

Red Book UK Supplement Call for Views

11th April 2022 – 20th May 2022

RICS will be seeking views on a number of aspects of valuation throughout 2022, with appropriate updates to standards and guidance targeted for 2023. We are seeking the views of key stakeholders across the industry and all changes will be subject to full public consultation.

We are updating the UK National Supplement to the [Global Red Book](#). The update will have two main purposes:

- (i) **Technical updates** to all relevant sections reflecting market and other changes
- (ii) **Regulated purpose valuation** (UK VPS 3) updates in light of the [Review of Real Estate Investment Valuation](#)

We are undertaking this Call for Views in advance of the scheduled update in order to canvas industry stakeholder opinion on what currently works within the standards, and what may need to be updated or removed in light of the above.

Further details on individual aspects of the Call for Views are included below. You don't have to comment or answer questions on every section, and you may only wish to respond to certain parts, or just one of the thematic elements being looked at in closer focus.

Technical updates

As well as general updates, there are three thematic elements we are looking at in the technical update: **(a) financial reporting, (b) public sector valuation and (c) residential valuation.**

The reasons for this technical update are as follows:

- Review alignment with the suite of overarching RICS global standards, such as the current [Global Valuation – Standards “Red Book”](#) effective from 31st January 2022 and [Rules of Conduct](#) effective 2nd February 2022
- Consider current end-user, market, and professional assurance requirements
- Assess the need for any further content around emerging issues such as Environmental Social and Governance (ESG)
- Provide clarity around the relationship with valuation content outside the Red Book, UK supplement, for example the [Comparable Evidence Guidance Note](#)

You can comment on any technical aspect of the Red Book UK Supplement through our [General questionnaire](#).

In addition to commenting on general aspects of the UK Supplement, there is additional focus on the three thematic elements, for which there are separate questionnaires.

(a) Financial Reporting

Valuations for financial reporting were the original *raison d'être* for the Red Book in the 1970s, and subsequently was the driving force for the IVS. Financial reporting still makes up a core element of the advisory content of the UK Supplement in its current format as per UK VPGA 1, as well as comprising content within Global – Valuation Standards (VPGA 1: Valuation for Inclusion within Financial Statements).

The reasons for this consideration of RICS financial reporting related content are as follows:

- Review alignment with the suite of overarching RICS standards, such as the current Global Valuation – Standards “Red Book” effective from 31st January 2022 and Rules of Conduct effective 2nd February 2022.
- Consider current end-user, market, and professional assurance requirements.
- Assess the need for any further content around emerging issues such as incorporating Environmental Social and Governance (ESG) factors in financial reporting, introduction of IFRS 16 etc.

RICS will be engaging and consulting on financial reporting in valuation throughout 2022, with appropriate updates to standards and guidance targeted for 2023. The review will seek the views of key stakeholders across the financial reporting sector of the real estate industry and all changes will be subject to a full public consultation.

In order to shape our development of financial reporting content, we are undertaking this Call for Views of the content contained at UK VPGA 1 Red Book UK Supplement. If you are interested in giving your views, please respond to the [Financial Reporting questionnaire](#).

Please note, residential, financial reporting for public sector, and considerations from the Valuation Review are covered in separate sections below.

(b) Public Sector

Public sector valuation is considered in a number of elements of the UK Supplement, comprising advisory material at UK VPGA 4 (Valuation of local authority assets for accounting purposes), UK VPGA 5 (Valuation of central government assets for accounting purposes), UK VPGA 6 (Local authority and central government accounting: existing use value basis of value), UK VPGA 16 (Valuations for compulsory purchases and statutory compensation) and UK VPGA 17 (Local authority disposal of land for less than best consideration in England and Wales).

The reasons for this consideration of RICS public sector valuation related content are as follows:

- Review alignment with the suite of overarching RICS standards, such as the current Global Valuation – Standards “Red Book” effective from 31st January 2022 and Rules of Conduct effective 2nd February 2022.
- Consider current end-user, market, and professional assurance requirements
- Assess the need for any further content around emerging issues such as incorporating Environmental Social and Governance (ESG) factors in financial reporting, introduction of IFRS 16 in the UK public sector etc.

RICS will be engaging and consulting on public sector issues in valuation throughout 2022, with appropriate updates to standards and guidance targeted for 2023. The review will seek the views

of key stakeholders across the public sector of the real estate industry and all changes will be subject to a full public consultation.

In order to shape our development of public sector valuation content, we are undertaking this Call for Views of the content contained at UK VPGA's 4, 5, 6, 16 and 17 Red Book UK Supplement. If you are interested in giving your views, please respond to the [Public Sector questionnaire](#).

Please note, financial reporting, residential, and considerations from the Valuation Review are covered in separate sections.

(c) Residential

RICS are reviewing all residential valuation content in the current Red Book UK Supplement and the residential mortgage specification contained in a previous (2015) version.

The reasons for this consideration of RICS residential valuation content are as follows:

- Review alignment with the suite of overarching RICS standards, such as the current Global Valuation – Standards “Red Book” effective from 31st January 2022 and Rules of Conduct effective 2nd February 2022.
- Consider current end-user, market, and professional assurance requirements.
- Assess the need for any further content around emerging issues such as Environmental Social and Governance (ESG), leasehold reform and automated valuation models.
- Provide clarity around the relationship with residential valuation content outside the Red Book UK supplement, for example the Valuation of Residential Leasehold Properties for Secured Lending Purposes Guidance Note.
- Assess and review standards in light of the dynamics and range of contemporary residential valuation, from mainstream mortgage valuations to investment valuation and specialist valuation purposes.

RICS will be engaging and consulting on residential valuation throughout 2022, with appropriate updates to standards and guidance targeted for 2023. The review will seek the views of key stakeholders across the residential real estate industry and all changes will be subject to a full public consultation.

In order to shape our development of residential content we are undertaking this pre consultation of the content contained at VPGA 11-14 and 18 of the Red Book UK Supplement and Appendix 10 of the 2015 standards. If you are interested in giving your views, please respond to the [Residential questionnaire](#).

Please note, financial reporting, public sector, and considerations from the Valuation Review are covered in separate sections.

Regulated purpose valuation (UK VPS 3) updates

The Valuation Review was largely UK focused, and principally looked at, higher risk valuations upon which third party reliance is placed – essentially the valuations described in Red Book UK Supplement, VPS 3. The Review also made wider recommendations for the valuation profession that are not going to be reflected in this update of UK standards – for example, around education and the professional assurance framework.

This Call for Views covers updates to the Red Book UK Supplement UK VPS 3 in light of the recommendations of the Review of Real Estate Investment Valuation and the response of the independently led RICS Standards and Regulation Board.

To assist the user with understanding whether recommendations are in scope for this Call for Views or not, a table has been included below. All changes to RICS standards are subject to the approval of the RICS Standards and Regulation Board.

Valuation Review recommendation	In scope for UK Supplement update 2023?
Recommendation 1 – Commissioning and Receiving Valuation Reports . RICS should work with appropriate stakeholders in standardising governance arrangements for commissioning and receiving valuation reports for high-risk and ‘regulated’ valuations.	<i>Yes – a draft standard based on this review recommendations is included below for comment.</i>
Recommendation 2 – Valuation and Advisory Activities Valuers, with the support of RICS, should ensure that the separation of valuation from advisory activities within firms is consistently applied in respect of the use of valuation data and instructions.	<i>Yes – commentary based on this Review recommendation is included below for comment.</i>
Recommendation 3 – Rotation RICS should develop a time-specific, mandatory procurement and rotation process for valuers.	<i>Yes - a draft UK rotation policy based on this Review recommendation is included below for comment.</i>
Recommendation 4 – Compliance Role . RICS should build on its existing ‘RICS responsible principal’ obligation by developing a Valuation Compliance Officer role to specifically cover valuation process and conduct.	<i>No - this will be delivered through our Profession Assurance team and Standards and Regulation Board</i>
Recommendation 5 – Raising Concerns . RICS should ensure it has clearly signposted processes for its regulated members and other stakeholders to raise concerns about ethical conduct and address, amongst other issues, improper pressure placed on valuers.	<i>No - this will be delivered through our Profession Assurance team and Standards and Regulation Board</i>
Recommendation 6 – Quality Assurance Panel . RICS should create a dedicated, independently led valuation regulatory quality assurance panel, under the jurisdiction of the RICS Standards and Regulation Board.	<i>No - this will be delivered through our Profession Assurance team and Standards and Regulation Board</i>
Recommendation 7 – Valuation Audit Trail . The Red Book should include further standards around the conduct and recording of valuation instructions and meetings between client and valuer.	<i>Yes – commentary related to this Review recommendation is included for comment.</i>
Recommendation 8 – Analytical Approaches (i) Discounted Cash Flow The valuation profession should incorporate the use of discounted cash flow as the principal model applied in preparing property investment valuations.	<i>No - this will be delivered through global guidance. We are currently undertaking advisory forums globally to gather evidence for a new DCF guidance note to be published 2022/2023. Note this is not a mandatory recommendation for DCF for all valuations.</i>

Recommendation 8 – Analytical Approaches (ii) Advanced Analytics RICS should improve the knowledge and application of valuers in respect of advanced analytical techniques.	<i>No - this will be delivered through global guidance</i>
Recommendation 9 – Global Standards. RICS should maintain a record of valuation standards adoption and application in countries outside the UK where significant numbers of its Registered Valuers operate, in order to inform the extension of regulatory requirements and support to valuers.	<i>No - this will be delivered through global guidance</i>
Recommendation 10 – Standardised Property Risk Advice. RICS should develop a framework to standardise property risk advice.	<i>No - this will be delivered through global guidance. We are currently developing a new Investment Advisory and Property Risk guidance note to be published in 2023.</i>
Recommendation 11 – Post-Qualification Requirements and Revalidation. RICS should review its post-qualification requirements for valuers and consider introducing mechanisms for regular revalidation of valuers.	<i>No - the first element will be delivered through our Education and Qualifications team. Note, also, the following consultation currently being undertaken by RICS: Review of Entry and Assessment into the Profession, and the role of post-qualification CPD</i>
Recommendation 12 – Diversity. RICS should continue to build on its important work to ensure a diverse and inclusive valuation profession.	<i>No - this will be delivered through our wider global work on this subject</i>
Recommendation 13 – Culture and Behaviour. There is a need for further specific RICS guidance to clarify RICS' expectations around the culture and behaviours expected of RICS professionals in the pursuance of valuation activities	<i>No - this will be delivered through global guidance</i>

If you are involved with the regulated purpose valuations described at UK VPS 3 and would like to comment on proposed changes and make suggestions for further changes, please respond to the [UK VPS3 questionnaire](#).

Prototype draft sections UK VPS 3.3 - 3.5, for comment and discussion

Included below are prototype drafts of proposed new UK VPS 3 sections 3.3-3.5, written to generate feedback and discussion in responses to this Call for Views. They do not represent the final drafting of the Red Book UK Supplement sections – the final versions of which will be subject to full public consultation and SRB approval.

The prototype draft sections UK VPS 3.3-3.5 are intended to suggest a basic framework for the principles recommended in the Valuation Review. RICS is aware that in addition to these principles, a framework for transition, application and professional assurance will also be required – which will be developed further to the responses and suggestions of this Call for Views.

It is intended that the following sections once finally drafted and approved will become effective from the date of the UK Red Book supplement. Please use the [UK VPS3 questionnaire](#) to comment on transition and application.

DRAFT FOR COMMENT – UK VPS 3.3 Rotation

Where a valuation is for a regulated purpose, the valuer must ensure that a rotation policy is in place at firm level. They must also undertake due diligence to record and confirm to the client in agreed terms of engagement that the period for which the client has procured UK valuation services from the valuer or valuer's firm for the same regulated purpose does not exceed five years, except for cases where there has been a break from valuation instructions from the same client for at least five years.

The above requirement is in addition to those set out in the Global Valuation - Standards.

DRAFT FOR COMMENT – UK VPS 3.4 Terms of engagement

In addition to the standards set out in Global Red Book VPS1, valuers must undertake due diligence to ascertain whether the instruction or draft instruction has been made with the approval of one of the following authorities from the client firm:

- (a) a non-executive director*
- (b) an independent chair of their audit committee or equivalent*
- (c) a corporate compliance officer or equivalent.*

The valuer must also confirm with the client in agreed terms of engagement whether any of the instructing client parties receive a direct fee or benefit from the result of the valuation, including its comparison to performance indices or other benchmarks. Where this is the case, it must be clearly stated within the report, including any published version.

Where any instructing party, including in respect of draft instructions, is an RICS Member the valuer must receive written confirmation from them that they are aware of the Rules of Conduct and Professional Statement – Conflicts of Interest and have adhered to these in agreeing terms of engagement for the subject valuation. This confirmation should be included within the valuation report, including any published version.

Permission for the valuer and their firm to use client data from the valuation for other valuation and business activities must either be expressly confirmed within the terms of engagement or there should be a statement that confirms that such data will not be used for other valuation or business activities. The valuer must ensure that adequate data security is in place to safeguard inadvertent or inappropriate sharing of such data, internally or externally. Valuers are reminded of the confidentiality requirements contained in PS2.3 of Global Red Book.

DRAFT FOR COMMENT – UK VPS 3.5 Preliminary advice, draft reporting and client discussions

Valuers should be familiar with Global Red Book PS2.3.12-3.15 covering preliminary advice, draft reporting, and valuation discussions.

The requirements of Global Red Book PS 2 3.14 and 3.15 are amended for UK regulated purpose valuations as follows, and are therefore mandatory:

To demonstrate that valuation discussions have not compromised the member's independence a file note of discussions with the client on draft reports or valuations **must** include:

- the information provided, or the suggestions made, in relation to the valuation
- how that information was used to consider a change in material matters or opinions and
- the reasons why the valuation has or has not been changed.

If requested, this record **must** be made available to auditors or any other party with a legitimate and material interest in the valuation.

Estimated Timeline and Further Engagement

The responses to this Call for Views will inform a series of roundtables and, where needed, develop, and amend standards with the support of expert working groups on specific subjects (e.g., residential valuation) over the same period.

The roundtables will be hosted on an on-line platform.

Dates of the roundtables and details of how to express your interest in taking part, are below.

Public sector 25th April 2022 11:00

More specifically at this event, we would be interested in receiving your feedback relating to the existing content contained at:

1. UKVPGA 4: Valuation of local authority assets for accounting purposes
2. UKVPGA 5: Valuation of central government assets for accounting purposes
3. UKVPGA 6: Local authority and central government accounting: Existing Use Value basis of value
4. UKVPGA 16: Valuations for compulsory purchase and statutory compensation
5. UKVPGA 17: Local authority disposal of land for less than best consideration in England and Wales

In particular, should any of this content be removed or amended, and is any further content in these regards required?

Financial reporting 29th April 2022 09:30

More specifically at this event, we would be interested in canvassing your feedback relating to the existing content contained at UK VPGA 1: Valuation for financial reporting: general matters.

In particular, should any of this content be removed or amended and is any further content in this regard required?

Valuation Review – Rotation (Recommendation 3) 4th May 14:00

Valuation Review – Procurement and instructions (Recommendations 1 & 7) 5th May 15:00

Valuation Review – Separation of valuation and advisory data (Recommendation 2) 6th May 11:00

How to Apply:

If you'd like to express your interest in joining any of the above roundtables, please email standards@rics.org with the below information:

- Your name and contact details
- The roundtable you would like to Join
- A brief outline about why you would like to be involved in the roundtable discussion and what you can contribute

In line with the recommendations of the Review, we are keen to attract an inclusive and diverse range of stakeholders to these roundtables. RICS is an equal opportunity organisation committed to diversity and inclusion. We encourage qualified and suitably experienced candidates from a wide array of backgrounds to apply because we know that it's the differences in our people that make the difference to our performance. New thinking and ideas are crucial to technical standards capable for adoption and application in a modern and fast-changing world.

From the Call for Views and roundtables, we will use commentary and suggested amendments responses as an evidence base for developing the UK Supplement update. We will look to publish a draft version of the UK Supplement in early 2023, for publication in Spring 2023.

Please engage with us further on these important valuation issues through the [RICS Insight Community](#) or by email standards@rics.org.