

Covering note for public consultation on RICS Valuation – Global Standards effective from 31st January 2022 update

RICS invites comments on proposed revisions to *RICS Valuation – Global Standards* effective from 31st January 2020 (colloquially known as ‘Red Book Global’) to take effect from 31st January 2022. Please note that only those sections of Red Book Global affected are included in the consultation draft.

The consultation is open from Monday 27th September and closes Monday 8th November 2021.

This is the first set of revisions to Red Book Global since the current version took effect on 31st January 2020. The revisions are not extensive, so this is an update of the existing edition and not a new edition.

The reasons for the update are two-fold:

- to reflect changes to *International Valuation Standards (IVS) 2020* taking effect from 31st January 2022, and
- to make various other detailed changes or clarifications to the existing Red Book Global text.

The proposed changes are explained in more detail below.

IVS-related changes

On 31 July 2020, the International Valuation Standards Council (IVSC) issued *International Valuation Standards (IVS) effective 31st January 2022*, reflecting the changes made to IVS 2020 – which are reproduced in Part 6 of Red Book Global. The IVS as revised will continue to be incorporated in Red Book Global as Part 6. The changes to IVS 2020 (as published by the IVSC) are not open to comment in the consultation.

Summary of main changes to IVS 2020 – effective from 31st 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.

RICS-initiated changes

In addition, some RICS-initiated changes are proposed as follows:

Glossary:

- More details are provided on environmental, social and governance (ESG) and sustainability/resilience.

Part 3:

- **PS 1 Section 4 paragraph 6:** The text has been expanded to clarify that departures from the IVS to comply with legislative and regulatory requirements that conflict with the standards are allowed.
- **PS 1 section 5:** Further guidance is provided on the use of ‘exceptions’. In particular, if a valuer’s role changes during the valuation process where the valuer is relying on the ‘exception’ provision, it is imperative that their actions are transparent, the application of Red Book Global 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.
- **PS 1 section 6 paragraph 5:** Reference is made to Section 60 of the IVS Framework, where the circumstances in which a valuer can make a departure from the IVS are set out.
- **PS 2 section 2 paragraph 1:** This includes a reminder that members and firms must ensure services are provided by competent individuals who have the necessary expertise.

Part 4:

- **VPS 2** References are made to ESG in addition to sustainability, with a change in tone to reflect that this is a current issue rather than an anticipated change.

- **VPS 3** Reference is made to ESG in addition to sustainability.
- **VPS 4 section 1:** Confirmation is provided that a valuer can only depart from the IVS in those circumstances described in section 60 of the IVS Framework.

Part 5:

- **VPGA 1 section 2 paragraph 2:** Reference is made to the International Accounting Standards Board's exposure draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. This 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*.
- **VPGA 2:** References are made to ESG in addition to sustainability. Section 6 paragraph 2 includes consideration of sustainability and ESG matters, such as potential future cost liabilities related to meeting regulatory and investor requirements.
- **VPGA 1 section 2 paragraph 3:** Reference is made to IFRS 16 *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases.
- **VPGA 4 section 2 paragraph 1:** Reference is made to the new IVS 230 *Inventory*.
- **VPGA 8:** Updates to this reflect the issues raised following a series of RICS global forums and an expert working group developing an update of the guidance note *Sustainability and ESG in commercial property valuation and strategic advice*, scheduled for public consultation the first week of October 2021.

Part 6:

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

Comments on the proposed changes to Red Book Global are welcomed, but it is again emphasised that the changes to IVS 2020 (as published by the IVSC) are not open to comment.