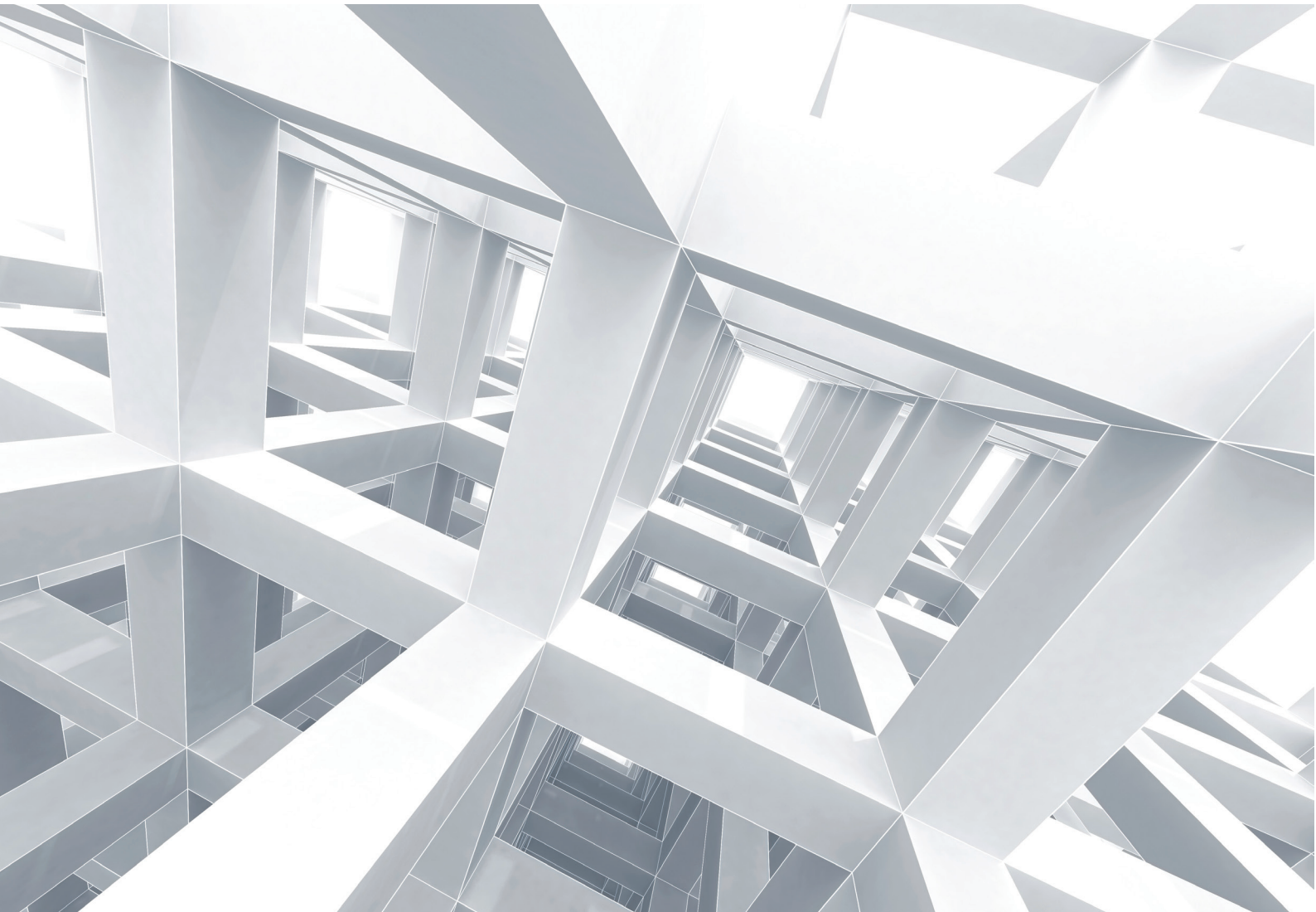




RICS professional standards and guidance, Hong Kong

RICS Valuation – Professional Standards Hong Kong

1st edition, October 2017



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RICS professional standards and guidance

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent 'best practice', i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the guidance note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this guidance note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each member to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this guidance note, they should do so only for good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In some cases there may be existing national standards that may take precedence over this guidance note. National standards can be defined as professional standards that are either prescribed in law or federal/local legislation, or developed in collaboration with other relevant bodies.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

This guidance note is believed to reflect case law and legislation applicable at its date of publication. It is the member's responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document.

Document status defined

RICS produces a range of professional standards, guidance and information documents. These have been defined in the table below. This document is a guidance note.

Publications status

Type of document	Definition	Status
Standard		
International standard	An international high-level principle-based standard developed in collaboration with other relevant bodies.	Mandatory.
Professional statement		
RICS professional statement (PS)	A document that provides members with mandatory requirements or a rule that a member or firm is expected to adhere to. This term also encompasses practice statements, Red Book professional standards, global valuation practice statements, regulatory rules, RICS Rules of Conduct and government codes of practice.	Mandatory.
Guidance and information		
RICS code of practice	Document approved by RICS, and endorsed by another professional body/stakeholder, that provides users with recommendations for accepted good practice as followed by conscientious practitioners.	Mandatory or recommended good practice (will be confirmed in the document itself). Usual principles apply in cases of negligence if best practice is not followed.
RICS guidance note (GN)	Document that provides users with recommendations or approach for accepted good practice as followed by competent and conscientious practitioners.	Recommended best practice. Usual principles apply in cases of negligence if best practice is not followed.
RICS information paper (IP)	Practice-based information that provides users with the latest technical information, knowledge or common findings from regulatory reviews.	Information and/or recommended best practice. Usual principles apply in cases of negligence if technical information is known in the market.
RICS insight	Issues-based input that provides users with the latest information. This term encompasses thought leadership papers, market updates, topical items of interest, white papers, futures, reports and news alerts.	Information only.
RICS economic/market report	A document usually based on a survey of members, or a document highlighting economic trends.	Information only.
RICS consumer guide	A document designed solely for use by consumers, providing some limited technical advice.	Information only.
Research	An independent peer-reviewed arm's-length research document designed to inform members, market professionals, end users and other stakeholders.	Information only.

1 Introduction

1.1 This guidance note provides assistance to RICS members on the application of the *RICS Valuation – Global Standards 2017* (the Red Book) to valuations that have to be provided in compliance with the jurisdiction requirements in Hong Kong.

1.2 The Red Book recognises and adopts the International Valuation Standards 2017 (IVS), which took effect from 1 July 2017. The Red Book and the IVS 2017 acknowledge that laws or regulations in each jurisdiction may affect how a valuer complies with either set of standards.

1.3 The IVS 2017 set out internationally accepted, high-level valuation principles and definitions.

1.4 The IVS apply to all types of assets, with the word ‘asset’ also deemed to include ‘liability’ where appropriate (see IVS 2017 Glossary for further details).

1.5 All RICS members, whether practising individually or within an RICS-regulated or non-regulated firm, who provide a written valuation are required to comply with the professional standards (PS) and valuation technical and performance standards (VPS) set out in Parts 3 and 4 of the Red Book. This includes compliance with the International Valuation Standards (IVS) issued by the International Valuation Standards Council (IVSC).

1.6 RICS members must also comply with the requirements of RICS valuer registration (VR).

1.7 RICS recognises that a member may be requested to provide a report that complies with standards other than those set out in the Red Book. This normally arises in relation to the particular requirements that apply within individual jurisdictions.

1.8 In these cases a statement must be included in the terms of engagement and the report (VPS 1 paragraph 3.2(n), *Confirmation that the valuation will be undertaken in accordance with the IVS*, and VPS 3 paragraph 2.2(k), *Confirmation that the valuation has been undertaken in accordance with the IVS*), that:

- the named standards will be/have been complied with
- the valuation will also comply/complies with the Red Book and the IVS.

1.9 As PS 1 section 6 and VPS 1 paragraph 3.2(n) make clear, there may be occasions where the purpose of the valuation assignment requires a departure from IVS. Any such departure should be identified together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

1.10 *IVS 103 Reporting* sets out a list of IVS requirements, which are supplemented by VPS 3 *Valuation reports*. References to valuer include a valuation reviewer and references to a valuation assignment include a valuation review. The reporting requirements headings in full are:

- (a) Identification and status of the valuer
- (b) Identification of the client and any other intended users
- (c) Purpose of the valuation
- (d) Identification of the asset(s) or liability(ies) to be valued
- (e) Basis(es) of value adopted
- (f) Valuation date
- (g) Extent of investigation
- (h) Nature and source(s) of the information relied upon
- (i) Assumptions and special assumptions
- (j) Restrictions on use, distribution and publication of the report
- (k) Confirmation that the valuation has been undertaken in accordance with the IVS
- (l) Valuation approach and reasoning
- (m) Amount of the valuation or valuations
- (n) Date of the valuation report
- (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
- (p) A statement setting out any limitations on liability that have been agreed.

Departures

1.11 No departure is permitted from:

- PS 1, *Compliance with standards where a written valuation is provided*, or
- PS 2, *Ethics, competency, objectivity and disclosures*, in the Red Book, which are mandatory in all circumstances.

1.12 PS 1 paragraphs 6.2 to 6.4 *Departures* states:

‘6.2 If separately and independently from either the specific exceptions set out above or any assignment falling within the scope of section 4 above, there are special circumstances where it is considered inappropriate to comply, in whole or in part, with VPS 1 to VPS 5 inclusive, then these must be confirmed and agreed with the client as a departure and a clear statement to that effect included in the terms of engagement, report, and any published reference to it.

6.3 For the avoidance of doubt:

- 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.

- For most valuation purposes, one of the bases of value specified in paragraph 2.2 of VPS 4 will be appropriate. Where another basis is used, this must be clearly defined and stated in the report. If adoption of that basis is mandatory in the particular context or jurisdiction, then adoption does not by itself constitute a departure, though the mandatory requirement to do so must be made clear. RICS does not encourage the voluntary use of a basis of value not specified in VPS 4, and will always regard such voluntary use as involving a departure from the Red Book.

6.4 A member who makes a departure may be required to justify the reasons for this.'

Effective date

1.13 This guidance note is effective from 1 February 2018.

2 Compliance with RICS Red Book and Hong Kong legal requirements

2.1 General

2.1.1 The following specific guidance is given to aid RICS members when providing valuation services in Hong Kong when the RICS member is obligated to comply with Hong Kong law or regulation.

2.1.2 Valuers should be familiar with the relevant codes and regulations published by the government and regulators.

2.1.3 Compliance with *The HKIS Valuation Standards* published by The Hong Kong Institute of Surveyors is mandatory for valuations prepared for certain purposes by valuers practising in Hong Kong.

2.2 PS 1 Compliance with standards where a written valuation is provided; and PS 2 Ethics, competency, objectivity and disclosures

2.2.1 PS1 and PS2 of the Red Book are mandatory for all RICS professionals undertaking valuation work.

2.3 VPS 1 Minimum terms of engagement

2.3.1 VPS 1 of the Red Book applies to practice in Hong Kong because the requirements in the Red Book are in line with and in more detail than those stated in *The HKIS Valuation Standards*.

2.4 VPS 4 Bases of value, assumptions and special assumptions

2.4.1 When a basis of valuation (definition of value) is prescribed by law or by regulations in a valuation assignment provided in the Hong Kong jurisdiction and the basis is different from those recognised in the Red Book, no further explanation other than compliance with the particular law or regulation, or description of the difference, is required of the valuer. This must be clearly stated in the terms of engagement and report.

2.4.2 When a basis of valuation (definition of value) not specified in paragraph 2.2 of VPS 4 in the Red Book is adopted, in circumstances other than those set out in paragraph 2.4.1 above, this will constitute a departure from

the Red Book. In such circumstances, a justification must be provided for the departure, and the basis of valuation must be clearly defined – and stated as a departure – in the terms of engagement and the report.

2.5 VPGA 1 Valuation for inclusion in financial statements

2.5.1 No supplementary guidance is needed here.

2.6 VPGA 2 Valuation for secured lending

2.6.1 With regard to VPGA 2, paragraph 5.1, market value is the basis of value widely used for valuations or appraisals undertaken for secured lending. However, in Hong Kong this does not apply to properties subject to restrictions upon assignment – such as Home Ownership Scheme, Sandwich Class Housing, Flat for Sale, and industrial properties located in various industrial estates. In those cases, a basis of value either in addition to, or in place of, market value may be used. However, note that the voluntary use of a basis of value not defined in VPS 4, *Bases of value, assumptions and special assumptions*, will involve a departure from the Red Book. The key requirement is that the valuer should state clearly the basis of value adopted in the report. The valuer should ascertain from the client, as a condition of providing such a valuation, details of when and how a sale is desired, as well as the existence of any sales restrictions, and should factor all of this into the valuation.

2.6.2 In some cases, value for sale under repossession (VSR) may be needed in addition to market value. Valuers must be clear that VSR is not a distinct basis of value, but is a description of the situation under which the sale takes place. It refers to the price that might reasonably be expected to be realised within a defined period of time, which would be agreed upon between the lender and valuer, from the sale of the property in the market under repossession by the lender or receiver, on an ‘as-is’ basis.

2.6.3 In some cases, the valuer may be required to give the building insurance replacement cost (BIRC) of a property in valuation reports for the lenders’ reference. For the avoidance of doubt, as set out in PS 1 paragraph 1.5:

‘An estimated replacement cost figure for assets other than personal property that is provided either within a written report or separately, for the purpose of insurance is not a “written opinion of value” for the purpose of “undertaking valuation services” as defined in paragraph 1.3 [of PS 1].’

2.6.4 For the bases cited in paragraphs 2.6.1 to 2.6.2, the basis of valuation must be clearly defined and stated in the terms of engagement and the report.

2.7 VPS 2 Inspections, investigations and records

2.7.1 VPS 2 paragraph 1 states:

‘Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose.’

If the valuer is unable to inspect the property, the valuer is to disclose this fact in the terms of engagement and report, and set out what assumptions and special assumptions have been made in the circumstances.

2.7.2 Valuers should use their best efforts to carry out investigations into the assumptions used in reports to confirm their reasonableness. Should this not be possible the valuer should disclose such limitations in the report.

2.8 VPS 3 Valuation reports

2.8.1 In addition to the reporting requirements set out in VPS 3, the following items should always be included in reports for the valuation of assets in Hong Kong:

- (a) confirmation that the valuation complies with the requirements set out in *The HKIS Valuation Standards* where requested by the client or if a requirement by the regulators (VPS 3 paragraph 3.2(k)) and
- (b) the analytical process and empirical data used to arrive at the value conclusions.

2.9 Practice area standards and guidance

2.9.1 The IVS 2017, reproduced in its entirety in the Red Book, includes the following asset standards:

Asset Standards

IVS 200 Business and Business Interests

IVS 210 Intangible Assets

IVS 300 Plant and Equipment

IVS 400 Real Property Interests

IVS 410 Development Property

IVS 500 Financial Instruments

2.9.2 The Red Book, which recognises and adopts the IVS 2017, also provides ten global valuation practice guidance applications (VPGAs), which address:

VPGA 1 Valuation for inclusion in financial statements

VPGA 2 Valuation of interests for secured lending

VPGA 3 Valuation of businesses and business interests

VPGA 4 Valuation of individual trade related properties

VPGA 5 Valuation of plant and equipment

VPGA 6 Valuation of intangible assets

VPGA 7 Valuation of personal property, including arts and antiques

VPGA 8 Valuation of real property interests

VPGA 9 Valuation of portfolios, collections and groups of properties

VPGA 10 Matters that may give rise to material valuation uncertainty

2.9.3 All elements of the foregoing asset standards, valuation applications and guidance notes apply to practice in the Hong Kong jurisdiction, except in assignments where Hong Kong law or regulation modifies the scope of work in the assignment or the content of the valuation report.



Confidence through professional standards

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We accredit 125,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

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