grateful to all those who responded. Comments on the individual Red Book Global sections follow below.

Introduction

With the IVS no longer being identified by a specific ‘edition’ but instead being revised and updated on a rolling basis, it becomes ever more important to ensure that the correct version both of IVS and Red Book Global are being used in relation to individual valuation assignments. Although suggestions were made in the consultation responses about how the wording in the Red Book Global might be further refined, we believe the changes proposed in the consultation document are sufficient. In short, whenever changes to the IVS (as reproduced in Part 6 of the Red Book Global) are made, even in the unlikely event of consequential changes to Parts 1-5 not being needed, members will be alerted and a new effective date will be shown on the title page and in any cross-references to the IVS.

PS 1

None of the consultation responses commented on the proposed revisions to paragraphs 1.3 (concerning what constitutes a ‘written’ opinion) or 1.4 (concerning valuation modelling) and so these changes have been made.

PS 2

No adverse comment was received on the proposal to refer explicitly to ‘professional scepticism’ as an important aspect of objectivity, but a suggestion was put forward that it would be helpful to add a brief explanation to accompany it. This is accepted as a useful improvement and so the relevant text within paragraph 1.5 has become:

‘1.5 Members … must bring the required levels of independence and objectivity to bear on individual assignments, applying professional scepticism to information and data where it is to be relied on as evidence. Professional scepticism is an attitude that includes a questioning mind, critically assessing evidence relied on in the valuation process and being alert to conditions which may cause information provided to be misleading. Members must not allow….’
One respondent felt that it would be helpful to give some explanation of what a non-financial liability is. On balance it is felt that it is better to rely on the text of IVS 220 itself, where there is a description but not a definition of a non-financial liability, which it would be unwise to seek to précis.

A further suggestion that additional guidance be developed by RICS to assist its members concerning non-financial liabilities – particularly those engaged in real estate – in relation to the practical implementation of IVS 220 will be considered for a future Red Book Global update.

At 2.2 l) Valuation approach and reasoning, no points were raised on the proposed wording of paragraph 2. But specifically in relation to paragraph 3, the use of the phrase ‘may or will’ was challenged. It is agreed that this could be seen as ambiguous and so we have substituted the word ‘should’ and added the phrase ‘supporting the valuation figure’ at the end, so that paragraph 3 has become:

‘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 environmental matters should be an integral part of the valuation approach and reasoning supporting the valuation figure.’

The qualification ‘wherever appropriate’ ensures that the valuer retains discretion as to the precise form and coverage of the report, but ‘should’ adds the necessary emphasis where the factors concerned are material to the particular valuation assignment.

At o) Commentary on any material uncertainty in relation to the valuation where it is essential to ensure clarity on the part of the valuation user, there was support for ensuring material uncertainty is expressly signalled. It was also felt by one respondent that valuers were not always appreciative of the need for a clear distinction between material uncertainty – which must always be drawn to the attention of the client – and general ‘market risk’ (i.e. inherent uncertainty) which is a normal feature of any valuation and does not require specific declaration and comment, going on to suggest that further refinements to VPS 3 and to VPGA 10 should be made. It is agreed that it would be useful to look in further detail at this, but any changes to VPGA 10 would themselves need to go through due process.

None of the consultation responses commented on the proposed minor revision, which has therefore been adopted.
Introduction to Part 5: Valuation Applications

The change here simply includes the necessary cross-reference to the new IVS 220.

VPGA 1

Although one respondent felt the additions proposed involved repetition of material to be found elsewhere in the Red Book Global, it is considered that the text would add useful emphasis, as well as some further clarity, in the specific context of financial reporting. The proposed text has therefore been adopted.

Another respondent felt that specifying all the sources of information could prove onerous, but it is emphasised that no changes are being made to the existing mandatory requirements of VPS 1 or VPS 3, which continue as before. It is also recognised that information may come to light during the course of an assignment which was not known or available at the time when the terms of engagement were agreed; again, there is nothing in the proposed additions to VPGA 1 that affects this. Paragraph 1.6 of the existing VPS 1 encompasses the possibility.

VPGA 2

Some minor edits have been undertaken to ensure consistency and clarity as between advisory material and signposting cross-references to mandatory requirements. However, the substance remains unchanged.

VPGA 7

None of the consultation responses objected to the proposed revisions, which have therefore been adopted, although one commentator questioned whether the title of this Section might be reviewed.

VPGA 8

Again, the proposed minor revisions attracted no adverse comment and have therefore been adopted.