

VPS 3 consultation summary

Summary of work undertaken

1. Below at Appendix 1 is a consultation paper on changes to section UK VPS 3 of the UK supplement to *RICS Valuation – Global Standards* (Red Book Global Standards). This section covers Regulated Purpose Valuations such as for financial reporting, takeovers, and collective investment schemes. These proposed changes seek to implement key recommendations made by the *Review of Real Estate Investment Valuations* (R1 – Commissioning and Receiving Valuation Reports, R2 – Valuation and Advisory Activities, R3 – Rotation, R7 – Valuation Audit Trail, R13 – Culture and Behaviour).
2. The proposed changes have been informed by extensive market engagement¹. The current proposals have the support of the Valuation Review Implementation Committee (VRIC) and have been approved by its Chair, Richard Waterhouse FRICS. It has also been approved by the Chair of the RICS Standards and Regulation Board (SRB), Dame Janet Paraskeva.

Consultation document

3. The consultation document contains the following proposed new or amended standards for UK VPS 3:
 - a. amended definition and scope of Regulated Purpose Valuations (UK VPS 3)
 - b. new UK VPS3.3 – Rotation
 - c. addendum to UK VPS 3.3 - Rotation transition arrangements
 - d. new UK VPS 3.4 – Terms of engagement and instructions
 - e. new UK VPS 3.5 – Preliminary advice, draft reporting, and client discussions

¹ Stakeholder engagement so far has included the call for evidence for the Review of Real Estate Investment Valuation itself during 2021, and a formal Call for Views conducted by RICS on possible changes to Red Book Standards between 11 April and 20 May 2022

Appendix 1 – Draft UK VPS 3 Consultation Document

RICS Consultation Document – UK VPS 3 valuation review implementation

Background and scope

This document gives the opportunity for stakeholders to give further feedback on the proposed changes to the UK national supplement, UK VPS 3 – to implement the recommendations of the Review of Real Estate Investment Valuation (the Review). It also summarises the standards development process so far.

This consultation is open from 2 November to 14 December and can be responded to via [RICS iConsult](#).

Responding to concerns over the reliability of valuation, perceived lack of valuer independence and rapidly changing market dynamics, the RICS Standards and Regulation Board (SRB) commissioned the Review to futureproof practices in the valuation of real estate assets for investment purposes, in the public interest, based on the evidence outlined in the review. The purpose of the review was to assess where changes may be necessary to re-establish public trust in such a fundamental sector of the UK economy. The SRB accepted all recommendations from the review, which can be viewed [here](#).

The Review was largely UK-focused and principally looked at valuations upon which third party reliance is placed. These valuations are subject to a number of specific requirements set out in the RICS Valuation – Global Standards: UK national supplement, UK VPS 3. This consultation sets out updated proposed changes SRB is considering making to UK VPS 3. The proposed changes seek to address the regulatory changes required to implement the Review's recommendations in a balanced and considerate manner. These proposals have been prepared by RICS and approved for inclusion in this consultation to seek your views on the proposed terms by the Valuation Review Implementation Committee (VRIC), appointed by SRB. Following the consultation, final approval of the proposed amendments will ultimately, rest with SRB.

The proposals have been informed by a wide range of stakeholder views, including from those commissioning, undertaking, auditing and regulating valuations.

This consultation is a further chance for you to [give your views](#) on the UK VPS 3 proposals. All changes are subject to public consultation and SRB approval.

The Review also made wider recommendations for the valuation profession that fall outside of the currently proposed update of UK VPS 3 – for example those relating to valuation methodology, education and the professional assurance framework. RICS has published a [roadmap](#) detailing when further proposals addressing those wider recommendations of the Review will be produced and consulted on. This consultation on the UK national supplement is the first relating to the *Review of Real Estate Investment Valuations*.

UK VPS 3 feedback and development

To date RICS has received significant feedback on the initial proposals for UK VPS 3 from a wide variety of sources and stakeholders, including the April 2022 ‘Call for Views’, valuation forums and individual correspondence. VRIC has carefully reviewed this feedback which has informed the development of a next draft iteration of the proposed changes to UK VPS 3, which is the subject of this public consultation.

Early feedback demonstrated support for the Review's focus on governance, and the need to communicate that governance to clients, regulators, and other stakeholders. There has been a general acceptance within the feedback received that stronger and more explicit measures are needed to achieve this, such as mandatory rotation provisions. However, feedback has also strongly identified and emphasised the need for any new or additional standards to be proportionate, workable, and conducive to producing a better and more trusted valuation service as opposed to creating a hindrance to the provision of valuation services.

We have carefully considered all views put to us. Set out below is a high-level summary of key issues raised in the feedback (in blue text) received to date, along with RICS' response:

- The draft UK VPS 3 standards within the Call for Views need further refining to make clear who is being referred to in each standard, where responsibilities fall and in what circumstances.

The revised iterations included in the sections below have reflected this feedback. Where relevant and/or appropriate, suggested changes proposed by respondents have been incorporated into the latest versions. In addition to the revised sections, and further to feedback, VRIC has also clarified the scope and definition of regulated purpose (UK VPS 3) valuations.

- The draft UK VPS 3 standards need to reflect the range of valuation purposes, asset types and stakeholders. They need to be more explicit about, for example, whether they apply to public sector assets.

To address this feedback, VRIC has clarified the scope and definition of regulated purpose (UK VPS 3) valuation, included for consultation below. For example, some public sector valuations are now explicitly included. Early feedback from stakeholders was divided as to whether or not UK VPS 3 should be additionally categorised to reflect other valuation purposes and asset types any further than in the draft below (such as to take account of specialist asset classes). On balance RICS is currently of the view that the additional complexity and potential inequity this could cause outweighed the benefit of a tailored approach to individual markets.

- Although we generally support rotation, the movement from an advisory seven-year rotation for members (globally) to a rigid mandatory five-year rotation for members and firms (for UK regulated purpose valuations) is too limited and will cause market disruption. The valuation profession should refer to the 10-year cycle (with options for renewal) applied in the audit profession. Furthermore, we think a five-year break following a rotation cycle is excessive.

VRIC continues to consider this feedback extensively, along with the detailed reasoning and evidence provided in the Call for Views and other engagement.

VRIC is committed to fulfilling SRB's acceptance of the Review's recommendation that 'RICS should develop a time-specific, mandatory procurement and rotation process for valuers', which it considered a key pillar in maintaining trust in the profession. Furthermore, VRIC is of the view that implementation of mandatory rotation is vital to maintaining public trust in the profession. However, VRIC is also committed to ensuring a proportionate and workable approach, which balances the benefits of rotation with the additional cost. Having considered this matter carefully, the current proposals now include the possibility of a time-limited extension of valuation services in certain circumstances and a specific rotation transition policy, both of which are now subject to further consultation below. RICS and VRIC believe that the valuation profession is structurally and professionally unique and should not be bound by parity to other organisations and regulation. The standing of the RICS professional and regulatory model relies on demonstrating robust standards and professional assurance in the public interest. In this context, VRIC is currently of the view that a five-year rotation cycle, with the possibility of a three-year extension, coupled with a transition policy, takes into account the feedback from stakeholders while remaining robust and workable.

The suggested five-year break period following a rotation cycle has been extensively discussed and reviewed by VRIC and they are happy that it meets the intention of the Review commentary (noting the Review makes no specific recommendation on a break period), and a meaningful and workable rotation policy.

- RICS should produce supporting content (or include in the standards) details of implementation timing and transition arrangements.

VRIC has taken on this feedback and provides regular updates on the [Valuation Review](#) web page and in other communications. In addition to this it has also produced a rotation transition policy, included in the consultation below.

- The correct management of actual and potential conflicts of interest and the process of informed consent is central to the successful application of UK VPS 3. Any new standards (such as those suggested for UK VPS 3) should work within the requirements of the RICS Conflicts of Interest Professional Statement and the wider governance and regulatory requirements for firms and individuals. VRIC agrees with this feedback and is working to implement the wider review recommendations. Updates are included on the [Valuation Review](#) web page. The amended UK VPS 3 sections cross reference the wider RICS standards, Rules of Conduct and Conflicts of Interest professional standard where required.
- RICS and valuers are not the only stakeholder in the valuation process and RICS will need to engage and potentially produce content jointly with other professional bodies and regulators. A number of the review recommendations involve those procuring and instructing valuations as well as those providing them, the standards and guidance need to accommodate this. VRIC agrees with this feedback and RICS is working with a number of relevant fellow professional bodies and regulators with the intention of producing further communications and content. However, the jurisdiction of RICS standards and assurance framework does not extend beyond its own regulated members and firms. In respect of external stakeholders, including other professional bodies and regulators RICS would have no jurisdiction to enforce their terms. The matter of enforceability in that regard would rest entirely with the relevant professional body and/or regulator
- In addition to standards, RICS can also usefully create communications, information pieces and wider valuation content to support the implementation of the Valuation Review. Part of this would be promoting the governance systems firms already have in place. VRIC is grateful for and encouraged by the quality of governance arrangements many firms already have in place. These continue to help RICS in its work, for

example by continuing to produce guidance that compliments good governance, and the institution's work on education and practice assurance.

Numerous respondents made helpful and insightful suggested amendments to the proposed wording. This often reflected their professional experience, with the intention of aiding the practical application of the proposed standard. Many of these suggestions have been adopted directly into the amended proposals for UK VPS 3 sections as set out below.

UK VPS 3 consultation drafts and questions

Included here are consultation drafts for the proposed new UK VPS 3 sections 3.3-3.5.

There are also two further matters for consultation.

- i. A more comprehensive definition of the scope of UK VPS 3 and the term 'Regulated Purpose'.
- ii. A rotation transition policy.

It is intended that following this consultation and once the feedback has been received and carefully reviewed, the wording will be finalised and approval of the terms sought from SRB. Once approval is received it will become effective from the date of the UK national supplement, subject to any transitional arrangements for rotation in some specific circumstances (see below).

Draft UK VPS 3 definition and scope

UK VPS 3 Regulated Purpose valuations: supplementary governance requirements

The requirements below are supplementary to Red Book Global Standards PS 2 section 5 – Disclosures where the public has an interest or upon which third parties may rely, and apply to Regulated Purpose valuations, namely:

- valuations for financial reporting under UK VPGA 1 and UK VPGA 2 where these are relied upon by third parties
- valuations of local authority assets for accounting purposes under UK VPGA 4 but only in respect of investment property valued at fair value using IFRS 13
- valuation reports for inclusion in prospectuses and circulars to be issued by UK companies under UK VPGA 2.1
- valuations in connection with takeovers and mergers under UK VPGA 2.2

- valuations for collective investment schemes under UK VPGA 2.3 and
- valuations for unregulated property unit trusts under UK VPGA 2.4.

Each one is a 'Regulated Purpose' and together 'Regulated Purposes'.

Valuers should refer to the exceptions at VPS 1-5 under PS 1 section 5. For example, including but not limited to 'valuations for internal purposes only' is one that is not (or should not be) communicated to, and thus not entitled to be relied upon, by a third party.

The Regulated Purposes apply to all asset classes, including but not limited to specialist classes, for example, affordable housing and rural assets. However, the standards within this section only apply to valuation of those assets for a Regulated Purpose and those that are not subject to any applicable exceptions at VPS 1-5 under PS 1 section 5.

The Regulated Purposes apply to all types of asset holding arrangements including, but not limited to: limited partnerships, LTAFS, open and closed ended funds, other investment trusts, public pensions funds, REITS, UCITS funds, non UCITS funds (covered by AIFMD) and any other fund, trust or collective investment scheme regulated by the Financial Conduct Authority (FCA). However, the standards within this section only apply to valuation of those assets for a Regulated Purpose and those that are not subject to any applicable exceptions at VPS 1-5 under PS 1 section 5. For example, private funds, trusts and investments are only subject to the requirements where any related valuation would need to be relied upon by a third party and was not purely for internal purposes as defined at VPS 1-5 under PS 1 section 5.

The Regulated Purposes above do not include valuations exclusively for secured lending for which there is advisory content in VPGA 2, UK VPGA 10 (commercial secured lending) and UK VPGA 11 (residential mortgage).

Q1. Do you agree with the revised UK VPS 3 scope and definition?

Q2. Do you have any suggested changes?

Q3. What additions or exclusions would you make?

Q4. What is your view on the cost of implementation and business impact of changes to the UK VPS 3 definition, and the benefits?

Please provide full evidence to support your responses to the questions.

If you would like to respond to these questions, please do so on the consultation site [UK VPS 3 Questionnaire](#)

Draft UK VPS 3.3 Rotation

Explanatory note on UK VPS 3.3 covering rotation and transition

The intention of the changes suggested to UK VPS 3.3 is to introduce a mandatory rotation policy so that the continuous relationship between a client and a valuer and/or firm providing valuations for the same regulated purpose in the UK will not exceed eight years. The proposals aim to ensure public trust in the reliability of valuation and prevent conflicts of interests, which may arise between long term valuation advisers and clients. Relationships between clients and valuation advisers for other non-regulated purposes are not affected by the proposed changes.

RICS recognises that tendering for a new valuation advisor can take some time. The proposed transition policy seeks to provide a reasonable timescale to allow clients to make an orderly transition to a new valuation advisor, where their existing contracts are due to end within three years of the introduction of the rotation policy, by allowing these contracts to be extended by eighteen months. RICS considers that this policy allows firms and clients to act in order to spread the necessary changes of valuation advisors over a five year period effective from the publication of the policy, reducing the risk of disruption in the market.

There will also be contracts that were put in place before the introduction of this policy which provide for continuing relationships of more than eight years and will therefore need to be brought to an end where it is lawful to do so. The transition policy proposed would require firms to end such contracts no later than three years from the implementation of the changes, where they can do so lawfully and without an unreasonable penalty. What is unreasonable will be a question of fact in the particular circumstances. This again provides an opportunity for firms and clients to either enter into new contracts which comply with the new rotation policy where possible, or to use this three-year period to transition to new valuation advisors where that is required.

Draft UK VPS 3.3 covering rotation

UK VPS 3.3 Rotation

Where a valuation is to be undertaken for a Regulated Purpose, the valuer must confirm in writing that a rotation policy is in place at their firm. In order to undertake the valuation, the valuer must be able to confirm to the client in agreed written terms of engagement (as an addition to VPS 1) that the period for which the client has procured UK valuation services from the valuer and or valuer's firm for the same Regulated Purpose (the continual contractual relationship) does not exceed five years, and will not have exceeded it by the end of the new instruction. This is save for cases where there has been a break from valuation instructions for the same client for at least five consecutive years, or where at the fifth year or earlier a service review, which is defined below, has occurred, or where the transitional provisions below apply.

A service review must be undertaken by an external third party acting for the client such as an auditor or one of the following independent internal roles, (or a role of equivalent power and/or authority):

- a. a non-executive director
- b. an independent chair of the firm's audit committee
- c. a corporate compliance officer.

A service review allows the potential for an extension of valuation services by the firm (but not the same valuer) for up to a further three years, where the external reviewer or independent internal reviewer certifies in writing that there are no conflicts of interest or other matters that might materially impact the quality, accuracy or efficacy of valuation services. Only one service review is allowed prior to any five-year break period. A contract may only be extended following a service review where the continual contractual relationship at the end of the extension will not exceed eight years.

Q1. Do you agree with the revised UK VPS 3.3 covering rotation?

Q2. Do you have any suggested changes?

Q3 Are there areas where more flexibility should be built into the mandatory rotation policy?

Q4. Please set out any additional wording or exclusions you would make.

Q5. What is your view on the cost of implementation and business impact [whether positive or negative] of the new UK VPS 3.3, and the benefits?

Please provide objective justification and sufficient evidence to support your responses to the questions.

If you would like to respond to these questions, please do so on the consultation site [UK VPS 3 Questionnaire](#)

[Draft rotation transition policy](#)

Transition to valuer and firm rotation

The dates included in the following section are subject to the approval of the RICS Standards and Regulation Board and may be subject to change.

- From 1 October 2023 the valuer and firm rotation arrangements set out in UK VPS 3.3 become mandatory: It prescribes a maximum five-year continual contractual relationship period for valuation services for a Regulated Purpose, with the option of up to a three-year extension period, subject to a successful

service review. This is followed by a mandatory break of five consecutive years until the next permitted instruction of that valuer and/or firm.

- A regulated valuer and/or firm considering entering into a new contract or continuance of an existing contract for valuation services in respect of a Regulated Purpose on or after 1 October 2023, must take into account any pre-existing contractual relationship had by the valuer and/or valuer's firm with the client prior to 1 October 2023, in assessing their compliance with the new rules under UK VPS 3.3.
- Subject to the terms of the transitional provisions detailed below, valuers and/or firms may complete existing contracts with clients that are ongoing on 1 October 2023.
- Where a valuer and/or valuer's firm as at 1 October 2023 is engaged in an existing valuation contract for a Regulated Purpose and that contract either may or must be brought to an end on or before 30 September 2026, the valuer and/or valuer's firm may extend the contract for one period not exceeding 18 months, without a service review having occurred, even where the continuing contractual relationship exceeds or will exceed eight years, without breaching the rotation policy, in order to allow an orderly rotation to a new valuation advisor.
- Where a valuer and/or valuer's firm as at 1 October 2023 is engaged in an existing valuation contract for a Regulated Purpose which ends on or after 1 October 2026 and the continuing contractual relationship will have existed for a duration of eight years or more at the contract end date, valuers and/or valuer's firms must ensure that the new rotation policy stated in UK VPS 3.3 is applied by ending or varying the contractual relationship no later than 1 October 2026 to ensure that the continuing contractual relationship does not exceed five years, where they can do so within the terms of the contract (for example a valuer's without penalty break provision; or the exercise of a right to terminate on reasonable notice; or termination by agreement (this is not an exhaustive list)) and without unreasonable penalty.

Q1. Do you agree with the proposed rotation transition policy?

Q2. Do you have any suggested changes?

Q3. Please set out any additional wording or exclusions would you make, and provide objective justification for the same?

Q4. What is your view on the cost of implementation and business impact [whether positive or negative] of the new rotation transition, and the benefits?

Please provide objective justification and sufficient evidence to support your responses to the questions.

If you would like to respond to these questions, please do so on the consultation site [UK VPS 3 Questionnaire](#)

Draft UK VPS 3.4 Terms of engagement and instructions

UK VPS 3.4 Terms of engagement and instructions

In addition to the standards set out in Red Book Global Standards VPS 1, the valuer must verify that the instruction or draft instruction has been made with the approval of one of the following authorities from the client (or a role of equivalent power and/or authority):

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

This should be explicitly and expressly detailed within the final instructions and terms of engagement and clearly stated within the valuation report, including within any published version.

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

Where any instructing party, including in respect of draft instructions, is an RICS member, the valuer should highlight to the member their obligations under RICS' [Rules of Conduct](#) and the current edition of RICS' [Conflicts of Interest](#). Confirmation that this has been undertaken 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 written term of engagement, otherwise there should be a written statement confirming 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 PS 2 section 3 of Red Book Global Standards.

Q1. Do you agree with the revised UK VPS 3.4?

Q2. Do you have any suggested changes?

Q3. What additions or exclusions would you make?

Q4. What is your view on the cost of implementation and business impact [whether positive or negative] of the new UK VPS 3.4, and the benefits?

Please provide objective justification and sufficient evidence to support your responses to the questions.

If you would like to respond to these questions, please do so on the consultation site [UK VPS 3 Questionnaire](#)

Draft UK VPS 3.5 Preliminary advice, draft reporting, and client discussions

UK VPS 3.5 Preliminary advice, draft reporting, and client discussions

Valuers should be familiar with Red Book Global Standards PS 2 paragraphs 3.12-3.15 covering preliminary advice, draft reporting, and valuation discussions.

The requirements of PS 2 paragraphs 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.

A file note can be digital or based on a transcript of recorded meetings but must be capable of being produced for appropriate third parties where so needed. The file note should be countersigned by a: non-executive director, independent chair of their audit committee, a corporate compliance officer or a role of equivalent power and/or authority, confirming that they have overseen the resulting changes.

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

When providing a valuation as part of a tendering process, valuers are reminded that Red Book Global Standards and those of this UK national supplement apply. In such circumstances valuers should be mindful of the need to provide objective and accurate valuation advice and should not be swayed by the opportunity to win new business.

Q1. Do you agree with the revised UK VPS 3.5?

Q2. Do you have any suggested changes?

Q3. What additions or exclusions would you make?

Q4. What is your view on the cost of implementation and business impact [whether positive or negative] of the new UK VPS 3.5, and the benefits?

Please provide objective justification and sufficient evidence to support your responses to the questions.

If you would like to respond to these questions, please do so on the consultation site [UK VPS 3 Questionnaire](#)

Next steps and roadmap

VRIC will review the responses to this consultation carefully and aim to deliver the final standards by Q1 2023, with the approval of SRB. Additional detail can be found in the Review implementation [roadmap](#) and [Review webpage](#).