~~Preface~~

~~This updated global edition of the RICS Valuation – Global Standards, or the RICS 'Red Book Global Standards' as it has become widely known, reflects, among other things, the recent changes made and incorporated into the International Valuation Standards (IVS), as well as continuing progress in the development of international standards for ethics and for measurement. Other refinements include, but are not limited to:~~

- ~~articulating in more detail the need for clear, unambiguous and documented terms of engagement when members apply any exceptions to VPS 1-5 under PS 1 section 5, Exceptions~~
- ~~definitions and additional commentary on matters relating to sustainability/resilience and environmental, social and governance (ESG) in the Glossary, VPS 2, VPS 3, VPGA 2, Secured lending and VPGA 8, Valuation of real property interests~~
- ~~improving and/or clarifying some of the existing Red Book Global Standards text in the light of feedback, experience and also evolving needs.~~

~~Red Book Global Standards reflects the growing importance of successfully combining professional, technical and performance standards in order to deliver high quality valuation advice that meets the expectations and requirements of clients; of governments, regulatory bodies and other standard-setters; and of the public.~~

~~Transparency, consistency and the avoidance of conflicts of interest have never been more important. Nor has technical expertise and practical ability ever been more in demand, including the experience and insight necessary to interpret and review market dynamics and trends, and – in relation to real estate assets – to recognise the growing relevance of sustainability factors as a market influence. RICS-qualified valuers are at the forefront of the valuation profession and the Red Book Global Standards is their definitive implementation guide.~~

~~Changes in this updated edition continue to focus on enhancing its clarity and ease of use, with improved cross-references to other source documents. As before, the International Valuation Standards are cross-referenced throughout and reproduced in full in Part 6.~~

~~All members providing a written valuation are required to comply with the standards set out in this updated edition – in other words, unless stated otherwise, they are mandatory. The valuation practice guidance – applications (VPGAs) also included in this edition focus in greater detail on the practical application of the standards in specific contexts, whether for a particular valuation purpose or in relation to a particular asset type – they are advisory. The status of the component elements of the Red Book Global Standards is explained in more detail in the Introduction that follows and in the second section of the Glossary.~~

Part 1: Introduction

Overall purpose

1 ~~1~~ Consistency, accuracy, objectivity and transparency are fundamental to building and sustaining public confidence and trust in *valuation*. ~~In turn their achievement depends~~They depend crucially on *valuation*~~-~~ providers possessing and deploying the appropriate skills, knowledge, experience and ethical behaviour, both to form sound ~~judgments~~judgements and to report opinions of value clearly and unambiguously to clients and other *valuation* users, in accordance with globally recognised ~~norms~~standards.

~~2 As the requirements of governments and regulators progressively increase and the expectations of valuation users continue to grow, global standards for valuation have continued to evolve and now take three different but closely interrelated forms:~~

~~a Professional standards – centred on ethics and conduct, underpinned by knowledge and competence.~~

~~b Technical standards – centred on common definitions and conventions, underpinned by consistent application through recognised approaches.~~

~~c Performance or delivery standards – centred on rigour in analysis and objectivity of judgment, backed by appropriate documentation and clarity when reporting.~~

~~1~~2 ~~3~~ With its focus on practical implementation, this ~~updated~~ edition of ~~the~~ *RICS Valuation – Global Standards*~~, commonly referred to as the RICS~~ (Red Book Global Standards~~,~~) applies the latest international standards and supplements them with additional requirements and best practice guidance ~~that, when~~. When combined, they provide the highest levels of assurance to promote and maintain public trust in valuation professionalism and quality.

3 ~~4 At its heart this volume~~This edition adopts and applies the *International Valuation Standards* (IVS) published by the ~~International Valuation Standards Council (IVSC). The IVS consist of~~International Valuation Standards Council (IVSC). IVS includes mandatory requirements that must be followed in order to ~~state~~declare that a *valuation* was performed in compliance with it. ~~Some aspects of~~ Changes since the ~~standards do not direct or mandate any particular course of action, but provide fundamental principles and concepts~~last edition include:

- an updated glossary that ~~must be considered in undertaking~~ clarifies alignment with IVS
- a revised ordering of VPSs to map to IVS and
- a new **VPS 5** covering *valuation models* to align with IVS.

4 ~~5 These technical standards~~ The IVS are reproduced with kind permission from IVSC in Part 6. They were approved by the IVSC Standards Board with an effective date of 31 January 2025.

5 Members are reminded that IVSC reserves the right to make further amendments to IVS at any time. Any consequential amendments to Red Book Global Standards will be made in accordance with paragraphs 21–22 below.

~~2~~6 Red Book Global Standards is delivered ~~within~~in a broader framework of ~~RICS standards, or~~RICS Rules of Conduct and professional ~~statements as they are individually termed,~~standards covering ethics, skills and conduct – including express requirements regarding the maintenance of confidentiality and the avoidance of conflicts of interest. This RICS framework also has regard to the ~~International Ethics Standards. Finally, when undertaking work in connection with real estate, RICS members must also have regard to the International Property Measurement Standards (IPMS) wherever applicable, which also continue in development.~~International Ethics Standards.

~~3~~7 ~~6~~ Compliance with professional, technical and performance standards is reinforced by a well-established ~~system~~process of regulation and, where necessary, enforcement; and ~~by the progressive introduction of~~through a system of practising RICS Valuer Registration. ~~The whole~~This ensures the positioning of RICS members and *RICS-regulated firms* as the leading global providers of IVS-compliant *valuations*.

~~7 The aim is simply stated – it is to engender confidence, and to provide assurance to clients and recognised users alike, that a valuation provided by an RICS-qualified valuer anywhere in the world will be undertaken to the highest professional standards overall.~~

Coverage

From the valuation provider's perspective

~~4~~8 For members and firms *registered for regulation* by RICS, these global standards set out procedural ~~rules~~requirements and guidance ~~which~~that:

a impose on individual valuers ~~or~~and firms *registered for regulation* by RICS certain mandatory obligations regarding competence, objectivity, transparency and performance

b establish a framework for uniformity and best practice in the execution and delivery of *valuation* assignments through the adoption of ~~the~~ IVS, and

~~b~~c expressly comply with RICS Rules of Conduct.

~~5~~9 These global standards do not:

a instruct members on how to value in individual cases

b prescribe a particular format for reports~~:~~, provided the mandatory requirements in these standards are met, reports should always be appropriate and proportionate to the task

~~c~~ override standards specific to, and mandatory ~~within~~in, individual jurisdictions.

From the valuation user's perspective

~~6~~10 For clients and other *valuation* users, these global standards ensure that *valuation* assignments ~~will be~~are carried out in accordance with ~~the~~ IVS~~, and furthermore~~. Furthermore, they promote and maintain a high level of public trust and confidence by providing assurance of:

a consistency in approach, aiding understanding of the *valuation* process and ~~hence~~ of the value reported

b credible and ~~consistent~~relevant *valuation* opinions by ~~suitably~~competently trained valuers with appropriate qualification and adequate experience for the task, including current knowledge and understanding of the relevant market

c independence, objectivity and transparency in the valuer's approach

d certainty and clarity regarding ~~-~~:

i *terms of engagement (scope of work)*, including matters to be addressed and disclosures to be made

ii ~~e clarity regarding~~ the ~~basis~~*bases of value*, including any *assumptions*, *special assumptions* or material considerations to be taken into account

~~d~~e ~~f clarity~~accuracy in reporting, including proper and adequate disclosure of relevant matters where *valuations* may be relied on by a *third party*.

~~Arrangement~~

Structure and status ~~of RICS global material~~

11 Red Book Global Standards is grouped into ~~three~~six distinct ~~sections (in~~ Parts ~~3, 4 and 5)~~, as explained in detail in paragraphs 12 to 17 below. ~~The first two~~Parts 3 and 4 cover matters relevant to *valuation* assignments generally, ~~the third covers matters relating~~while Part 5 relates to particular *valuation* applications. ~~The intention is to make clear to members what is~~ Parts 3 and 4 contain the mandatory ~~and what is advisory – thus collected together in the first two sections is the mandatory material and in the third the advisory material.~~material emphasised by the use of the emboldened term 'must', and Part 5 contains the advisory material, which includes best practice recommendations denoted by the term 'should' and optional matters using terms such as 'may'. Further detail is contained in the standards and guidance naming conventions in Part 2.

Professional standards – mandatory

12 Global professional and ethical standards as they ~~expressly~~specifically apply to valuers are denoted by ~~the use of~~ a **PS** reference ~~number~~ and are **mandatory** (unless otherwise stated) for all members providing written *valuations*. They define the parameters for compliance with ~~the~~ Red Book Global Standards, including ~~-~~:

- adoption of ~~the International Valuation Standards; set out the~~IVS
- specifying associated RICS regulatory requirements~~;~~, and ~~clarify~~
- clarifying the detailed application of the ~~RICS Rules of Conduct~~RICS Rules of Conduct when members are undertaking *valuation* work.~~-~~

They comprise:

- PS 1 – Compliance with standards where a written valuation is provided
- PS 2 – Ethics, competency, objectivity and disclosures~~.~~

Valuation technical and performance standards – mandatory

~~7~~13 Global valuation technical and performance standards are denoted by ~~the use of~~ a **VPS** ~~reference number~~prefix and contain specific~~,~~ **mandatory** (unless otherwise stated) requirements and related implementation guidance, ~~directed to~~with the ~~provision~~aim of providing a *valuation* that is IVS-compliant. They comprise:

- VPS 1 – Terms of engagement (scope of work)
- VPS 2 – ~~Inspections, investigations and records~~
  ~~VPS 3 – Valuation reports~~
- ~~VPS 4 –~~ Bases of value, assumptions and special assumptions
- VPS ~~5~~3 – Valuation approaches and methods~~.~~
- ~~14 While~~ VPS 4 – Inspections, investigations and records
- VPS 5 – Valuation models
- VPS ~~1, 4 and 5 focus more on technical standards and VPS 2 and 3 focus more on performance and delivery standards, it would not be helpful to seek to categorise them further in any way. Instead their~~6 – Valuation reports

~~8~~14 The current order of the VPSs corresponds with that of ~~the International Valuation~~IVS General Standards, which the VPSs adopt and apply.

RICS global valuation practice guidance ~~–~~ applications (VPGAs) – advisory

~~9~~15 RICS valuation practice guidance ~~–~~ applications are denoted by ~~the use of~~ a **VPGA** ~~reference number~~prefix and provide further implementation guidance in the specific instances listed. ~~Thus, among the topics covered, they~~They include *valuations* for specific purposes (of which financial reporting and secured lending are among the most widely encountered), and *valuations* of ~~certain~~ specific asset types, where particular issues and/or practical considerations expressly need to be taken into account. These VPGAs embody ~~‘~~best ~~practice’~~practice – that is, procedures that in the opinion of RICS meet a high standard of professional competence.

~~10~~16 While not themselves mandatory, the VPGAs do ~~include links and~~ cross~~-references to~~-reference the material in ~~the International Valuation Standards and to material in~~IVS and these global standards that is mandatory. This is intended to assist members in identifying material relevant to the ~~particular~~ *valuation* assignment they are undertaking.

~~11~~17 The VPGAs comprise:

- VPGA 1 – ~~Valuation~~Valuations for ~~inclusion in~~ financial ~~statements~~reporting
- VPGA 2 – ~~Valuation of interests~~Valuations 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 (including infrastructure)
- 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 – ~~Identification of~~Valuing portfolios~~, collections~~ and groups of ~~properties~~assets
- VPGA 10 – ~~Matters that may give rise to material~~Material valuation uncertainty~~.~~ (MVU)
- VPGA 11 – Relationship with auditors

National or jurisdictional standards

18 For jurisdictions with a high concentration of RICS members undertaking *valuations* and/or a particular regulatory need, RICS may also ~~publishes~~publish – separately from but supplementary to these global standards – ~~a number of~~ national professional standards and practice information (commonly titled as national supplements ~~(commonly titled Red Book Jurisdictional Applications~~, jurisdiction guides, National Association Valuation Standards or Application of RICS Valuation: Professional Standards) that address the application of these standards in individual jurisdictions and generally assist interpretation in local contexts. ~~These can be accessed through RICS' website.~~ While remaining consistent with the relevant international standards overall, they are ~~designed~~produced to cover specific statutory~~ or~~, regulatory or other standards requirements in those jurisdictions. ~~This approach~~ Production and maintenance of national standards is ~~fully in accord with United Nations voluntary guidelines encouraging jurisdictions~~at the discretion of RICS and subject to ~~enhance transparency and overall consistency in valuation.~~its governance process. Compliance with local jurisdictional standards is covered in more detail in ~~PS 1 below.~~**PS 1.**

~~19 National or jurisdictional standards and accompanying guidance are available directly from RICS.~~

Effective date~~, duration~~ and amendments ~~to RICS global material~~

~~12~~19 This edition takes effect from 31 January ~~2022~~2025 and applies to all *valuations* where the *valuation date* is on or after that day. Any amendments issued to take effect after that date will be clearly labelled ~~accordingly~~.

~~13~~20 The definitive RICS Red Book Global Standards text current at any given date is that on the ~~RICS website.~~RICS website. Any users of this publication should ~~take care to~~ ensure ~~that~~ they ~~have had proper regard to~~are aware of any amendments subsequently issued.

~~14~~21 The content of these standards is under regular review, and amendments and additions will be issued as and when required. Members' attention will be drawn to ~~these~~any changes, including the effective date of those changes, using established RICS electronic communications channels~~. Such changes will be made to the web-based publication on rics.org at the time, but for the printed version they will be included only in subsequent editions~~.

~~23 Where amendments may have a substantial effect, for instance the rewriting of a valuation technical and performance standard (VPS) or valuation practice guidance application (VPGA), they may be published as an exposure draft on the RICS website. An exposure draft will contain the text authorised for issue for public comment by the RICS Standards and Regulation Board, see the RICS website.~~

~~24 The purpose of an exposure draft is to enable members and others to comment on the proposed text, and possibly identify flaws, before its incorporation into the Red Book Global Standards. The text of an exposure~~

~~draft will, after consideration of any comments made and final approval by the RICS Standards and Regulation Board, become mandatory on the effective date of the next Red Book Global Standards update following its publication. Again members' attention will expressly be drawn to such changes using established RICS electronic communication channels.~~

~~25 The RICS Global Standards and Regulation Board is pleased to receive suggestions for inclusion of additional material or requests for clarification of the text.~~

~~IVSC International Valuation Standards~~

~~Effective date, duration and amendments to the International Valuation Standards~~

~~26 The International Valuation Standards reproduced with kind permission from IVSC in full in Part 6 are those approved by the IVSC Standards Board with an effective date of 31 January 2022.~~

~~27 Members are reminded that IVSC reserves the right to make further amendments to IVS at any time. Any consequential~~Where amendments ~~to Red Book Global Standards~~ may have a significant effect, they will be ~~made as soon as possible and will be accessible~~publicly consulted on ~~RICS' website (see under 'Currency of the text' and 'Amendments and exposure drafts' above).~~

~~15~~22 ~~28 The IVS are adopted and applied~~in most cases, with access to a consultation draft facilitated through ~~these~~the RICS ~~global standards, being cross-referenced throughout Parts 3 to 5 for members' convenience~~website.

~~Important note~~

~~It is the member's responsibility to be aware of changes since the date of publication of this edition to legislation or to its interpretation through case law – and also to be aware of amendments to the International Valuation Standards or to any other valuation standards relevant to the particular valuation assignment. Valuers should refer to the RICS website for any updates regarding RICS material, including changes consequent on amendments to the International Valuation Standards. More generally, members are reminded of their responsibility to undertake continuing professional development (CPD) to ensure that they continue to meet the broader requirements for knowledge, experience and competence expected and reflected in these global standards that follow.~~

Feedback on consultation drafts will be considered by the Global Valuation Standards Expert Working Group and the appropriate RICS governance, including the Knowledge and Practice Committee and Standards and Regulation Board, who give final approval for any changes.

Part 2: Glossary

~~RICS glossary of technical terms~~

This glossary defines terms used in these global standards that have a special or restricted meaning~~.~~, or where clarification is required around alignment with IVS or other relevant standards. Words or phrases not appearing in the glossary follow their common dictionary meaning. Where a ~~term~~ defined ~~below~~term is used in ~~the remainder of~~ this volume, it is identified~~ in the text~~ with *italic* font.

Members' attention is drawn to ~~the fact that IVS~~IVS' glossary (reproduced in Part 6~~ of this edition) includes a short, dedicated glossary with certain~~), which has additional definitions specifically to assist with the understanding and application of ~~the~~ IVS~~, including~~. This includes the convention used by IVSC to signal the status of individual IVS content, for example, whether it is mandatory, advisory, etc. These are not replicated here. The individual IVSC standards also contain definitions specific to the particular IVS, to which ~~valuers~~members should refer as appropriate.

RICS national or jurisdictional standards may have additional defined terms~~:~~; these will be identified and defined in the context of the specific standard.

Term	Definition
Assumption	A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a *valuation* that, by agreement, do not need to be verified by the valuer as part of the *valuation* process.~~ Typically, an assumption is made where specific investigation by the valuer is not required in order to prove that something is true.~~
Basis of value	~~A statement of the fundamental measurement assumptions of a valuation. In some jurisdictions, the basis of value is also known as the 'standard of value'.~~ The fundamental premises on which the reported values are or will be based (examples are included in IVS 102 paragraph 20 and IVS 102 Bases of Value: Appendix).
Cost approach	An approach that provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to~~-~~ obtain an asset of equal utility, whether by purchase or construction.
Date of the report	The date on which the valuer signs the report.
Date of valuation	See *valuation date*.
Departure	~~Special circumstances where the mandatory application of these global standards may be inappropriate or impractical. (See PS 1 section 6.)~~Advice provided by a valuer that is contrary to a specific provision in **VPSs 1–6** that is not mandatory within the relevant context or jurisdiction nor within the specific exceptions in **PS 1**

	section 5 (see PS 1 section 6).
Depreciated replacement cost (DRC)	The current cost of replacing an asset with its modern equivalent asset, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.
Equitable value	The estimated price for the transfer of an asset or liability between identified, knowledgeable and willing parties that reflects the respective interests of those parties (see IVS 1042 paragraph ~~50.1~~A30).
Environmental, social and governance (ESG)	The criteria that together establish the framework for assessing the impact of the *sustainability* and ethical practices, financial performance or operations of a company, asset or liability. *ESG* comprises three pillars: *environmental, social and governance*, all of which may collectively impact performance, the wider markets and society (IVS glossary).~~Although ESG principally refers to companies and investors, ESG-related factors are also used to describe the characteristics and, where relevant, operation of individual assets. It is used throughout these standards in this context.~~ The definition above highlights that although *ESG* can refer to companies and investors, *ESG*-related factors are also used to describe the characteristics and, where relevant, operation of individual and groups of assets. It is used throughout these standards in this context. Also see *sustainability*. Both terms are used in conjunction throughout these standards; however, *ESG* is the assessment tool and framework, whereas *sustainability* is the goal and/or outcome.
External valuer	A valuer who, together with any associates, has no material links with the client, an agent acting on behalf of the client or the subject of the assignment.

Term	Definition
Fair value	'The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.' (IFRS 13.) Other definitions may apply/exist.
Financial statements	Written statements of the financial position of a person or a corporate entity, and formal financial records of prescribed content and form. These are published to provide information to a wide variety of unspecified *third-party* users. *Financial statements* carry a measure of public accountability that is developed within a regulatory framework of accounting standards and the law.
Firm	The *firm* or organisation for which the member works, or through which the member trades.
Goodwill	Any future economic benefit arising from a business, an interest in a business, or the use of a group of assets that is not separable. The aspects of *goodwill* can vary depending on the intended use of the *valuation* (see IVS 210, para 20.09).
Income approach	An approach that provides an indication of value by converting future cash flows to a single current capital value.
Inspection	A visit to a property or *inspection* of an asset to examine it and obtain relevant information in order to express a professional opinion of its value. However, physical examination of a non-*real estate* asset, for example, a work of art or an antique, would not be described as '*inspection*' as such.
Intangible asset	A non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner.
Internal valuer	A valuer who is in the employ of either the enterprise that owns the assets, or the accounting firm responsible for preparing the enterprise's financial records and/or reports. An *internal valuer* is generally capable of meeting the requirements of independence and professional objectivity in accordance with PS 2 section 3, but may not always be able to satisfy additional criteria for independence specific to certain types of assignment, for example under PS 2 paragraph 3.4.

Term	Definition
International Financial Reporting Standards (IFRS)	Standards set by the International Accounting Standards Board (IASB) with the objective of achieving uniformity in accounting principles. The standards are developed within a conceptual framework so that elements of *financial statements* are identified and treated in a manner that is universally applicable.
Investment property	Property that is land or a building, or part of a building, or both, held by the owner to earn rentals or for capital appreciation, or both, rather than for: • use in the production or supply of goods or services, or for administrative purposes, or • sale in the ordinary course of business.
Investment value, or worth	The value of an asset to the owner or a prospective owner for individual investment or operational objectives (see IVS 1042 paragraph ~~60.1~~ A40).
Market approach	An approach that provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.
Market rent ~~(MR)~~	The estimated amount for which an interest in real property should be leased on the *valuation date* between a willing lessor and willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 1042 paragraph ~~40.1~~ A20).
Market value ~~(MV)~~	The estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS ~~104~~102 paragraph ~~30.1~~A10).
Marriage value/ synergistic value	An additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values.

Term	Definition
~~member~~	~~A Fellow, professional member, associate member or honorary member of the Royal Institution of Chartered Surveyors (RICS).~~
Personal property	Assets (or liabilities) not permanently attached to land or buildings: • **including**, but not limited to, fine and decorative arts, antiques, paintings, gems and jewellery, collectables, fixtures and furnishings, and other general contents • **excluding** trade fixtures and fittings, *plant and equipment*, businesses or business interests, or *intangible assets*. The boundaries between these categories are not always easy to define, and the criteria used may vary according to the particular market sector the assets serve, the purpose of the *valuation* and relevant national and international accounting conventions. In particular, the term *personal property* is used to describe *plant and equipment* (and other assets not forming part of real property) in certain jurisdictions, and additionally used to describe arts and antiques in other jurisdictions.

Term	Definition
Plant and equipment (including infrastructure)	This may be broadly divided into the following categories. • **Plant:** assets that are combined with others and that may include items that form part of industrial infrastructure, utilities, building services installations, specialised buildings, and machinery and equipment forming a dedicated assemblage. • **Machinery:** individual, or a collection or a fleet or system of, configured machines/technology (including mobile assets such as vehicles, rail, shipping and aircraft) that may be employed, installed or remotely operated in connection with a user's industrial or commercial processes, trade or business sector (a machine is an apparatus used for a specific process). • **Equipment:** an all-encompassing term for other assets such as sundry machinery, tooling, fixtures, furniture and furnishings, trade fixtures and fittings, sundry equipment and technology and loose tools that are used to assist the operation of the enterprise or entity. • **Infrastructure:** a collection of assets, systems and facilities dedicated to a specific production process requirement; this may include a significant quantity of different equipment, civil works, land improvements and structures.
Purpose of valuation/ valuation purpose	The reason(s) a *valuation* is performed. For the purpose of these standards, it is broadly equivalent to the IVS-defined term 'intended use'.
Real estate	Land and all things that are a natural part of the land (e.g. trees, minerals) and things that have been attached to the land (e.g. buildings and site improvements) and all permanent building attachments (e.g. mechanical and electrical plant providing services to a building), that are both below and above the ground. (Note that a right of ownership, control, use or occupation of land and buildings is defined as a real property interest in IVS 400 paragraph 20.2.)
Records/ valuation records/ documentation	A piece of information that is stored, either as a digital record or hard copy. This is referred to in IVS in different contexts as data, inputs and documentation. Data and input documentation is covered in IVS 104 paragraph 50.

Term	Definition
Regulated by RICS (RICS-regulated firm)/registered for regulation	~~a) A firm that is registered for regulation by RICS under the RICS bye-laws.~~ ~~A member who is registered as a valuer under RICS Valuer Registration (VR).~~A *firm* or individual that is *registered for regulation* by RICS under the RICS bye-laws.
Responsible valuer	A named valuer who accepts responsibility for the *valuation* and is appropriately qualified (defined at **PS 2 paragraph 2.1**).
Special assumption	An *assumption* that either assumes facts that differ from the actual facts existing at the *valuation date* or that would not be made by a typical market participant in a transaction on the *valuation date*. In some jurisdictions these are also referred to as hypothetical conditions.
Special purchaser	A particular buyer for whom a particular asset has a *special value* because of advantages arising from its ownership that would not be available to other buyers in a market.
Special value	An amount that reflects particular attributes of an asset that are only of value to a *special purchaser*.
Specialised property	A property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise.
Sustainability	~~Sustainability is, for the purpose of these standards, taken to mean the consideration of matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and corporate responsibility that can or do impact on the valuation of an asset. In broad terms it is a desire to carry out activities without depleting resources or having harmful impacts.~~ ~~There is as yet no universally recognised and globally adopted definition of 'sustainability'. Therefore, members should exercise caution over the use of the term without additional appropriate explanation. In some jurisdictions, the term 'resilience' is being adopted to replace the term 'sustainability' when related to property assets.~~ ~~Sustainability may also be a factor in environmental, social and governance (ESG) considerations.~~Carrying out activities without depleting resources or having harmful impacts. It includes matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and collective responsibility that can or do impact *valuation*. Also see *environmental, social and governance (ESG)*. Both terms are used in conjunction throughout these standards; however, *ESG* is the

	assessment tool and framework, whereas *sustainability* is the goal and/or outcome.
Terms of engagement (or scope of work)	Written confirmation of the conditions that either the member proposes or that the member and client have agreed will apply to the undertaking and reporting of the *valuation*. Referred to in IVS as 'scope of work' – see IVS 101 paragraph 10.01.
Third party	Any party, other than the client, who may have an interest in the *valuation* or its outcome.
Trade related property	Any type of real property, designed or adapted for a specific type of business, where the property value reflects the trading potential for that business.
Trading stock	Stock held for sale in the ordinary course of business, for example, in relation to property, land and buildings held for sale by builders and development companies.
Valuation	An opinion of the value of an asset or liability on a stated basis, at a specified date. If supplied in written form, all *valuation* advice given by members is subject to at least some of the requirements of Red Book Global Standards – there are no exemptions (**PS 1 paragraph 1.1**). Unless limitations are agreed in the *terms of engagement, a valuation* will be provided after an *inspection*, and any further investigations and enquiries that are appropriate, having regard to the nature of the asset and the *purpose of the valuation*. IVS define *valuation* as a process: 'The act or process of forming a conclusion on a value as of a valuation date that is prepared in compliance with IVS.'
Valuation date	The date on which the opinion of value applies. The *valuation date* should also include the time at which it applies if the value of the type of asset can change materially in the course of a single day.
Valuation model	A quantitative implementation of a method in whole or in part that converts inputs into outputs used in the development of a value.
Valuation process review	A part or the whole of a *valuation review* (see definition below) that addresses compliance with IVS and/or compliance with Red Book Global Standards.

Term	Definition
Valuation review	This is defined in the IVS glossary as either a *valuation process review* or a *value review*, or both. IVS 101 confirms that a *valuation review* is not a *valuation*, and that the scope of work must state whether the *valuation review* is a *valuation process review* or a *value review*, or both. However, IVS 106 paragraph 40.02 notes that if a value is provided as part of the *value review*, then this is a *valuation*.
Value review	A part of or the whole of a *valuation review* (see definition above). A *value review* is defined in the IVS glossary as an analysis by the valuer applying IVS to assess and provide an opinion on the value of another valuer's work. This does not include an opinion on the *valuation* process. IVS 101 confirms that a *value review* addresses the reasonableness of a value.
Worth	See *investment value*.

Standards and guidance naming conventions explained

Description	Status	~~Inclusions~~Includes	Comments
Standards	Mandatory	~~The~~Mandatory International Valuation Standards (IVS) as issued by the International Valuation Standards Council (IVSC). RICS professional standards – denoted by the prefix PS. RICS valuation technical and performance standards – denoted by the prefix VPS.	~~The~~ IVS are adopted and applied by RICS in Red Book Global Standards, being cross-referenced throughout. Members **must** comply with an RICS professional standard. Standards include mandatory requirements, which use the word 'must' and must be complied with.
Guidance	Advisory	RICS valuation practice guidance applications – denoted by the prefix VPGA.	VPGAs are advisory and not mandatory in content. However, they alert members (where appropriate) to relevant mandatory material contained elsewhere in Red Book Global Standards, including to the relevant IVS~~, by the inclusion of appropriate cross-references.~~. Guidance includes recommended best practice, which uses the word 'should'. It is recognised that there may be acceptable alternatives to best practice that achieve the same or a better outcome.

~~RICS also separately publishes guidance from time to time on other valuation topics in the form of guidance notes. Such material is advisory in nature. It is available on the RICS website.~~

In regulatory or disciplinary proceedings, RICS will take into account relevant professional standards when deciding whether an RICS member or *RICS-regulated firm* acted appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards into account.

RICS also separately publishes professional standards and practice information covering specific specialist subjects and/or single jurisdictions.

Part 3: Professional standards

PS 1~~.~~ Compliance with standards where a written valuation is provided

~~This mandatory standard:~~

~~applies International Valuation Standard (IVS) 102 Section 10 General Principle (Compliance with IVS) and Section 40 Compliance with Other Standards~~

~~recognises the International Ethics Standards and the International Property Measurement Standards~~

~~specifies additional mandatory requirements for RICS members.~~

~~All members, whether practising individually or within an RICS-regulated or non-regulated firm, who provide a written valuation are required to comply with the international standards and RICS global standards set out below.~~
~~Members must also comply with the requirements of RICS Valuer Registration (VR).~~
~~1~~

All members, whether practising individually or within an *RICS-regulated* or non-regulated *firm*, who provide a written *valuation* **must** comply with the mandatory standards set out below.

Members **must** also comply with the requirements of RICS Valuer Registration Scheme (VRS).

1 Mandatory application

1~~.~~,1 ~~All members and regulated firms, wherever practising, must comply~~Compliance with **PS 1, PS 2** and the ~~professional, valuation technical and performance standards (designated by the prefixes PS and VPS) in Parts 3 and 4 of this global edition.~~

~~1.2 In accordance with RICS bye-law B5.2.1(b) Liability of Members and RICS bye-law B5.3.1 Liability of Firms,~~**VPSs** within these global standards ~~are therefore of~~is mandatory ~~application to~~for any member of RICS or *RICS-regulated firm* involved in undertaking or supervising *valuation* services by the provision of written *valuation* advice~~. Together with the guidance relating to specific valuation practice guidance – applications (VPGAs) in Part 5 of this global edition, they are commonly referred to as the RICS 'Red Book Global Standards'.~~, notwithstanding the exceptions to the **VPSs** covered at **PS 1 section 5**.

1~~.3~~2 The phrase 'undertaking or supervising *valuation* services' includes any person who is responsible for, or accepts responsibility for, analysing and communicating a written opinion of value. This may include individuals who produce but do not sign *valuation* reports ~~within~~in their organisation, and conversely individuals who sign by way of supervision or assurance but ~~do not produce valuation reports within their organisation. 'Written' for this purpose means conveyed by paper, by any electronic or digital means or form of recorded media (for purely oral opinions of value see paragraph 1.6 below).~~

~~1.4 For~~do not produce *valuation* reports in their organisation. 'Written' for this purpose means conveyed by paper, any electronic or digital means, or form of recorded media (for purely oral opinions of value, see paragraph 1.8 below).

1.3 IVS 105, which addresses the ~~avoidance of doubt,~~selection and use of *valuation models* to be used in the ~~provision of~~ *valuation* process, says 'No model without the valuer applying professional judgement, for example an automated valuation model (AVM~~)-derived~~), can produce an IVS-compliant valuation'.

An AVM output ~~or one~~ that has not been subject to the application of professional judgement by a valuer is also not compliant with these standards. The provision of a *valuation* wholly or partly based on the output of one or more of:

- an automated valuation model (AVM)
- a *valuation modelling* tool ~~(see VPS 5 paragraph 4) is~~or *valuation* calculation software
- a *valuation* process software tool or template automation tool
- a model and/or process assisted or produced by artificial intelligence (AI)

or their equivalent(s) is only regarded as the provision of a written *valuation* for the purpose of these standards~~.~~ if it has been subject to the additional application of professional judgement by a valuer, which **must** be applied in accordance with the mandatory requirements of these standards.

1.4 ~~1.5~~ The use of open source and/or commercially available AI is not prohibited, subject to professional judgement, *terms of engagement*, investigations, reporting and *records* appropriately and proportionately considering:

- confidentiality
- intellectual property
- data and input verification
- appropriate assessment and professional judgement in relation to any process and/or model outputs (also see 1.3 above)
- transparency with the intended user(s) of the *valuation* and
- all other ethical, technical and legal matters referred to in these standards.

1.5 The use of data from some form of automated data gathering, such as but not limited to scraping tools (software programmed to sift through usually public databases and extract information) and application programme interfaces (APIs) is usually acceptable subject to 1.3 and 1.4 above, confidentiality, professional judgement, intellectual property rights and verification.

1.6 A specialist or service organisation may be used for any of the tasks or operations referred to at paragraphs 1.3–1.5; see IVS 104 Data and Inputs, section 20.

~~1.4~~1.7 An estimated replacement cost figure for assets other than *personal property* that is provided either ~~within~~in 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~~2 above.

~~1.5~~1.8 ~~1.6~~ For the avoidance of doubt, where – exceptionally – *valuation* advice is provided wholly orally, ~~the principles set out in this volume~~these standards should still be observed to the fullest extent possible. Members are reminded that the mere fact that advice is provided orally does not mean that it is therefore provided without liability – the ~~valuer's~~member's responsibilities and obligations will always depend on the facts and circumstances of the individual case. In some jurisdictions, the provision of oral *valuation* advice is in any event subject to jurisdiction-specific standards requirements. ~~Furthermore, in~~In all jurisdictions ~~valuers~~, members acting as expert witnesses should be alert to the fact that both oral and written advice will be subject to the same criteria – see, for example, the ~~RICS UK practice statement and guidance note,~~current edition of RICS' ~~Surveyors acting as expert witnesses, 4th edition (2014).~~Surveyors acting as expert witnesses.

~~1.6~~1.9 These global standards have been written as they apply to the individual member. Where it is necessary to consider their application to a *firm registered for regulation* by RICS, they are to be interpreted accordingly.

~~2~~

2 Compliance within firms

2.1 There is an individual responsibility on the part of all *members* to comply with these global standards whether they practise as individuals or within *firms*. In the latter case, how this responsibility is put into practice will depend, to a certain extent, on the nature of the *firm*~~:~~.

- *Firms regulated by RICS*: The *firm* and all RICS members ~~within~~in the *firm* **must** ensure that all processes and *valuations* are fully compliant with the mandatory requirements in these global standards. This includes *valuations* that are not the responsibility of an RICS member.
- *Firms* not regulated by RICS: While such *firms* may have their own corporate processes over which RICS cannot exert control, individual members in these *firms* who are responsible for *valuations* **must** comply with the mandatory requirements in these global standards.

~~2.2 There may be circumstances where the firm's processes expressly prevent compliance with a particular aspect of these global standards. In such cases the member is entitled to depart from the specific standard, but must:~~

- ~~be satisfied that the non-compliance does not lead to clients being misled or to unethical behaviour~~
- ~~identify in the terms of engagement (see VPS 1) and the report (see VPS 3) the specific areas where compliance with any element of the standards has been precluded, together with the reason for this non-compliance and~~
- ~~comply with all other aspects of these global standards.~~

~~2.3~~**2.2** Where the member contributes to a *valuation*, reference should also be made to ~~PS 2 section 2~~**PS 2 section 2**.

~~3~~

3 Compliance with international standards

International Valuation Standards (IVS)

3~~.~~.1 RICS recognises the International Valuation Standards Council (IVSC) as the setter of International Valuation Standards (IVS), which comprise internationally accepted *valuation* principles and definitions. These global standards adopt and apply ~~the~~ IVS, setting out specific requirements for, together with additional guidance on, their practical implementation. ~~The~~ IVS effective from 31 January ~~2020~~2025 are reproduced in full in ~~Part 6~~Part 6 of these global standards.

3~~.~~.2 Where there is ~~an express~~a specific requirement in relation to an individual *valuation* assignment that the *valuation* complies with IVS, and this needs to be made clear both in the *terms of engagement* and in the report, then the form of endorsement in ~~VPS 1 paragraph 3.2(n) and VPS 3 paragraph 2.2(k) may be adopted. Otherwise, the general form of endorsement in VPS 1 and VPS 3 may be used, namely that the valuation will be/has been undertaken in accordance with RICS Red Book Global Standards (more formally, the RICS Valuation – Global Standards).~~**VPS 1 paragraph 3.2(n)** and **VPS 6 paragraph 2.2(k)** may be adopted. Otherwise, the general form of endorsement in **VPS 1** and **VPS 6** may be used, namely that the *valuation* will be/has been undertaken in accordance with Red Book Global Standards (more formally, *RICS Valuation – Global Standards*).

3~~.~~.3 Members are reminded that where a statement is made that a *valuation* will be or has been undertaken in accordance with ~~the~~ IVS, it is implicit that all relevant individual IVS standards are complied with. ~~Where a departure from IVS is necessary, this should be clearly explained.~~

International Ethics Standards (IES)

3.4 ~~3.4~~ RICS is a member of ~~the~~an international coalition of professional organisations ~~established to~~ that develop and implement ~~the first set of~~ globally recognised ethics standards for property and related professional services~~.~~, known as the International Ethics Standards Coalition (IESC). The global standards in this ~~volume~~edition are consistent with the ~~ethical principles published to date by the~~2021 IES ~~coalition~~, and also include additional and more detailed requirements that all members **must** observe. IES does not replace the RICS Rules of Conduct that are mandatory for RICS members and *RICS-regulated firms*.

International Property Measurement Standards (IPMS)

3.5 ~~3.5~~ RICS is also a member of ~~the~~an international coalition of professional organisations ~~established to~~that develop and implement consistent and transparent property (i.e. *real estate*) measurement standards. Where members are undertaking *valuation* work relating to *real estate* assets or liabilities, they ~~must~~should have regard to the ~~International Property Measurement Standards~~International Property Measurement Standards (IPMS) wherever applicable~~. The RICS property measurement professional statement contains more detail~~.

~~4~~

4 Compliance with jurisdictional or other valuation standards

~~4.1~~ It is recognised that a member and/or *RICS-regulated firm* may be requested to provide ~~a report~~*valuations* that ~~complies~~comply with *valuation* standards other than ~~the standards~~those set out in Red Book Global Standards. This will normally arise in relation to the ~~particular~~ requirements that apply ~~within~~in individual jurisdictions. ~~It is perfectly proper for members to~~Members and *RICS-regulated firms* can comply with such requirements, which may include a *basis of value* not listed in ~~VPS 4 below, provided it is absolutely clear which standards are being adopted.~~

4.1 ~~4.2~~ **VPS 2.** In these cases, a statement **must** be included in the *terms of engagement* and in the report that the named *valuation* standards have been complied with. ~~If the compliance~~The *basis of value* adopted, and its definition, **must** also be included in the *terms of engagement* and report.

~~4.1~~4.2 If compliance with *valuation* standards other than those set out in Red Book Global Standards is mandatory in the jurisdiction concerned, i.e. because of statutory, regulatory or other authoritative requirements, then this does not preclude the *valuation* still being declared as performed in accordance with ~~the Red Book Global and – if appropriate – with the IVS.~~Red Book Global Standards. Members are reminded that if supplied in written form, all *valuation* advice given by members is subject to at least some of the requirements of Red Book Global Standards – there are no exemptions (**PS 1 paragraph 1.1**).

~~4.2~~4.3 ~~4.3~~ ~~For a number of jurisdictions,~~ RICS ~~publishes~~may publish national supplements to ~~the~~ Red Book Global Standards to assist members in the application of the *valuation* standards in a local context. Where appropriate, these supplements may be produced as joint publications with local valuation professional organisations (VPOs) or published separately but reflecting those VPOs' requirements where not at variance with RICS requirements.

~~4.3~~4.4 ~~4.4~~ Where the compliance with other valuation standards is voluntary, i.e. not falling within either paragraph 4.2 above or this paragraph, this will involve a *departure* – see ~~section 6~~**section 6** below. Note that compliance with ~~such~~other *valuation* standards cannot override the mandatory requirements of **PS 1** and ~~PS 2,~~**PS 2**, which members **must** at all times observe.

~~4.5 Where the valuation involves assets in two or more countries or states with different valuation standards, the member must agree with the client which standards will apply to the instruction.~~

~~4.6 Departures from the IVS to comply with legislative and regulatory requirements that are in conflict with the standards are allowed. In such circumstances, a valuer may still state that the valuation has been performed in accordance with the IVS.~~

~~5 VPS~~

5 VPSs 1–~~5~~6 exceptions

5.1 ~~5.1 If supplied in written form, all~~**PS 1** and **PS 2** are mandatory and apply in all cases when members are providing *valuation* advice ~~given by members is subject to at least some of the requirements of the Red Book Global Standards – there are no exemptions (PS 1 paragraph 1.1).~~in a written form (see Introduction paragraph 12 and **PS 1 paragraph 6.1**). Similarly, where *valuation* advice is given wholly orally, the principles set out in ~~the~~ Red Book Global Standards should still be observed to the fullest extent possible (~~PS 1 paragraph 1.6). Thus PS 1 and PS 2 are mandatory in all cases (see Introduction paragraph 12 and PS 1 paragraph 7.1). In other words, they apply to all members whatever type~~**PS 1 paragraph 1.8**).

However, there are particular categories, phases or aspects of *valuation* activity ~~they are engaged in.~~

~~5.1~~5.2 ~~5.2 However, given the sheer diversity of activity undertaken by members, and the diversity of jurisdictional contexts in which valuations and valuation advice are delivered, there is a need for differentiation between particular types of assignment~~ where the mandatory application of ~~VPS~~VPSs **1–~~5~~6** may be unsuitable or inappropriate~~.~~ (see **PS 1 paragraph 5.4**). Even though not mandatory in such circumstances, the adoption of the relevant standards is nevertheless encouraged where not ~~precluded by the specific requirement or context. These exceptions regarding VPS 1–5 are set out at greater length below. However, it is not practical to set out every possible scenario – thus in cases of doubt, it is safer to regard VPS 1–5 as mandatory~~impossible.

~~5.2~~5.3 ~~5.3 Valuers should be aware that exceptions are~~ Where **VPSs 1–6** have not ~~usually specific to individual cases but cover particular categories, phases or aspects of valuation activity (see PS 1 paragraph 6.2). In such cases~~been complied with, members ~~are reminded that they~~ **must not** state that the *valuation* was performed in accordance with ~~the IVS. (See the IVS Framework.)~~IVS. However, they are able to advise that it was performed in accordance with Red Book Global Standards on an excepted basis.

~~5.3~~5.4 ~~5.4~~ The ~~areas of exception in relation to VPS~~circumstances where **VPSs 1–~~5~~6** are ~~where a member is:~~not of mandatory application are as follows.

a Providing an agency or brokerage service in respect of the acquisition or disposal of one or more assets ~~– to which activity~~.

Here, the ~~RICS global practice statement and guidance note, Real estate agency and brokerage guidance, 3rd~~current edition ~~(2016)~~of RICS' Property agency and management principles applies. This exception covers the provision of advice in the expectation of, or ~~in the course of~~during, an agency/broker instruction to acquire or dispose of an interest in an asset(s) and/or liability/liabilities. It also covers advice on whether a given offer should be made or accepted. However, the exception does not cover a purchase report that includes a *valuation*.

b Providing *valuation* advice expressly in preparation for, or during, negotiations or litigation, including where the valuer is acting on the behalf of others, representing their interests or needs.

The negotiations exception covers *valuation* advice on the likely outcome of current or impending negotiations, or requests for figures to be quoted in connection with such negotiations. It therefore recognises that:

- although there may not yet be an unresolved dispute, the advice is being provided expressly in preparation for, or during, negotiations that may lead either to agreement or to the creation of an unresolved dispute, triggering (where the context allows it) a formal process of resolution (for example, reference to the courts, to arbitration, etc.)
- the negotiation advice may, and often will, extend to advice on matters such as tactics and/or probable outcomes and/or options to achieve resolution without recourse either to litigation or to other formal procedures
- the precise circumstances in which a member (not necessarily solely a valuer) may be asked to advise a client on the purchase or disposal of a property or enter into negotiations on behalf of their client vary widely. It may be a 'passive' assignment, in which the member simply offers professional advice, or an 'active' assignment, in which the member both gives initial advice and also acts for the client in the subsequent event itself. Either way, **VPSs 1–6** will apply to all *valuation* advice given by members in writing.

The litigation exception recognises that:

- there is a dispute in existence, however it arises, and the proceedings will therefore be subject to any relevant legislation, regulation, rules or court directions that may be in place or issued, which will always take precedence over Red Book Global Standards
- advice given to a client may extend to various matters going beyond the provision of advice on value, for example advice on tactics and/or the probable outcome of litigation and/or options regarding settlement of the dispute or mitigation of costs.

c Acting or preparing to act as an expert witness ~~– the reason~~.

The rationale for the exception is to recognise that a member acting as an expert witness **must** follow ~~very precisely~~ the specific rules and procedures laid down by the court, tribunal or other judicial body before which the member will, or may, be appearing. In addition, the member **must** meet and observe very high standards of impartiality and objectivity. Reference may usefully be made to the ~~RICS UK practice statement and guidance note, Surveyors acting as expert witnesses, 4th edition (2014).~~current edition of RICS' Surveyors acting as expert witnesses.

- ~~Performing statutory functions – where the relevant statutory provisions will define the task and also frequently govern the manner in which it is to be carried out. The emphasis in this exception is on the word function, i.e. the performance of a statutory role or duty involving the exercise or enforcement of powers that are expressly defined or recognised in legislation, normally involving the formal appointment of an individual to that specific role. The mere fact that a valuation is being provided in accordance or compliance with, or consequence of, legislation is not the point. For example, the provision of a valuation for inclusion in a statutory return to a tax authority, which involves compliance with the law but not the exercise or enforcement of it, does not fall within this exception.~~

d Performing statutory functions.

Statutory functions are most often, though not invariably, carried out by valuers employed by government, a public authority or a government-authorised agency, and involve exercise or enforcement of the law. However, the fact that a valuer may be employed in the public sector or may be acting for a public sector client does not mean that all work undertaken by that valuer involves the performance of a statutory function – in many cases it will not. In the absence of legislation specifying and defining a specific role or function, and an individual's express appointment to discharge it, the exception will not apply.

As illustrative examples (and not intended to comprise an exhaustive list), the 'statutory function' exception does not apply to:

- *valuations* conducted for the purpose of determining stamp duty on property transfers in Australia as required by the Duties Act, while generally following statutory rules determined at the state level, are undertaken by private valuers not acting in a statutory capacity
- mortgage lending *valuations* in Germany and other European countries that are required for mortgage approvals. In Germany, they are governed by Pfandbriefgesetz rules and undertaken by private valuers not acting in a statutory capacity
- *valuations* conducted for the assessment of inheritance tax under the Testo Unico delle Imposte sui Ridditi in Italy are undertaken by private valuers in accordance with statutory guidelines and not acting in a statutory capacity
- *valuations* in accordance with the Charities Acts in the UK undertaken by private valuers not acting in a statutory capacity
- *valuations* for national taxation purposes in the UK undertaken by private valuers not acting in a statutory capacity
- *valuations* for 'right to buy' cases in the UK undertaken by private valuers not acting in a statutory capacity (however, the exception does apply, for example, to a district valuer in England and Wales undertaking a determination, which is a statutory function of a quasi-judicial nature).

In terms of providing *valuations* for local taxation work, *valuations* undertaken by a member acting in a statutory capacity (e.g. as *valuation* officer or listing officer) fall within the statutory function exception. However, both statute and case law impose specific and extensive duties and obligations on those performing statutory functions, and they **must** also act in compliance with **PS 1** and **PS 2**.

e Providing *valuations* to a client purely for internal purposes, ~~without~~on express contractual terms that exclude the valuer's liability, and without communication to a *third party*. ~~The~~

In addition to *valuations* prepared by a valuer for the organisation that employs them, where this is solely for internal use by that organisation and where no part of any report or *valuation* will be seen by or communicated to any *third party*, this internal purposes exception is designed to also recognise that there are occasions where advice is sought from ~~a valuer by a client – often by~~ valuers not employed by a client. This could include, for example, providing additional services in connection with a regular portfolio *valuation* ~~client – that will be without liability, and~~ that will not be released to *third parties* (for example, a 'what if' scenario in connection with proposed asset management initiatives~~ or proposed acquisitions).~~) and that will be provided on express contractual terms that exclude the valuer's liability.

For the avoidance of doubt, express contractual terms that exclude the valuer's liability **must** be more than a simple statement in the *terms of engagement* to fulfil this exception criteria – it must be both properly understood by the client and legally effective. Where members undertake such additional work, ~~it is vital that~~ the *terms of* *engagement* and the written advice itself ~~are quite~~**must** be explicit about the prohibition on disclosure to any other party and~~/or~~ use for any other purpose, and be clear about the exclusion of liability~~. Such~~, for this exception to be valid. Often, such advice ~~often~~ does not attract an additional fee~~ and this element of the~~. Where the provision of such additional 'ad hoc' *valuation* ~~service may or may~~services is not~~ be~~ explicitly referred to in the overarching *terms of engagement* for ~~a~~the regular portfolio *valuation*~~. The mere fact that the provider of the~~, an addendum to the *terms of engagement*, containing all the above caveats, will be required for this exception to be valid.

This exception is purely focused on:

– the purpose and use of the advice

– it being truly 'internal only' (regardless of who prepares it)

– express contractual terms that exclude the valuer's liability, and

– the client fully understanding the nature and extent of the advice.

If this is not the case, the exception is not valid.

A *valuation* ~~is~~provided by an external party for internal ~~valuer does not bring the~~purposes (as opposed to a *valuation* ~~assignment within the exception – the focus here is on the 'internal only' purpose of the valuation and not the process or means of its delivery. It is therefore~~carried out internally by an employee for their employer, which would not be subject to potential liability) does not automatically lead to the valuer being absolved of any potential liability, and in some countries such as the UK excluding liability may only be possible ~~for an external valuer to provide an 'internal purposes' valuation, though where that is done, the need for the terms of engagement and written advice to be absolutely clear about non-disclosure to third parties, and about the~~if it is reasonable to do so. If it is unreasonable, it could result in unlimited liability.

Given the material risk that an outright exclusion of liability~~, becomes even more crucial.~~ would likely be unreasonable in some countries, it is advisable for members to cap their liability at an appropriate level (which will vary from case to case) as opposed to seeking to exclude liability completely – in which case, this exception would not apply. Members in the UK may wish to refer to RICS' **Risk, liability and insurance**.

- ~~Providing valuation advice expressly in preparation for, or during the course of, negotiations or litigation, including where the valuer is acting as advocate.~~

~~The negotiations exception covers valuation advice on the probable outcome of current or impending negotiations, or requests for figures to be quoted in connection with such negotiations. It therefore recognises that:~~

~~Although there may not yet be an unresolved dispute, the advice is being provided expressly in preparation for, or during the course of, negotiations that may lead either to agreement or to the creation of an unresolved dispute, triggering (where the context allows it) a formal process of resolution (for example, reference to the courts, to arbitration, etc.).~~

~~The negotiation advice may, and often will, extend to advice on matters such as tactics and/or probable outcomes and/or options to achieve resolution without recourse either to litigation or to other formal procedures.~~

~~The litigation exception recognises that:~~
~~There is a formal dispute in existence, however it arises, and the proceedings will therefore be subject to any relevant legislation, regulation, rules or court directions that may be in place or issued, which will always take precedence over the Red Book Global Standards.~~

~~Advice given to a client may extend to various matters going beyond the provision of advice on value, for example advice on tactics and/or the probable outcome of litigation and/or options regarding settlement of the dispute or mitigation of costs.~~

~~5.4~~5.5 ~~5.5~~ The circumstances in which ~~valuers~~members are instructed to provide *valuation* reports and advice vary widely and may, in some cases such as in compulsory purchase, local taxation and arbitration/litigation-related work, take several years to reach a conclusion. During this time, the instruction may be significantly amended – resulting in an instruction that began as an 'exception' ceasing to be so. ~~Valuers should always focus on the actual task in hand at a specific point in the valuation process.~~ If a ~~valuer's~~member's role changes during this process, ~~it is imperative that~~ their actions ~~are~~**must** be transparent, the application of Red Book Global Standards at any given point in time ~~is~~ fully documented and the client ~~is~~ made aware of any change to the ~~valuer's~~member's role or undertaking.

~~5.5~~5.6 ~~5.6~~ Even though the content of ~~VPS 1~~**VPS 1** may not be mandatory in 'exception' cases, ~~it cannot be too strongly emphasised that~~ *terms of engagement* are still required and ~~that~~ they **must** be clear, unambiguous and appropriately documented ~~(PS 2 section 7 paragraphs 7.3 and 7.4).~~. This is as much in the interests of the ~~valuer~~member as of the client, as it ensures ~~that~~ there is no ambiguity about what is being requested and ~~what is being~~ supplied.

~~5.6~~5.7 ~~5.7~~ *Valuations* are either compliant with Red Book Global Standards or not. Terms such as 'quasi–Red Book' or 'partial Red Book' – or even 'non-Red Book' – **must not** be used in *terms of engagement* or reporting~~.~~, or even in conversation. Any appropriate exceptions to ~~VPS~~**VPSs** **1**–~~5 should~~**6 must** be explicitly stated and explained in the *terms of engagement* and *valuation* report.

~~6~~

6 Departures

6.1 ~~6.1~~ No *departure* is permitted from **PS 1**, where a written *valuation* is provided, or ~~PS 2~~**PS 2** in these global standards, which are mandatory in all circumstances.

6.2 ~~6.2~~ If, separately and independently from either the specific exceptions set out above or any assignment falling ~~within~~in the scope of ~~section~~sections 4 and 5 above, ~~there are special circumstances where it~~a valuer is ~~considered inappropriate~~requested to ~~comply, in whole or~~provide advice that is contrary to a specific provision in ~~part, with VPS~~**VPSs** **1** ~~to VPS 5~~–**6** inclusive, then ~~these must be confirmed and agreed with~~ the client

~~as~~must be advised that this is a *departure* from these standards and a clear statement to that effect included in the *terms of engagement*, report~~,~~ and any published reference to it.

~~6.3~~

6.3 For the avoidance of doubt:

a 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.

b For most *valuation purposes*, one of the *bases of value* specified in ~~paragraph 2.2 of VPS 4~~**VPS 2 paragraph 2�2** 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,~~VPS 2, and will always regard such voluntary use as involving a *departure* from ~~the~~ Red Book Global Standards.

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

~~6.5 The circumstances in which a valuer can make a departure from the IVS are as described in Section 60 of the IVS Framework.~~

~~7~~

7 Regulation: monitoring compliance with these global standards

7.1 ~~7.1~~ As a self-~~regulatory~~regulating body, RICS has a responsibility to monitor and seek assurance of compliance by its members and *RICS-regulated firms* with these global standards. It has the right under its bye-laws to seek information from members or *firms*. The procedures under which such powers will be exercised in relation to *valuations* are set out on the ~~RICS website~~RICS website.

7.2 ~~7.2~~ Members **must** also comply with the ~~RICS Valuer Registration requirements~~RICS Valuer Registration Scheme requirements where applicable.

~~8~~

8 Application to members of other valuation professional organisations

8.1 These global standards may also be formally adopted by other valuation professional organisations (VPOs) subject to the prior approval and agreement of RICS.

~~8.2 Except where RICS has formally agreed to the use of the Red Book Global Standards by appropriately qualified members of another VPO, no valuer who is not a member of RICS may state that their valuation is or has been undertaken in full compliance with RICS Red Book Global Standards.~~

PS 2 ~~–~~Ethics, competency, objectivity and disclosures

~~This mandatory standard:~~

~~applies the International Valuation Standards (IVS) Framework~~

~~recognises the International Ethical Standards and the International Property Measurement Standards~~

~~specifies additional mandatory requirements for RICS members.~~

~~As it is fundamental to the integrity of the valuation process, all members practising as valuers must have the appropriate experience, skill and judgment for the task in question and must always act in a professional and ethical manner free from any undue influence, bias or conflict of interest.~~

~~1~~

As it is fundamental to the integrity of the *valuation* process, all members practising as valuers **must** have the appropriate experience, skill and judgement for the task in question and **must** always act in a professional and ethical manner free from any undue influence, bias or conflict of interest.

1 Professional and ethical standards

1~~.~~.1 RICS members operate to the highest professional and ethical standards~~. Thus the~~ and **must** comply with the RICS Rules of Conduct. The criteria for RICS membership and for qualification and practice as a valuer, including the requirements of ~~RICS Valuer Registration where applicable (see PS 1 section 1~~the RICS Valuer Registration Scheme where applicable (see **PS 1 section 1**), meet or exceed the standards for the conduct and competency of professional valuers promoted by ~~the~~RICS and IVSC.

1~~.~~.2 These global standards are also ~~fully~~ consistent with the ethical principles published ~~to date~~ by the ~~International Ethical Standards Coalition~~International Ethics Standards Coalition, of which RICS is a member.

1~~.~~.3 As well as being required to conform to ~~these high-level principles and requirements,~~the RICS Rules of Conduct, all RICS members are subject to additional ~~– and in many cases more stringent –~~detailed requirements as set out below. Observance is monitored and enforced through RICS Regulation.

1.4 ~~1.4~~ The requirements set out in these global standards are expressly ~~focussed~~focused on members undertaking *valuation* work, i.e. opinions of value prepared by a member having the appropriate technical skills, experience and knowledge of the subject of *valuation*, the market and the *purpose of the valuation*.

1.5 ~~1.5~~ Members **must** ~~at all times~~ act with integrity and avoid any actions or situations that are inconsistent with their professional obligations. They **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 that may cause information provided to be misleading. Members **must not** allow conflicts of interest to override their professional or business ~~judgment~~judgement and obligations, and **must not** divulge confidential information. All members ~~are bound by the RICS Rules of Conduct and~~ **must** comply with ~~Conflicts of interest, RICS professional statement.~~the current edition of RICS' Conflicts of interest.

~~2~~

2 Member qualification

2~~.~~.1 Members and *RICS-regulated* *firms* **must** ensure that services are provided by competent individuals who have the necessary expertise. ~~The test of whether an~~An individual who is appropriately qualified to accept responsibility for, or supervise the inputs into, a *valuation* ~~involves satisfying~~**must** satisfy the following criteria:

- appropriate academic/professional qualifications, demonstrating technical competence
- membership of a professional body, demonstrating a commitment to ethical standards
- sufficient current local, national and international (as appropriate) knowledge of the asset type and its particular market, and the skills and understanding necessary, to undertake the *valuation* competently
- compliance with any country or state legal regulations governing the right to practise ~~*valuation* and~~
  valuation and
- where applicable, compliance with the RICS Valuer Registration ~~(VR~~Scheme (VRS) requirements.

2~~.~~.2 As members are active across a wide range of specialisms and markets, membership of (including ~~the~~ holding ~~of~~ a qualification from) RICS or registration as a valuer does not of itself imply that an individual ~~necessarily~~ has the practical experience of *valuation* in a particular sector or market~~:~~, this **must** always be verified by appropriate confirmation.

2~~.~~.3 In some jurisdictions, valuers are required to be certified or licensed to undertake ~~certain~~specific *valuations*. In such cases ~~PS 1 section 4~~**PS 1 section 4** will apply. In addition, either the ~~client~~client's or ~~RICS national~~RICS' jurisdiction-specific requirements may stipulate more stringent requirements. In such cases, a statement **must** be included in the *terms of engagement* and in the report that the named standards have been complied with ~~– PS 1 paragraph 4.2.~~(see **PS 1 paragraph 4.2**).

2.4 ~~2.4~~ If the member does not have the required level of expertise to deal with some aspect of the *valuation* assignment ~~properly then he or she~~appropriately, they should decide what assistance is needed. With the ~~express~~ agreement of the client and reference in the *terms of engagement* where appropriate, the member should then commission, assemble and interpret relevant information from other professionals, such as but not limited to specialist valuers, quantity surveyors, building surveyors, environmental surveyors, accountants and lawyers.

2.5 ~~2.5~~ The personal knowledge and skill requirements may be met in aggregate by more than one member ~~within~~in a *firm*, provided that each meets all the other requirements of this standard.

2.6 ~~2.6~~ The client's approval **must** be obtained if the member proposes to employ another *firm* to provide some or all of the *valuations* and related services, such as a building survey, that are the subject of the instruction (see also **VPS ~~3,~~6 paragraph 2.2(a)**).

2.7 ~~2.7~~ Where more than one valuer has undertaken or contributed to the *valuation*, a list of those valuers **must** be retained with the working papers, even if they are not members, together with a confirmation that each named valuer has complied with the requirements of ~~PS 1.~~**PS 1.**

~~2.8~~

2.8 A member responsible for supervision (see ~~PS 1 paragraph 1.3~~**PS 1 paragraph 1.2**) **must** be able to demonstrate:

- an appropriate level of supervision throughout all stages of the *valuation* instruction, suitably evidenced and capable of standing up to scrutiny and challenge at a later date, particularly where the *valuation* assignment involves remote locations and/or more than one jurisdiction
- an acceptance of responsibility and accountability for the *valuation* report and its content, and the ability to explain and ~~defend~~rationalise it if challenged – it is essential that the process ~~is not seen as one simply of approving automatically without proper consideration.~~
  ~~3~~ is not seen as simply approving automatically without due diligence according to these standards.

3 Independence, objectivity, confidentiality and the identification and management of conflicts of interest

3~~.~~.1 Independence and objectivity are inextricably linked to the proper observance of the confidentiality of information and to the wider issue of the identification and management of conflicts of interest. Members **must** follow the ~~mandatory requirements in~~current edition of RICS' ~~Conflicts of interest, RICS professional statement, and have careful regard to the guidance that accompanies it.~~Conflicts of interest. The text in the remainder of this section is specifically directed to *valuation* work ~~and is supplementary~~.

3~~.~~.2 ~~Valuers~~Members are reminded of two fundamental requirements contained in ~~Conflicts of interest:~~RICS' Conflicts of interest.

> ~~a No~~'An RICS member ~~shall~~or regulated firm must not advise or represent a client where doing so would involve a ~~conflict~~Conflict of ~~interest~~Interest or a significant risk of a ~~conflict~~ Conflict
> of ~~interest,~~Interest; other than where all of those who are or may be affected have provided their prior ~~informed consent. (The affected party can only give informed consent if the person explaining the position to them is entirely transparent, and also that the person explaining the position is sure that the party affected understands what they are doing – including the risks involved~~

~~and any alternative options available – and is doing it willingly).~~ Informed ~~consent~~Consent. Informed Consent may be sought only where the RICS member or regulated firm is satisfied that proceeding despite a ~~conflict~~Conflict of ~~interest~~Interest is~~.~~:

a in the interests of all of those who are or may be affected~~.~~, and

b ~~b Members should~~ is not prohibited by law

and that the conflict will not prevent the member or regulated firm from providing competent and diligent advice to those that may be affected.

Every RICS member working independently or within a non-regulated firm or within a regulated firm must:

a identify and manage Conflicts of Interest in accordance with this professional standard and

~~a~~b keep records of the decisions made in relation to whether to accept (and where relevant, to continue) individual professional assignments, the obtaining of ~~informed consent~~Informed Consent, and any measures taken to avoid ~~conflicts~~Conflicts of ~~interest~~Interest arising.'

3.~~.~~�3 ~~Bringing~~Members **must** bring the required levels of independence and objectivity ~~to bear on~~ individual assignments, respecting and maintaining confidentiality, and identifying and managing potential or actual conflicts of interest ~~are of crucial importance.~~. *Valuation* work often has a particular complexity or sensitivity concerning such matters and ~~it is a requirement that~~ members **must** act strictly in accordance with the following general standards and *valuation*-specific criteria.

3.4 ~~3.4~~ For some purposes, statutes, regulations, rules of regulatory bodies or clients' special requirements (such as for secured lending *valuations* – see ~~VPGA 2~~VPGA 2) may set out specific criteria that the member **must** meet (i.e. they are additional to the general requirements below) ~~in order~~ to achieve a defined ~~state~~position of independence. Frequently, such additional criteria provide a definition of the acceptable level of independence and may use terms such as 'independent expert', 'expert valuer', 'independent valuer', 'standing independent valuer' or 'appropriate valuer'. ~~It is important that the~~The member ~~confirms~~should confirm compliance with these criteria both when ~~confirming acceptance of~~accepting the instruction and in the report, so that the client and any *third party* relying on the report can be assured that the additional criteria have been satisfied.

3.5 ~~3.5~~ Confidential information is defined in ~~the RICS professional statement Conflicts of interest~~RICS' Conflicts of interest as 'confidential information, whether held or disseminated electronically, verbally or in hard copy'. There is a general duty to treat information relating to a client as confidential where that information becomes known ~~as a result of~~due to the professional relationship and is not in the public domain. Information gathered ~~in the course of~~during *valuation* work may be market sensitive and this duty is therefore of special importance.

3.6 ~~3.6~~ ~~In particular, great care~~Members **must** ~~be exercised~~ **not** ~~to~~ breach required confidentiality when reporting to clients in compliance with ~~VPS 3 paragraph 2.2(h)~~**VPS 6 paragraph 2.2(h)** concerning reference to the 'key inputs used'. In accordance with ~~the RICS professional statement Conflicts of interest~~RICS' Conflicts of interest, the duty of confidentiality will always take precedence over the duty of disclosure, subject to legal override.

3.7 ~~3.7~~ The risk of disclosure of confidential information is also a material factor that the valuer should consider in identifying whether or not there is a potential conflict of interest, or in the terms of ~~the RICS professional statement~~RICS' Conflicts of Interest a 'Confidential Information Conflict' (definition 4.2(c)). It is sometimes necessary to disclose some details of the valuer's involvement in the subject of the *valuation*. If an adequate disclosure cannot be made without breaching the duty of confidentiality, then the instruction should be declined.

3.8 ~~3.8~~ The duty of confidentiality is continuous and ongoing, and includes current, past and ~~even~~ potential clients.

3.9 ~~3.9~~ While it is not possible to provide a definitive list of situations in a *valuation* context where a threat to a member's independence or objectivity may arise, the following should ~~always~~ be regarded as presenting a potential or actual threat and therefore requiring appropriate action as specified in ~~the RICS professional statement:~~RICS' Conflicts of interest.

- ~~acting~~Acting for the buyer and the seller of a property or asset in the same transaction.
- ~~acting~~Acting for two or more parties competing for an opportunity.
- ~~valuing~~Valuing for a lender where advice is also being provided to the borrower or the broker.

~~valuing~~

- Valuing a property or asset previously valued for another client of the same valuer or *firm*.
- ~~undertaking~~Undertaking a *valuation* for *third-party* consumption where the valuer's *firm* has other fee-earning relationships with the client ~~and~~.
- ~~valuing~~Valuing both parties' interests in a leasehold transaction.

Members are also reminded that the interest of any *third parties* in the *valuation*, and the reliance they may place on it, will also be a relevant consideration.

3.10 ~~3.10~~ A ~~threat~~risk to the member's objectivity can arise where the outcome of a *valuation* is discussed before its completion with either the client or another party with an interest in the *valuation*. While such discussions are not improper, and indeed may be beneficial to both the member and the client, the member **must** be alert to the potential influence that such discussions may have on their fundamental duty to provide an objective opinion. Where such conversations take place, the member **must** make a written *record* of any meetings or discussions, and whenever the member decides to alter a provisional *valuation* as a result, the grounds for doing so **must** also be carefully noted. Written *records* and file notes may be digital or based on a transcript of recorded meetings, but **must** be capable of being produced for appropriate *third parties* where needed.

3~~.~~.11 The member may need to discuss various matters, such as the verification of facts and other relevant information (for example, confirming the outcome of rent reviews or

clarifying the boundaries of a property~~),~~) before forming a preliminary opinion of value. At any stage in the *valuation* process such discussions give the client an opportunity to understand the member's viewpoint and evidence. It is expected that the client would disclose facts
or information, including information about transactions in the property, asset or liability, relevant to the *valuation* task.

3~~.~~.12 In providing a client with preliminary advice, or a draft report or *valuation* in advance of its completion, the member **must** state that:

- the opinion is provisional and subject to completion of the final report
- the advice is provided for the client's internal purposes only ~~and~~
- any draft is on no account to be published or disclosed~~.~~, and
- ~~If~~if any matters of fundamental importance are not reflected, their omission **must** be declared.

3~~.~~.13 Where discussions with a client occur after the provision of preliminary material or opinions, ~~it~~there **must** be a written record of them. This is ~~important~~to demonstrate that such discussions do not, and can be shown not to, lead to any perception that the member's opinion has been influenced by those discussions, other than to correct inaccuracies or incorporate any further information provided.

~~3.14~~

3.14 To demonstrate that the discussions have not compromised the member's independence, the ~~file notes~~written record of discussions with the client on draft reports or *valuations* should 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.

3.15 ~~3.15~~ If requested, this record should be made available to auditors or any other party with a legitimate and material interest in the *valuation*, including RICS Regulation.

~~4~~

4 Maintaining strict separation between advisers

4.1 ~~4.1~~ RICS has strict guidelines on the minimum standards that **must** be adopted ~~by organisations,~~ once 'informed consent' has been obtained in accordance with ~~the RICS professional statement Conflicts of interest~~RICS' Conflicts of interest, when separating the advisers acting for 'conflicting' clients. Any arrangement (~~colloquially~~ known as an 'information barrier' in some jurisdictions ~~as a 'Chinese wall'~~) that is established **must** be robust enough to offer no chance of information or data passing from one set of advisers to another. This is a very strict test; taking 'reasonable steps' to operate an effective separation is not sufficient.

4.2 ~~4.2~~ Accordingly, any arrangement ~~set up and~~ agreed to by affected clients **must** be overseen by a ~~'~~compliance ~~officer'~~officer as described below, and **must** satisfy all of the following requirements~~:~~.

a ~~a~~ ~~the~~The individual(s) acting for conflicting clients **must** be different – note that this extends to secretarial and other support staff.

b ~~b~~ ~~such~~Such individuals or teams **must** be physically separated, at least to the extent of being in different parts of a building, if not in different buildings altogether.

c ~~c~~ ~~any~~Any information or data, however held, **must not** be accessible to ‘the other side’ at any time and, if in a written form, **must** be kept secure in separate, locked accommodation to the satisfaction of the compliance officer, or another senior independent person, ~~within~~in the *firm*.

d ~~d~~ ~~the~~The compliance officer or other senior independent person:

- **i** ~~i~~ should oversee the setting up and maintenance of the arrangement while it is in operation, adopting appropriate measures and checks to ensure it is effective
- **ii** ~~ii~~ **must** have no involvement in either of the instructions and
- **iii** ~~iii~~ should be of sufficient status ~~within~~in the organisation to be able to operate without hindrance ~~and~~.

e ~~e~~ ~~there~~There should be appropriate education and training ~~within~~in the *firm* on the principles and practices relating to the management of conflicts of interest.

4.3 ~~4.3~~ Effective arrangements are unlikely to work without considerable planning, as their management needs to be an established part of a *firm’s* culture. ~~It will therefore be more difficult, and often impossible, for smaller firms or offices to operate them.~~

~~5~~

5 Disclosures where the public has an interest or upon which third parties may rely

5.1 ~~5.1~~ Disclosure requirements

5.1.1 ~~5.1.1~~ Certain types of *valuation* may be relied on by parties other than the client that either commissioned the report or to whom it is addressed. Examples of this type of *valuation* would include those for:

- a published *financial statement*
- a stock exchange, or similar body
- publication, prospectus or circular
- investment schemes (in the Americas, where applicable: investment programs), which may take a number of forms in individual jurisdictions
- takeovers or mergers.

Where the *valuation* is of an asset(s)/liability(ies) that has previously been valued by the ~~valuer,~~member or the ~~valuer’s~~*RICS-regulated* *firm* for any purpose, the following disclosures **must** be made in the *terms of engagement*, ~~in~~ the report~~,~~ and in any published reference to the *valuation*~~, as the case may be, as set out later below~~:

- reliance by *third parties*
- the relationship with the client ~~and~~
- previous involvement
- rotation policy
- time as signatory
- proportion of fees.

5.1.2 ~~5.1.2~~ It is recognised that in cases such as, but not limited to, recurring *valuations* and *valuations* of portfolios (see VPGA 9) there may be practicalities around the above disclosures. Implementation of these disclosures is an important consideration at the outset of any *valuation* task. **VPS 1 paragraph 1.3** may also be of note as it considers circumstances in which *valuations* are undertaken through master service agreements.

~~5.1.2~~5.1.3 The disclosures required by this standard may be modified or extended by requirements that apply to a specific country or state~~)~~, or that are incorporated into the relevant national standards (where **PS 1 section 4** applies).

~~5.1.3~~5.1.4 ~~5.1.3~~ For modified or extended requirements in relation to *valuation* for secured lending see ~~VPGA 2~~VPGA 2.

~~5.2~~

5.2 Reliance by third parties

5.2.1 ~~5.2.1~~ Where reliance may be placed on a *valuation* by a *third party* ~~(as defined in the Glossary) who or which~~who is identifiable from the outset, the disclosures in accordance with this section **must** be made promptly to that party before the *valuation* is undertaken. In addition ~~to those disclosures~~, there **must** also be disclosure of any circumstances where the valuer or the *firm* will gain from the appointment beyond a normal fee or commission. This gives *third parties* the opportunity to object to the appointment if they feel that the member's independence and objectivity may be compromised.

5.2.2 ~~5.2.2~~ However, in many cases the *third parties* will be a class of individuals, for example, the shareholders of a company, where disclosure at the outset to all interested *third parties* would clearly be impractical. In such cases, the earliest practical opportunity for disclosure will be in the report or any published reference to it. A greater onus ~~thus~~ lies on the member to consider, before accepting the instruction, whether those *third parties* relying on the *valuation* will accept that any involvement requiring disclosure does not unduly compromise the member's objectivity and independence. ~~See section 8~~See section 5.8 below for further detail about disclosures in relation to specific categories of *valuation*.

5.2.3 ~~5.2.3~~ *Valuations* in the public domain, or which will be relied on by *third parties*, are frequently subject to statute or regulation. There are often specific stipulations that the member must meet in order to be deemed suitable to provide a truly objective and independent view. Where that is not the case, the onus is on the member to ensure that there is an awareness of potential conflicts and other threats to independence and objectivity.

~~5.3~~

5.3 The relationship with the client and previous involvement

5.3.1 ~~5.3.1~~ Although the requirement for the member to act with independence, integrity and objectivity as described above is clear, it does not necessarily require disclosure of all the working relationships between the member and the client. The member ~~should~~**must** consider and follow the principles set out in ~~the RICS professional statement Conflicts of interest~~RICS' Conflicts of interest. ~~In cases of~~When in doubt, it is recommended that a disclosure is made.

5.3.2 ~~5.3.2~~ To expose any potential conflict of interest where the member, or the member's *firm*, has been involved with the purchase of one or more assets for the client within the period of 12 months preceding the date of instruction or date of agreement of the *terms of engagement* (whichever is earlier~~)~~), or a specific longer period prescribed or adopted in a particular jurisdiction, the member **must** disclose in relation to those assets:

- receipt of an introductory fee or
- negotiation of that purchase on behalf of the client.

5.3.3 ~~5.3.3~~ In considering the disclosures required by ~~this professional statement,~~RICS' Conflicts of interest, it is necessary to identify the 'client' and 'firm'.

~~5.3.4~~

5.3.4 There are many different relationships that may be considered to fall within the identification of the client and *firm*. To be consistent with the minimum *terms of engagement* (see ~~VPS 1~~**VPS 1**) and reporting (see ~~VPS 3~~**VPS 6**), the client is the entity that agrees the *terms of engagement* and to which the report is addressed. The *firm* is the entity that is identified in the confirmation of the *terms of engagement* and the report.

5.3.5 ~~5.3.5~~ Closely connected companies within a group should properly be regarded as a single client or *firm*. However, due to the often complex nature of modern business, it is frequently the case that the other entities have only a remote legal or commercial connection with the client for which the member's *firm* also acts. There may also be practical difficulties in identifying such relationships, for example, between the associates of the member's *firm* in other countries or states and the client. Sometimes it is the member's commercial relationship with a party other than the client that could create a perceived threat to independence.

~~5.3.5~~**5.3.6** ~~5.3.6~~ The member is expected to make reasonable enquiries proportionate to the circumstances~~:~~; it is not necessary to establish every potential relationship that there may be, provided the member adheres to the principles of this standard.

~~5.3.6~~**5.3.7** ~~5.3.7~~ The following are examples of where the disclosure requirements will relate to and include parties other than the entity giving the *valuation* instruction:

- subsidiaries of an instructing holding company
- where instructions are from a subsidiary company, those other companies connected by the same holding company or
- a *third-party* issuing *valuation* instructions as an agent for different legal entities, for

example, the managers of a property fund.

~~5.3.7~~5.3.8 ~~5.3.8~~ Similar considerations apply in identifying the extent of the member's *firm* for disclosure purposes, where there may be separate legal entities in different locations and/ or undertaking different types of work. It may not be relevant to include all organisations connected with the *firm* undertaking the *valuation* where the activities are remote or immaterial – for example, they do not involve the provision of asset *valuation* or similar advice. However, if there is a series of closely connected entities trading under a common style, the extent of the client's relationship with all those entities should be disclosed – for example, a *firm* where one arm is undertaking *valuations* and another undertaking all other property advice and management.

~~5.3.8~~5.3.9 ~~5.3.9~~ National or jurisdictional valuation standards or local regulations may ~~extend this requirement by applying~~apply additional requirements.

~~5.4~~

5.4 Rotation policy

5.4.1 ~~5.4.1~~ The obligation to disclose the *firm's* rotation policy will arise only where the member has provided a series of *valuations* over a period of time. Where it is a first or one-off instruction, it is not necessary to comment on any general rotation policy.

~~5.4.2~~

5.4.2 Where the member responsible for the *valuation* in accordance with this standard holds that responsibility for many years, familiarity with either the client or the asset valued could lead to the perception that the member's independence and objectivity has been compromised. This may be addressed by arranging for the rotation of the member who accepts responsibility for the *valuation*.

5.4.3 ~~5.4.3~~ The method by which a *firm* arranges for any rotation of those responsible for *valuations* is for the *firm* to decide, after discussion with the client if appropriate. However, RICS recommends that the individual responsible for signing the report, no matter the standing of that *member* in the *firm*, has that responsibility for a limited number of years. The exact period will depend on:

- the frequency of *valuation*
- any control and review procedures in place such as 'valuation panels', which assist both the accuracy and objectivity of the *valuation* process and
- good business practice.

5.4.4 RICS considers it good practice, ~~albeit~~though not mandatory, to rotate ~~valuers~~the *responsible valuer* at intervals not exceeding seven years. National valuation standards or local regulations may require additional criteria.

~~5.4.4 If a firm is of insufficient size to rotate the signatory, or to have in place 'valuation panels', other arrangements could be made to comply with the principles of this standard. For example, where the same valuation instruction is undertaken on a regular basis, an arrangement for the valuation to be periodically reviewed at intervals not greater than seven years by another member would assist in demonstrating that the member is taking steps to ensure that objectivity is maintained and thus may retain the confidence of those relying on the valuation.~~

5.4.5 ~~5.5~~ If a *firm* is unable to rotate the *responsible valuer* in accordance with the above, they should consider whether it is correct to proceed with the *valuation*.

5.4.6 For some markets and *valuation purposes*, 'valuation panels' exist, where a client or their appointed *valuation*/panel manager will select a *firm* or valuer from an approved pool. *Firms* and, where appropriate, members may look to join available valuation panels as a way of improving *valuation* governance and instigating *firm* and valuer rotation.

5.5 Time as signatory

5.5.1 ~~5.5.1~~ The purpose of this requirement is to provide any *third party* with information on the length of time that a member has continuously been the signatory to *valuations* for the same purpose. It also requires a similar disclosure as to the length of time the member's *firm* has been carrying out *valuations* of that asset for the same client, and the extent and duration of their relationship.

5.5.2 ~~5.5.2~~ In relation to the member, the disclosure should relate to the continuous period of responsibility for the *valuation* up to the *date of the report*. It is possible that the member was the signatory to previous reports for the same purpose, but due to the *firm's* rotation policy (as set out ~~earlier~~above) there was a period of time when the member did not have that responsibility. There is no requirement to include that earlier period in the disclosure.

5.5.3 ~~5.5.3~~ The member is not required to provide a comprehensive account of all work ever undertaken by the member's *firm* for the client. A simple, concise statement that discloses the nature of other work done and the duration of the relationship is all that is required.

~~5.5.4~~

5.5.4 If there is no relationship other than the *valuation* instruction in question, a statement to that effect should be made.

~~5.6~~

5.6 Previous involvement

5.6.1 ~~5.6.1~~ The purpose of this requirement is to expose any potential conflict of interest where the member, or the member's *firm*, has valued the asset for the same purpose, or has been involved with the purchase of the same asset for the client either within the period of 12 months preceding the *valuation date*, or within such other period and criteria as may be prescribed or adopted in a particular state or country.

5.6.2 ~~5.6.2~~ Where the *valuation* is provided for inclusion in a published document in which the public has an interest, or upon which *third parties* may rely, the member should make the following disclosures~~:~~.

a ~~a where~~Where a *valuation* is of an asset that has previously been valued by the member or the member's *firm*, for the same purpose:

- in the *terms of engagement*, a statement about the *firm's* policy on the rotation of the ~~valuer responsible for the valuation and~~ *responsible valuer* for the *valuation* and
- in the report, and published reference to it, a statement of the length of time the *responsible valuer* has continuously ~~been the signatory to~~provided *valuations* ~~provided~~ to the client for the same purpose as the report and, in addition, the

length of time the valuer's *firm* has continuously been carrying out the *valuation* instruction for the client.

b ~~b theThe~~ The extent and duration of the relationship of the valuer's *firm* with the client for any purpose.

c ~~c whereWhere~~ Where the report, and any published reference to it, includes one or more assets acquired by the client within the period applicable under paragraph 5.6.1 ~~immediately~~ above, and the member or member's *firm*~~,~~ has in relation to those assets:

- received an introductory fee or
- negotiated that purchase on behalf of the client,

a statement should be made to such effect including, wherever relevant, endorsement of the report in accordance with paragraph 5.7~~ immediately.~~.1 below.

5.6.3 ~~5.6.3~~ National valuation standards or local regulations may ~~extend this requirement by applying~~require additional criteria.

5.6.4 ~~5.6.4~~ For additional or modified requirements in relation to *valuation* for secured lending see ~~VPGA 2~~VPGA 2.

~~5.7~~

5.7 Proportion of fees

5.7.1 ~~5.7.1~~ A statement should be made that the proportion of the total fees payable by the client during the preceding year relative to the total fee income of the member's *firm* during the preceding year are minimal~~,~~ (less than 5%), significant (between 5% and 25%) or substantial~~.~~ (greater than 25%).

~~5.7.2 A proportion of fees less than 5% may be considered to be 'minimal'. Between 5% and 25% may be considered to be significant, and above 25% is substantial.~~

5.7.2 ~~5.7.3~~ National valuation standards or local regulations may ~~extend this requirement by applying~~require additional criteria.

~~5.8~~

5.8 Other disclosures

5.8.1 ~~5.8.1~~ Care should be taken to make sure that, in addition to the various disclosures required under ~~VPS 1 to VPS 3,~~**VPS 1**, **VPS 4** and **VPS 6**, all other disclosures required for a particular *valuation* or purpose are made. Disclosure requirements that may require more specific information related to the *purpose of the valuation* include:

- material involvement
- the status of the member
- specific requirements as to independence
- knowledge and skills of the member
- extent of investigations
- management of any conflicts of interest
- the *valuation* approach

- disclosures required by any regulatory body governing the *purpose of the valuation*.

~~6 Reviewing another valuer's valuation~~

~~6.1~~

6 Valuation review

6.1 *Valuation review* is defined in IVS 101 scope of work and the glossary. It may include either or both of a *valuation process review* and *value review*.

~~6.1~~6.2 A valuer may ~~quite properly~~ be ~~requested~~instructed to review all or part of a *valuation* prepared by another valuer in circumstances that include the following, ~~though~~although the list is not exhaustive:

- assisting the consideration of risk assessment
- providing comment on a published *valuation*, for instance in a takeover situation
- commenting on *valuations* produced for use in legal proceedings.
- ~~assisting an audit enquiry.~~

6.3 ~~6.2 It is important to make~~A *valuation review* **must** be undertaken in accordance with **PS 1**, **PS 2**, RICS' Conflicts of interest and all other relevant parts of these standards. A *valuation review* must also be compliant with IVS, noting that this may include either or both of a ~~clear~~*value review* and *valuation process review*. IVS includes stipulation at IVS 101 and IVS 106 around the scope of work, reporting and *documentation* of a *valuation review*.

~~6.2~~6.4 There is a distinction between a ~~critical review of a~~ *valuation review* and an audit of a *valuation* (which may have separate practice and regulatory requirements not detailed here), or an independent *valuation* of a property, asset or liability included in another valuer's report.

6.5 ~~6.3~~ A *valuation process review* may be part of or the whole of a *valuation review*. It addresses compliance with IVS and/or compliance with these Red Book Global Standards, and is therefore different in scope from a *value review* detailed below.

~~6.3~~6.6 In carrying out ~~any~~a *value review* (which may form part or be the whole of a *valuation review*) a member is expected, by reference to the *valuation date* and to the facts and circumstances relevant to the asset at the time, to:

- form opinions as to whether the analysis in the work under review is appropriate
- consider whether the opinions and, where appropriate, conclusions are credible and
- consider whether the report is appropriate and not misleading in terms of its opinions and conclusions.

~~6.4~~6.7 ~~6.4 The~~A *valuation review* **must** be undertaken in the context of the requirements applicable to the work under review, and the *member* **must** develop, record and report opinions and conclusions together with the reasons for any disagreement and/or lack of compliance.

~~6.5~~6.8 ~~6.5~~ A member **must not** undertake a ~~critical review of a~~ *valuation review* prepared by another valuer that is intended for disclosure or publication, unless the member is in possession of all the relevant facts and information upon which the first valuer relied.

~~7 Terms of engagement (scope of work)~~

~~7.1 Consistent with the various requirements set out above and to ensure that all relevant matters have been, or will be, adequately covered, it is fundamental that by the time any written valuation is concluded, but prior to the issue of the report, all the matters material to the report must have been fully brought to the client's attention and appropriately documented. This is to ensure that the report does not contain any revision of the initial terms of engagement of which the client is unaware.~~

~~7.2 Members should take care that they understand their clients' needs and requirements fully, and appreciate that there will be occasions when they may need to guide clients to choose the most appropriate advice for the given circumstances.~~

~~7.3 The standards for minimum terms of engagement are set out in VPS 1. Where VPS 1 is not mandatory (for example, PS 1 section 5), appropriate terms of engagement should nevertheless be prepared to suit the specific case. It is acknowledged, given the sheer diversity of valuation activity undertaken by members, and the diversity of jurisdictional contexts in which valuations and valuation advice are delivered, that terms of engagement will be commensurate to the client's needs – but in all cases members must ensure that all matters material to the report have been brought to the client's attention.~~

~~7.4 As disputes may arise many years after the completion of a valuation, it is essential that the agreement of the terms of engagement is contained in, or evidenced by, comprehensive documentation maintained in a recognised and acceptable business format.~~

~~8~~

7 Responsibility for the valuation

7.1 ~~8.1~~ For the avoidance of doubt, once the various preliminary issues above have been adequately addressed, each assignment to which these global standards apply **must** be prepared by, or under the supervision of, ~~an appropriately qualified, and~~ a named~~,~~ valuer who accepts responsibility for it and is appropriately qualified (defined at **PS 2 paragraph 2.1**). They are the *responsible valuer*.

7.2 ~~8.2~~ Where the *valuation* has been prepared with input from other members or valuers, or a separate *valuation* report on some specific aspect is incorporated, the resultant *valuation* remains the responsibility of the named *responsible valuer* under **paragraph 7.1** above, but the others involved may be acknowledged, ensuring that any statements expressly required under **VPS ~~3,~~6 paragraph 2.2(a)** are made.

7.3 ~~8.3~~ RICS does not allow a *valuation* to be prepared by a '*firm*' (even though this is permitted by ~~the~~ IVS). However, the use of 'for and on behalf of' under the *responsible valuer's* signature is an acceptable substitution.

7.4 ~~8.4~~ Members are discouraged from referring to any *valuation* or report as either 'formal' or 'informal', as these terms may give rise to misunderstanding, particularly regarding the extent of investigation and/or *assumptions* that the member may or may not have undertaken or made.

~~8.5~~

7.5 Members **must** exercise ~~great~~considerable caution before permitting *valuations* to be used for purposes other than those originally agreed. It is possible that a recipient or reader will not fully appreciate the restricted character of the *valuation* and of any qualifications in the report, and that it may be misquoted out of context. Furthermore, a conflict of interest may potentially arise that would not have been relevant to the original assignment. ~~It~~Therefore, it is essential~~ therefore~~ that the *terms of engagement* and the reporting appropriately address this risk. ~~See also section 4, Maintaining strict separation between advisers,~~See also **section 4** above.

Part 4: Valuation technical and performance standards

~~As explained in paragraphs 13 and 14 of the Introduction, the global technical and performance standards to be followed by members are set out in VPS 1–5 which follow. While VPS 1, 4 and 5 focus more on technical standards and VPS 2 and 3 focus more on performance and delivery standards, it would not be helpful to seek to categorise them further in any way. Instead their current order corresponds with that of the International Valuation Standards, which the VPSs adopt and apply. See the text box at the start of each VPS.~~

VPS 1 Terms of engagement (scope of work)

~~This mandatory standard:~~

~~applies International Valuation Standard (IVS) 101 Scope of Work~~

~~specifies additional mandatory requirements for RICS members designed to:~~

~~enhance client understanding of the service to be provided, with clarity concerning the basis on which the fee will be calculated~~

~~provide assurance that work undertaken by RICS members meets high professional standards backed by effective regulation~~

~~address particular aspects of implementation that may arise in individual cases.~~

1 ~~1~~ General principles

~~1.1~~1.1 *Terms of engagement* describe the fundamental terms applying to the provision of a *valuation* and include (but are not limited to):

- the asset(s) and/or liability(ies) being valued
- the intended users of the report
- the intended use of the *valuation* and
- the principal responsibilities of the parties involved.

1.2 Normally, the *terms of engagement* will be ~~settled~~agreed between the client and the valuer when instructions are first received and accepted (the initial confirmation of instructions~~).~~), and in any event prior to providing any *valuation* advice, including the provision of a draft *valuation* or report. However, it is recognised that a *valuation* assignment may range from a single asset to a substantial portfolio, ~~thus~~so the extent to which all the minimum ~~terms of engagement~~requirements can be confirmed at the outset could ~~also~~ vary.

1~~.2~~ ~~Valuers~~**.3** A master service agreement may already be in place between a client and member or *RICS-regulated firm*. Where such an agreement exists, a member is not always required to complete separate additional *terms of engagement*. However, a member **must** confirm in writing and document any additional items required to meet the minimum requirements of **VPS 1 paragraph 3.1**.

1.4 Members should take care to ~~ensure that they~~fully understand their clients' needs and requirements ~~fully~~, and appreciate that there will be occasions when they may need to guide clients ~~to choose~~in choosing the most appropriate advice for the given circumstances.

1.5 ~~1.3~~ In brief, the *terms of engagement* should convey a clear understanding of the *valuation* requirements and process, and should be ~~couched~~expressed in terms that can be read and understood by someone with no prior knowledge of the subject asset, nor of the *valuation* process.

~~1.4~~

1.6 The format and detail of the proposed *valuation* report and any supporting *documentation* is a matter to be agreed between the ~~valuer~~member and the client, and recorded in writing in the *terms of engagement*. It should ~~always~~ be proportionate to the task and – as for the *valuation* itself – be professionally adequate and appropriate for the purpose~~.~~ and intended use. For clarity, the standards expressly to be met when issuing a *valuation* report are set~~-~~ out in ~~VPS 3.~~**VPS 6.** These generally mirror the requirements set out here, but with some additional detail.

~~1.6~~1.7 ~~1.5~~ Whenever the valuer or client identifies that a *valuation* may need to reflect an actual or anticipated marketing constraint, details of that constraint **must** be agreed and set out in the *terms of engagement*. The term 'forced sale value' **must not** be used (see ~~VPS 4 section 10~~**VPS 2 section 11**).

~~1.7~~1.8 ~~1.6~~ By the time the *valuation* is concluded, but prior to the issue of the report, all relevant matters **must** have been fully brought to the client's attention and appropriately documented. This is to ensure that the report does not contain any revision of the initial *terms of engagement* of which the client is unaware. Any changes to the *terms of engagement* prior to the completion of the *valuation* **must** be communicated and agreed on in writing.

~~2~~

2 Terms of engagement format

2~~.~~.1 *Firms* may have a standard form of *terms of engagement* or standing *terms of engagement* in place that may include several of the minimum terms required by ~~this global standard.~~Red Book Global Standards. The valuer may need to amend such a form to refer to those matters that will be clarified ~~at a~~ later ~~date~~.

2~~.~~.2 Although the precise format of the *terms of engagement* may vary – for example, some

~~'in-house'~~internal *valuations* may have standing instructions or other internal policies or procedures – valuers **must** prepare written *terms of engagement* for all *valuation* work~~.~~ whether for internal or external use. The risks that can potentially arise if queries are subsequently raised and the parameters for the *valuation* assignment are insufficiently documented cannot be over-emphasised.

~~3~~

3 Terms of engagement (scope of work)

3~~.~~.1 *Terms of engagement* **must** address the following matters.

a ~~a~~ Identification and status of the *responsible valuer*

b ~~b~~ Identification of the client(s)

c ~~c~~ Identification of any other intended users

d ~~d~~ Identification of the asset(s) or liability(ies) being valued

e ~~e~~ *Valuation* (financial) currency

~~f~~

f *Purpose of the valuation*

g ~~g~~ *Basis(es) of value* adopted

h ~~h~~ *Valuation date*

i ~~i~~ Nature and extent of the valuer's work – including investigations – and any limitations thereon

j ~~j~~ Nature and source(s) of information upon which the valuer will rely

k ~~k~~ All *assumptions* and *special assumptions* to be made

l ~~l~~ Format of the report

m ~~m~~ Restrictions on use, distribution and publication of the report

n ~~n~~ Confirmation that the *valuation* will be undertaken in accordance with ~~the IVS~~IVS and/or RICS Red Book Global Standards

o The basis on which the fee will be calculated

p Where the *firm* is *registered for regulation* by RICS, reference to the *firm's* complaints handling procedure, with a copy available on request

q A statement that compliance with these standards may be subject to monitoring under RICS' conduct and disciplinary regulations

~~i) p Where the firm is registered for regulation by RICS, reference to the firm's complaints handling procedure, with a copy available on request~~

~~j)i)q A statement that compliance with these standards may be subject to monitoring under RICS' conduct and disciplinary regulations~~

~~q~~r ~~r~~ A statement setting out any limitations on liability that have been agreed~~.~~

s Consideration of any significant *environmental, social and governance (ESG)* factors

3~~.~~.2 Each heading is considered in more detail below. The text in bold specifies the key principles. The accompanying text specifies how the principles are to be interpreted and implemented in individual cases.

a) ~~a)~~ Identification and status of the responsible valuer

Include a statement confirming:

- ~~that~~ **the *valuation* ~~will be~~is the responsibility of ~~a~~the named ~~individual~~*responsible* *valuer*. RICS does not allow a *valuation* to be prepared by a 'firm'**
- ~~that~~ **the *responsible* *valuer* is in a position to provide an objective and unbiased *valuation* in an ethical and competent manner**
- **whether or not the valuer or valuer's *firm* has any material connection or involvement with the subject asset or the other parties to the *valuation* assignment. If there are any other factors that could limit the valuer's ability to provide an impartial and independent *valuation*, such factors must be disclosed**
- ~~that~~ **the valuer is competent to undertake the *valuation* assignment. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment~~, the nature of such assistance and the extent of reliance must be clear, agreed and recorded.~~**

~~Implementation~~

~~1~~ **(including the use and role of a specialist and service organisations), the nature of such assistance and the extent of reliance must be clear, agreed and recorded.**

Implementation

1 The use of 'for and on behalf of' a *firm* is an acceptable substitution by an identified signatory when issuing a report. If the *valuation* has been undertaken by a member under the supervision of an appropriately qualified valuer, the valuer fulfilling the supervisory function **must** ensure, and be satisfied, that the work undertaken meets the same minimum standards as if ~~he or she~~they had been solely responsible for the task.

2 ~~2~~ For some purposes the valuer may be required to state if ~~he or she is~~they are acting as an *internal* or *external valuer*. Where the valuer is obliged to comply with additional requirements regarding independence, ~~PS 2 section 3~~**PS 2 section 3** will apply.

3 ~~3~~ In considering the extent of any material involvement, whether past, current or ~~possible~~ future ~~involvement~~, the valuer **must** state such involvement in the *terms of engagement*. Where there has not been any previous material involvement, a statement to that effect **must** be made in the *terms of engagement* and *valuation* report (see ~~VPS 3 paragraph 2.2(a)(4)).~~**VPS 6 paragraph 2.2(a)(4)).** More extensive guidance on independence and objectivity is given in ~~PS 2~~**PS 2**.

4 ~~4~~ The valuer should confirm in the report that they meet any regulatory or legal criteria for their appointment.

45 With regard to the competence of the valuer, the statement may be limited to confirmation that the valuer and/or the valuer's *firm* has sufficient current local, national and international (as appropriate) knowledge of the particular market, and ~~sufficiently~~adequately

developed skills and understanding to undertake the *valuation* competently. It is not necessary to provide any details. Where the provisos in ~~PS 2 section 3~~PS 2 section 3 apply, an appropriate disclosure ~~is to~~must be made.

b) ~~b)~~ Identification of the client(s)

Confirmation of ~~those for whom~~who the *valuation* assignment is being produced for is important when determining the form and content of the report, to ensure that it contains information relevant to their needs. Any restriction on ~~those~~ who may rely ~~upon~~on the *valuation* assignment must be agreed with the client and recorded.

~~Implementation~~

~~1 Requests for~~ **Clients may be internal (i.e. *valuations* performed for an employer) or external (i.e. when the valuer is engaged by a *third-party* client).**

Implementation

~~will frequently be~~**1** Where requests for *valuations* are received from representatives of the client, ~~in which event~~ the valuer should ensure ~~that~~ the client is correctly identified. This is particularly relevant where~~:~~ (but not limited to the following examples):

- the request is made by the directors of a company, but the client is the company and the directors have a separate legal standing, or
- the *valuation* is required for loan purposes and, although commissioned by the borrower or an entity acting for the lender (for example, a service management company), the report may be for the lender, its subsidiaries~~,~~ or members of a syndicate, ~~for example, so it is imperative to identify the true client~~etc. or
- the *valuation* is required for estate management or estate-related revenue filings and, although commissioned by a financial adviser or an attorney, the report may be for the estate~~, the true client~~.

c) ~~c)~~ Identification of other intended users~~:~~

It is important to understand whether there are any other intended users of the *valuation* report, their identity~~,~~ and their needs, ~~in order~~ to ensure that the report content and format meets those users' needs, and to ascertain whether there are any conflicts of interest.

Implementation

~~Implementation~~

1 ~~1~~ The valuer **must** state whether or not any parties other than the client may rely upon the *valuation*.

2 ~~2~~ In many cases, it will only be the valuer's client who is seeking reliance upon the *valuation*. Agreeing to extend reliance to *third parties* may significantly increase the risks to the valuer.

3 ~~3~~ As a default position, valuers should confirm that they do not permit *third*~~-~~*party* reliance on the *valuation* report in their *terms of engagement*. Any permitted reliance on the *valuation* by a *third party* should be carefully considered and the terms on which reliance-

is permitted should be documented. Particular care needs to be taken to ensure that any relevant terms of business (such as limitations on liability) apply to *third parties* who are permitted to rely on a *valuation*, and that the valuer does not unwittingly become exposed to the risk of *third parties* claiming that a duty of care has been extended to them~~, and that any relevant terms of business (such as limitations on liability) apply to third parties who are permitted to rely on a valuation.~~. Valuers should consider taking legal advice in this regard.

~~4 Valuers should exercise care in considering whether assignment of the valuation engagement contract (as distinct from permitting third parties to rely upon it) is to be permitted, as doing so may expose valuers to additional risks. Valuers should ensure that the terms of their professional indemnity insurance provides the requisite cover where assignment is permitted.~~

d) ~~d)~~ Identification of the asset(s) and/or liability(ies) being valued~~:~~

The subject asset and/or liability in the *valuation* assignment must be clearly identified, taking care to distinguish between an asset and/or liability, and an interest in or right to use that asset and/or liability, as the case may be. The client is responsible for the accuracy and completeness of clearly identifying the subject asset(s) and/or liability(ies) being valued in the *valuation*.

If the *valuation* is of an asset and/or liability that is used in conjunction with other assets or liabilities, it ~~will be~~is necessary to clarify whether those assets or liabilities are:

- **included in the *valuation* assignment**
- **excluded but assumed to be available or**
- **excluded and assumed not to be available~~.~~.**

If the *valuation* is of a fractional interest held in an asset and/or liability, it will be necessary to clarify the relationship of the fractional interest being valued relative to all other fractional interests and the obligations of the fractional interest ownership, if any, to other fractional interest owners~~.~~.

Particular regard must be had to the identification of portfolios, collections, lots and groups of properties. ~~It is essential to~~The valuer must consider:

- **'lotting' or 'grouping'~~;~~**
- **the identification of different property or asset categories~~;~~ and**
- **any *assumptions* or *special assumptions* relating to the circumstances under which the properties, assets, liabilities or collections may be brought to the market.**

~~Implementation~~

Some higher value properties are held in special purpose vehicles (SPV) – corporate entities that are sometimes set up for the purposes of tax efficiency when transferring the interest in the property. If instructed to value a property that is held in an SPV, it is important that the valuer clarifies that they are instructed to value the interest in the property (rather than the SPV within which the property is held) on the *assumption* that it would be transferred by a sale of the SPV. If the client requires a *valuation* of the

SPV within which the property is held, only valuers with the relevant experience and qualification in business *valuation* and holding any statutory registrations required for advising on corporate values can accept such instructions.

Implementation

1 ~~1~~ The legal interest in each asset and/or liability **must** be stated. Clarification is essential to distinguish between the characteristics of the asset in its entirety and the particular right or interest that is being valued.

2 ~~2~~ When valuing an interest in real property that is subject to a tenancy, it may be necessary to identify any improvements undertaken by tenants and to clarify whether or not these improvements are to be disregarded on renewal, or review, of the lease, or ~~even~~ if they may give rise to a compensation claim by the tenant when vacating the property.

3 ~~3~~ When valuing a fractional (percentage of the whole) ownership interest in a real property, the valuer also needs to identify the degree of control represented by the percentage interest being valued and any rights held by the other fractional interest ownerships that encumber the marketability of the interest being valued (such as a first right of purchase in the event the ownership being valued is to be sold).

4 ~~4~~ Where there is doubt about what constitutes a single property or asset, the valuer **must** 'lot', or group, the properties for *valuation* in the manner most likely to be adopted in the case of an actual sale of the interest(s) being valued. However, the valuer **must** always discuss the options with the client and **must** confirm the approach adopted in the *terms of engagement* and subsequently in the *valuation* report.

~~5~~

5 For further guidance on portfolios, collections and groups of properties, including the reporting format, see ~~VPGA 9~~VPGA 9.

6 ~~6~~ For non-financial liabilities, see ~~IVS 220~~IVS 220. Non-financial liabilities are liabilities requiring a non-cash performance obligation to provide goods or services.

e) ~~e)~~ Valuation (financial) currency

The valuer must establish the currency in which the *valuation* of the asset and/or liability is to be expressed ~~must be established.~~.

This requirement is particularly important for *valuation* assignments involving assets and/or liabilities in more than one jurisdiction and/or cash flows in multiple currencies.

Implementation

1 If a *valuation* has to be translated into a currency other than that of the country in which the asset is located, the basis of the exchange rate **must** be agreed.

f) ~~f)~~ Purpose of the valuation

The purpose for which the *valuation* assignment is being prepared must be clearly identified and stated, as it is important that *valuation* advice is not used out of context or for purposes for which it is not intended~~.~~.

The *purpose of the valuation* will also typically influence or determine the *basis(es) of value* to be used~~.~~.

Implementation

~~Where the purpose of valuation is a named exception (see PS 1 section 5), as a matter of good practice VPS 1-5 should be followed – where not precluded by the specific requirement or context.~~

~~Implementation~~

1 ~~1~~ If the client declines to reveal the *purpose of the valuation*, valuers should be aware that it may be difficult to comply with all aspects of these global standards. If the valuer is willing to proceed with the *valuation*, the client **must** be advised in writing that this omission will be referred to in the report. In this case the report **must not** be published or disclosed to *third parties*.

2 ~~2 If an unusually qualified valuation is to be provided, the~~ The *terms of engagement* **must** state that ~~it~~the *valuation* is not to be used for any purpose other than that originally agreed with the client.

g) ~~g)~~ Basis(es) of value adopted~~:~~

The *valuation* basis must be appropriate for the *purpose of the valuation*. The source of the definition of any *basis of value* used must be cited or the basis explained~~. This requirement does not apply to a valuation review where no opinion of value is to be provided and the reviewer is not required to comment on the basis of value used.~~.

Implementation

~~Implementation~~

1 ~~1~~ Where a *valuation* basis is expressly defined in these global standards (including IVS-defined bases), that definition **must** be reproduced in full. Where the definition is supplemented by a detailed conceptual framework or other explanatory material, it is not necessary to reproduce that framework or explanation. However, there is discretion to reproduce it should the valuer consider that it assists the client to understand more fully the reasoning behind the *basis of value* adopted.

2

~~1~~2 For certain specific purposes, such as financial reporting under ~~the International Financial Reporting Standards~~IFRS, or in consequence of individual jurisdictional requirements, the adoption of a specific *basis of value* may be stipulated. In all other cases the appropriate basis(es) is essentially a matter for the valuer's professional ~~judgment~~judgement.

~~2~~3 ~~3~~ It is recognised that for some purposes a projected value may be required in addition to a current *valuation*. Any such projection ~~should~~must comply with the applicable jurisdictional and/ or national standards. See ~~VPS 4~~**VPS 2**.

h) ~~h)~~ Valuation date

The *valuation date* may be different from the date on which the *valuation* report is to be issued or the date on which investigations are to be undertaken or completed. Where ~~appropriate~~this is the case, these dates should be clearly distinguished.

Implementation

~~Implementation~~

~~2~~1 ~~1~~ The specific *valuation date* will need to be agreed with the client – an assumption that the *valuation date* is the *date of the report* is not acceptable.

~~3~~2 ~~2~~ Where, exceptionally, the advice being provided relates to a future date, see ~~VPS 3 paragraph 2.2(f)~~**VPS 6 paragraph 2.2(f)** and ~~VPS 4 section 11,~~**VPS 2 section 12** regarding the reporting requirements.

i) ~~i)~~ Nature and extent of the valuer's work – including investigations – and any limitations thereon

Any limitations or restrictions on the *inspection*, inquiry and/or analysis for the *purpose of the valuation* assignment must be identified and recorded in the *terms of engagement*~~.~~�

If relevant information is not available because the conditions of the assignment restrict the investigation, ~~then~~and if the assignment is then accepted, these restrictions and any necessary *assumptions* or *special assumptions* made as a result of the restriction must be identified and recorded in the *terms of engagement*~~.~~.

Implementation

1 A client may require a restricted service; for example, a short timescale for reporting may make it impossible to establish facts that would normally be verified by *inspection,* or by making normal enquiries; or the request may be for a *valuation* based on the output of an automated valuation model (AVM). Note that the provision of an AVM-derived output that has been subject to the additional application of professional judgement by a member would be regarded as the provision of a written *valuation* for the purpose of these standards (see ~~PS 1 paragraph 1.4).~~**PS 1 paragraph 1.3)**. Accordingly, valuers should be alert to, and aware of, the implications of either accepting or manually modifying an AVM output. A restricted service will also include any limitations on *assumptions* made in accordance with ~~VPS 2~~**VPS 4**.

2 ~~2~~ It is accepted that a client may sometimes require this level of service, but it is the duty of the valuer to discuss the requirements and needs of the client prior to reporting. Such instructions, when related to *real estate*, are often referred to as 'drive-by', 'desk-top' or 'pavement' *valuations*.

~~3~~

3 The valuer should consider ~~if~~whether the restriction is reasonable, with regard to the purpose for which the *valuation* is required. The valuer may consider accepting the instruction subject to certain conditions, for example that the *valuation* is not to be published or disclosed to *third parties*.

~~3~~4 ~~4~~ If the valuer considers that it is not possible to provide a *valuation*, even on a restricted basis, the instruction ~~should~~**must** be declined.

~~4~~5 ~~5~~ The valuer **must** make it clear when confirming acceptance of such instructions that the nature of the restrictions and any resulting *assumptions*, and the impact on the accuracy of the *valuation*, will be referred to in the report~~. (See also VPS 3.)~~ (see also **VPS 6**).

~~5~~6 ~~6 VPS 2~~**VPS 4** contains general requirements with regard to *inspections*.

j) ~~j)~~ Nature and source(s) of information upon which the valuer will rely

The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the *valuation* process must be identified, agreed and recorded.

For this purpose, 'information' is to be interpreted as including data and other such ~~inputs.~~ Inputs.

Implementation

1 ~~1~~ Where the client ~~will provide~~provides information that is to be relied on, the valuer has a responsibility to state that information clearly in the *terms of engagement* and, where appropriate, its source. In each case the valuer **must** judge the extent to which the information to be provided is likely to be reliable, being mindful to recognise and not to exceed the limitations of their qualification and expertise in this respect.

2 ~~2~~ The client may expect the valuer to express an opinion (and, in turn, the valuer may wish to express an opinion) on social, environmental and legal issues that affect the *valuation*. The valuer **must** therefore make clear in the report any information that ~~must~~needs to be verified by the client's or other interested parties' legal advisers before the *valuation* can be relied on or published. Refer also to s) Consideration of any significant ESG factors.

k) ~~k)~~ All assumptions and special assumptions to be made

All *assumptions* and *special assumptions* that are to be made in the conduct and reporting ~~of the valuation assignment must be identified and recorded:~~
of the *valuation* assignment must be identified and recorded.

- ***Assumptions* are matters that are reasonable to accept as fact in the context of the *valuation* assignment without specific investigation or verification. They are matters that, once stated, are to be accepted in understanding the *valuation* or other advice provided~~.~~.**
- **A *special assumption* is an *assumption* that either assumes facts that differ from the actual facts existing at the *valuation date* or that would not be made by a typical market participant in a transaction on the *valuation date*~~.~~.**

Only *assumptions* and *special assumptions* that are reasonable and relevant, having regard to the purpose for which the *valuation* assignment is required, should be made.

Implementation

1 ~~1~~ *Special assumptions* are often used to illustrate the effect of changed circumstances on value. Examples of *special assumptions* include:

- that a proposed building had actually been completed on the *valuation date*
- that a specific contract was in existence on the *valuation date* ~~which~~that had not actually been completed
- that a financial instrument is valued using a yield curve that is different from that which would be used by a market participant.

2 ~~2~~ Further guidance on *assumptions* and *special assumptions*, including the case of projected values (i.e. future state of the asset or of any factors relevant to its *valuation*) can be found in ~~VPS 4.~~VPS 2.

l) ~~l)~~ Format of the report

The valuer must establish the format of the report and how the *valuation* will be communicated~~.~~.

Implementation

1 VPS 6~~1 VPS 3~~ sets out the mandatory reporting requirements. Where – exceptionally – it is agreed that any of the minimum reporting contents are to be excluded, they may be treated as *departures*, provided they are agreed in the *terms of engagement*, are appropriately referred to in the *valuation* report~~,~~ and do not result in a report that is misleading and/or professionally inadequate for its purpose.

2 ~~2~~ A report prepared in accordance with this standard and with ~~VPS 3~~VPS 6 **must not** itself be described as a certificate or statement~~,~~; the use of such language ~~implying~~implies either a guarantee or a level of certainty that is often inappropriate. However, a valuer may use the term 'certified', or similar words, within the body of a report where it is known that the *valuation* is to be submitted for a purpose that requires formal certification of a *valuation* opinion.

3 ~~3~~ Valuers should be aware that the terms 'certificate of value', 'valuation certificate' and 'statement of value' have specific meanings in certain countries or states in designating statutory documents. One common factor is that these documents require a simple confirmation of price or value, without any requirement to understand the context, fundamental *assumptions* or analytical processes behind the figure provided. A valuer who has previously provided a *valuation* or advised on a transaction involving the asset may prepare such a document where the client is required to provide it by statute.

m) ~~m)~~ Restrictions on use, distribution and publication of the report

Where it is necessary or desirable to restrict the use of the *valuation* advice or those ~~relying upon it, the restrictions must be clearly communicated.~~
relying upon it, the restrictions must be clearly communicated.

Implementation

1 ~~1~~ The valuer **must** state the permitted use, distribution and publication of the *valuation* report.

~~1~~2 ~~2~~ Restrictions are only effective if notified to the client in advance.

~~2~~3 ~~3~~ The valuer should keep in mind that any insurance that protects against claims for negligence under professional indemnity insurance (PII) policies may require the valuer to have particular qualifications, and to include certain limiting clauses in every report and *valuation*. If this is the case, the relevant words should be repeated, unless the insurers agree to either a modification or a complete waiver. If in doubt, valuers should refer to their insurance policy before accepting instructions.

~~3~~4 ~~4~~ Some *valuations* will be for purposes where the exclusion of *third~~-~~-party* liability is either forbidden by law or by an external regulator. In other cases, it will be a matter for clarification or agreement with the client, having regard also to the ~~judgment~~judgement of the valuer.

45 ~~5~~ Particular care should be taken in relation to *valuation* assignments in connection with secured lending to address *third~~-~~-party* liability issues.

n) ~~n)~~ Confirmation that the valuation will be undertaken in accordance with ~~the IVS~~IVS and/or RICS Red Book Global Standards

The valuer should provide:

- **confirmation that the *valuation* will be undertaken in accordance with the International Valuation Standards (IVS) and that the valuer will assess the appropriateness of all significant inputs**

~~**or (depending on clients' particular requirements)**~~

and/or (depending on clients' particular requirements)

- **confirmation that the *valuation* will be undertaken in accordance with ~~the~~ RICS Valuation – Global Standards, which incorporate ~~the~~ IVS, and (where applicable) the relevant RICS national or jurisdictional supplement. Where appropriate, such confirmation may ~~be abbreviated to~~ refer simply to ~~the~~ RICS Red Book Global Standards.**

~~In both cases~~In the case of Red Book Global Standards applying, an accompanying note and explanation of any *departures* from ~~the IVS or the RICS~~ Red Book Global Standards must be included. Any such *departure* must be identified, together with justification for that *departure*. A *departure* ~~would~~is not ~~be~~ justified if it results in a *valuation* that is misleading. If, during the course of a *valuation*, it becomes clear to the valuer that the scope of work will not result in an IVS- or Red Book Global Standards-compliant *valuation*, this must be communicated to the client in writing.

~~Implementation~~

Implementation

1 ~~1~~ There is no material difference in outcome between the respective forms of endorsement above, which may be used according to the particular requirements of the *valuation* assignment. Some clients will expressly wish to have confirmation that the *valuation* has been undertaken in accordance with IVS. In all other cases, confirmation that the *valuation* has been undertaken in accordance with ~~the IVS, and it is naturally in order for this to be given. In all other cases confirmation that the valuation has been undertaken in accordance with the RICS~~ Red Book Global Standards carries with it the dual assurance of compliance with ~~the~~ IVS technical standards and ~~with the~~ RICS professional standards overall.

2 ~~2~~ References to ~~the RICS~~ Red Book Global Standards without reference to the year of issue will be taken to mean the version of the RICS standards operative ~~at~~on the ~~valuation~~ date the *valuation* report is issued.~~, provided that~~ There will be some cases where it is ~~on or before the date of the report. Where a 'projected value' is~~necessary to ~~be provided (i.e. relating~~refer to ~~a date after the date of the report) the date of the report will be the deciding factor as to the RICS Red Book Global Standards~~an earlier version ~~that applies.~~, for example if undertaking a *valuation review* (see **PS 2 section 6**).

~~2~~3 ~~3~~ The statement of compliance should draw attention to any *departures* ~~(see PS 1~~

~~section 6~~from Red Book Global Standards (see **PS 1 section 6**).~~Where a departure is made that is not mandatory, it will not be possible to confirm compliance with the IVS.~~

~~3~~4 ~~4~~ Where other *valuation* standards – specific to a particular jurisdiction – will be followed~~,~~ (see **PS 1 section 4**), this should be confirmed as part of agreeing the *terms of engagement*.

o) The basis on which the fee will be calculated

Implementation

1 The level of the fee is a matter to be settled with the client, unless there is a fee basis prescribed by an external body that binds both parties. RICS does not publish any scale of recommended fees.

p) Where the firm is registered for regulation by RICS, reference to the firm's complaints handling procedure, with a copy available on request

Implementation

1 This requirement is included to emphasise the need for *firms registered for regulation* by RICS to comply with the ~~RICS Rules of Conduct~~RICS Rules of Conduct.

~~r~~p ~~q)~~ ~~A statement that compliance with these standards may be subject to monitoring under RICS' conduct and disciplinary regulations~~

q) A statement that compliance with these standards may be subject to monitoring under RICS' conduct and disciplinary regulations

Implementation

1 ~~1~~ The purpose of this statement is to draw the attention of the client to the possibility that the *valuation* may be investigated for compliance with these standards.

2 ~~2~~ Guidance on the operation of the monitoring regime, including matters relating to confidentiality, is available on the ~~RICS website.~~RICS website.

3 ~~3~~ Clients should be aware that this statement cannot validly be made by any valuer who is not a member or practising ~~within~~in an *RICS-regulated firm*, or covered by an arrangement under ~~PS 1 Section 8.~~**PS 1 section 8**.

~~r)~~

~~p)~~ r) A statement setting out any limitations on liability that have been agreed

Implementation

1 The issues of risk, liability and insurance are closely linked. Pending the issue of guidance of global application, members should check the latest RICS guidance applicable in their jurisdiction on the ~~RICS website.~~RICS website.

s) Consideration of any significant environmental, social and governance (ESG) factors

Implementation

1 The *terms of engagement* **must** include any requirements in relation to the consideration of significant *environmental, social and governance (ESG)* factors.

2 Requirements may include *ESG* matters that relate to the activities of the valuer such as the incorporation of *ESG* considerations into *inspection* and investigation. They may also include resources such as *ESG* performance data, *ESG* risk assessment and relevant cost information that may be required from the client and/or additional experts commissioned in accordance with **PS 2 paragraph 2.4**. Such resources **must** be considered in the same way as referred to in **VPS 1 paragraph 3.2(j)**; in each case the valuer **must** judge the extent to which the information to be provided is likely to be reliable, being mindful to recognise and not exceed the limitations of their qualification and expertise in this respect. Where the valuer does not have the qualification and expertise to judge the reliability of *ESG* resources provided that may be relevant to the *valuation* (such as, in some cases, cost information), this **must** be considered as part of the limitations referred to in **VPS 1 paragraph 3.2(i)**, with appropriate limits on liability as referred to in **VPS 1 paragraph 3.2(r)**.

3 The *valuation* **must** consider the potential impact of significant *ESG* factors on value, to the extent that such factors are reasonably identifiable and quantifiable. The level of *ESG* consideration will be commensurate with the type of asset or liability, location and *purpose of the valuation*. Upon consideration, there may not be any significant *ESG* factors that impact the *valuation*, in which case this **must** be stated, along with appropriate justification.

4 Relevant limitations on *ESG* considerations **must** also be clarified at this stage, such as, but not limited to, clarifying that the *valuation* does not constitute an *ESG* risk assessment or *ESG* rating.

5 Any client requirement to consider *ESG* matters, including specific measurements and strategies that are applicable and/or relevant only to the client, **must** be identified and agreed in the *terms of engagement* or as a separate instruction. These requirements **must** be considered in a way that is appropriate to the *basis of value* and any *special assumptions*.

6 Examples of *ESG* factors are included in IVS 104 Data and Inputs: Appendix. The relevance of these will differ depending on the *valuation* task being undertaken.

VPS 2 Bases of value, assumptions and special assumptions

~~VPS 2 Inspections, investigations and records~~

~~This mandatory standard:~~

~~applies International Valuation Standard (IVS) 102 *Investigations and compliance*~~

~~specifies additional mandatory requirements for RICS members designed to enhance client understanding of the valuation process and report~~

~~addresses particular aspects of implementation that may arise in individual cases.~~

1 Bases of value

~~1~~ 1.1 The valuer **must** ensure that the *basis of value* adopted is appropriate for, and consistent with, the *purpose of the valuation*.

1.2 If one of the *bases of value* defined in these global standards (including IVS-defined bases) is used, then it should be applied in accordance with the relevant definition and guidance, including the adoption of any *assumptions* or *special assumptions* that are appropriate.

1.3 If a *basis of value* not defined in these global standards (including IVS-defined bases) is used, it **must** be clearly defined and stated in the report, which **must** also draw attention to the fact that it is a *departure* if use of the basis in the particular *valuation* assignment is voluntary and not mandatory.

2 General principles

2.1 A *basis of value* is the fundamental premise on which the reported values are, or will be, based (IVS Glossary 10.03).

2.2 The following bases are defined in IVS 102 Bases of Value: Appendix A10–A60 and most are in common use, although they may not be universally adopted in all markets:

- *market value* (see section 4 below)

- *market rent* (see section 5 below)
- *investment value (or worth)* (see section 6 below)
- *equitable value*

~~1 Inspections and investigations~~

~~Inspections and investigations must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose. The valuer must take reasonable steps to verify the information relied on in the preparation of the valuation and, if not already agreed, clarify with the client any necessary assumptions that will be relied on.~~
~~These general principles are supplemented by the following additional requirements embodied in VPS 1 and VPS 3:~~

- ~~Any limitations or restrictions on the inspection, inquiry and analysis for the purpose of the valuation assignment must be identified and recorded in the terms of engagement (VPS 1 paragraph 3.2(i)) and also in the report (VPS 3 paragraph 2.2(h)).~~
- ~~If the relevant information is not available because the conditions of the assignment restrict the investigation, then if the assignment is accepted, these restrictions and any necessary assumptions or special assumptions made as a result of the restriction must be identified and recorded in the terms of engagement (VPS 1 paragraph 3.2(i)) and in the report (VPS 3 paragraph 2.2(h)).~~

~~Implementation~~

- ~~1.~~ *synergistic value* and
- liquidation value.

Care is necessary to ensure that, where used, *synergistic value* is fully understood by the client.

2.3 In addition, for the purposes of financial reporting, *fair value* (under *International Financial Reporting Standards*) is widely recognised (including by RICS) and used. Again, not universally – see further detail in section 7 below.

2.4 For some *valuation* assignments, particularly in relation to specific jurisdictions within which there may be mandatory requirements, another *basis of value* may be specified (for example, in legislation) or be appropriate to use. Where this is so, the valuer **must** define clearly the basis adopted. In any case where adoption of the basis is other than mandatory, the valuer **must** explain in the report why use of a basis reproduced in these global standards (including any jurisdiction-specific supplement to these standards) is considered inappropriate (see **PS 1 section 4**).

2.5 Any sensitivity analysis to be included in *documentation* or reporting is to be carefully presented so as not to undermine the *basis of value* adopted.

2.6 Valuers are cautioned that the use of an unrecognised or bespoke *basis of value* without good reason could result in breach of the requirement that the *valuation* report **must not** be ambiguous or misleading (see **VPS 6 section 1**).

2.7 IVS 102 Bases of Value: Appendix includes material on 'premises of value' that is not fully reproduced here.

3 Bases of value

3.1 The valuer has responsibility for ensuring that the *basis of value* adopted is consistent with the *purpose of the valuation* and appropriate to the circumstances. This responsibility is subject to compliance with any mandatory requirements, such as those imposed by statute.

It is important that the basis to be adopted is discussed and confirmed with the client at the outset in any case where the position is not straightforward.

3.2 It is important to note that *bases of value* are not necessarily mutually exclusive. For example, the *worth* of a property or asset to a specific party, or the *equitable value* of a property or asset in exchange between two specific parties, may match the *market value* even though different assessment criteria are used.

3.3 Because bases other than *market value* may produce a value that could not be obtained on an actual sale, whether or not in the general market, the valuer **must** clearly distinguish the *assumptions* or *special assumptions* that are different from, or additional to, those that would be appropriate in an estimate of *market value*. Typical examples of such *assumptions* and *special assumptions* are discussed in sections 9 and 10 below.

3.4 Valuers **must** ensure in all cases that the *basis of value* is reproduced or clearly identified in both the *terms of engagement (scope of work)* and the report.

3.5 A valuer may be legitimately instructed to provide *valuation* advice based on other criteria, and therefore other *bases of value* may be appropriate. In such cases the definition adopted **must** be set out in full and explained, and the requirements of **PS 1 paragraph 6.3(b) must** be met.

4 Market value

Market value is defined in IVS 102 Bases of Value: Appendix A10.01 as:

> 'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

4.1 *Market value* is a *basis of value* that is internationally recognised and has a long-established definition. It describes an exchange between parties that are unconnected and operating freely in the marketplace. It represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the *valuation date*, reflecting all those factors that would be taken into account in framing their bids by market participants at large and reflecting the highest and best use of the asset. The highest and best use of an asset is defined in IVS 102 Appendix as 'the use, from a participant perspective, that would produce the highest value for an asset'. It is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible – fuller treatment of this *basis of value* can be found at paragraph A10.04 and section A90 of IVS 102 Bases of Value: Appendix.

4.2 It ignores any price distortions caused by *special value* (an amount that reflects particular attributes of an asset that are only of value to a *special purchaser*) or *synergistic value* (*marriage value*). It represents the price that would most likely be achievable for an asset across a wide range of circumstances. *Market rent* (see section 5) applies similar criteria for estimating a recurring payment rather than a capital sum.

4.3 In applying *market value*, the *valuation* amount **must** reflect the actual market state and circumstances as of the effective *valuation date*. The full conceptual framework for *market value* can be found in section A10 of IVS 102 Bases of Value: Appendix.

4.4 Notwithstanding the disregard of *special value*, where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, the impact of that expectation is reflected in *market value*. Examples of where the expectation of additional value being created or obtained in the future may have an impact on the *market value* include:

- the prospect of development where there is no current permission for that development and
- the prospect of *synergistic value/marriage value* arising from a merger with another property or asset, or interests within the same property or asset, at a future date.

4.5 The impact on value arising by use of an *assumption* or *special assumption* should not be confused with the additional value that might be attributed to an asset by a *special purchaser*.

4.6 In some jurisdictions, a *basis of value* described as 'highest and best use' is adopted, and this may either be defined by statute or established by common practice in individual countries or states.

5 Market rent

Market rent is defined in IVS 102 Bases of Value: Appendix A20.01 as:

> 'the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

5.1 *Market rent* will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the property is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews and the responsibilities of the parties for maintenance and outgoings will all affect the *market rent*. In certain countries or states, statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate.

5.2 *Market rent* will normally be used to indicate the amount for which a vacant property may be let, or for which a let property may be re-let when the existing lease terminates. *Market rent* is not a suitable basis for settling the amount of rent payable under a rent review provision in a lease, where the definitions and *assumptions* specified in the lease have to be used.

5.3 Valuers **must** therefore set out clearly the principal lease terms that are assumed when providing an opinion of *market rent*. If it is the market norm for lettings to include a payment or concession by one party to the other as an incentive to enter into a lease, and this is reflected in the general level of rents agreed, the *market rent* should also be expressed on this basis. The nature of the incentive assumed **must** be stated by the valuer, along with the assumed lease terms.

6 Investment value

Investment value (worth) is defined in IVS 102 Bases of Value: Appendix A40.01 as:

> 'the value of an asset to a particular owner or prospective owner for individual investment or operational objectives.'

6.1 As the definition implies, and in contrast to *market value*, this *basis of value* does not envisage a hypothetical transaction but is a measure of the value of the benefits of ownership to the current owner or to a prospective owner, recognising that these may differ from those of a typical market participant. It is often used to measure performance of an asset against an owner's own investment criteria.

7 Fair value

Fair value (the definition adopted by the International Accounting Standards Board (IASB) in IFRS 13) is:

> 'The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.'

7.1 The guidance in IFRS 13 includes an overview of the *fair value* measurement approach.

7.2 The objective of a *fair value* measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. The references in IFRS 13 to market participants and a sale make it clear that for most practical purposes the concept of *fair value* is consistent with that of *market value*, and so there would ordinarily be no difference between them in terms of the *valuation* figure reported.

7.3 A *fair value* measurement requires an entity to determine the following (this list is not exhaustive):

- the particular asset or liability that is the subject of the measurement (consistent with its unit of account)
- for a non-financial asset, the *valuation* premise that is appropriate for the measurement (consistent with its highest and best use)
- the principal (or most advantageous) market for the asset or liability
- the *valuation* technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the *assumptions* that market participants would use when pricing the asset or liability, and the level of the *fair value* hierarchy within which the inputs are categorised.

7.4 Valuers undertaking *valuations* for inclusion in *financial statements* should familiarise themselves with the relevant requirements – see also VPGA 1.

8 Transaction costs

8.1 Many *bases of value*, including *market value* and IFRS *fair value*, represent the estimated price that would be agreed for the exchange of an asset in the market before adjustment for the seller's costs of sale or the buyer's costs of purchase, and any taxes payable by either party as a direct result of the transaction (see IVS 102 Bases of Value: Appendix section 70). These *valuations* **must** reflect the price that would be agreed, not the net receipt or the gross cost to the parties. If a client requires an estimate of such additional costs, these should be provided separately from the reported value.

8.2 This does not mean that any costs (or taxes) that a prospective buyer or seller would incur in an actual transaction should be ignored in the process of estimating *market value* or *fair value*. The costs that market participants would incur in a transaction are material in determining the price they would be prepared to agree. For example, if using an *income approach*, the capitalisation of the net rent using a comparable net discount rate will produce a capital value figure that represents the total outlay of the purchaser, including costs. So, a deduction has to be made from this figure to estimate *market value/fair value* to allow for a typical buyer's costs – otherwise the value will be overstated.

9 Assumptions

An *assumption* is made where it is reasonable for the valuer to accept that something is true without the need for specific investigation or verification.

Any such *assumption* **must** be reasonable and relevant, having regard to the purpose for which the *valuation* is required.

9.1 The full definition of *assumption* from the Glossary is as follows.

> 'A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a *valuation* that, by agreement, do not need to be verified by the valuer as part of the *valuation* process.'

9.2 It will almost always be necessary to couple a *basis of value* with appropriate *assumptions* (or *special assumptions* – see **section 10** below) that describe the assumed status or condition of the property or asset at the *valuation date*.

9.3 An *assumption* is often linked to a limitation on the extent of the investigations or enquiries that could be undertaken by the valuer – see **VPS 4**. Therefore, all *assumptions* that are likely to be included in the report **must** be agreed with the client and included in the *terms of engagement*. Where it is not possible to include *assumptions* in the *terms of engagement*, they should be agreed in writing with the client before the *valuation* report is issued.

9.4 If, after *inspection* or investigation, the valuer considers that an *assumption* agreed in advance with the client is likely to be inappropriate, or should become a *special assumption*, the revised *assumptions* and approach **must** be discussed with the client with appropriate *records* made, prior to the conclusion of the *valuation* assignment and delivery of the report.

9.5 See also VPGA 8 for practical application in relation to real property interests.

10 Special assumptions

A *special assumption* is made by the valuer where an *assumption* either assumes facts that differ from those existing at the *valuation date* or that would not be made by a typical market participant in a transaction on that *valuation date*.

Where *special assumptions* are necessary to provide the client with the *valuation* required, these **must** be expressly agreed and confirmed in writing to the client before the report is issued.

Special assumptions may only be made if they can reasonably be regarded as realistic, relevant and valid for the particular circumstances of the *valuation*.

10.1 The valuer may include in the report some comment or assessment of the likelihood of the *special assumption* being fulfilled. For example, a *special assumption* that permission had been granted to develop land may have to reflect the impact on value of any conditions that might be imposed.

10.2 A typical *special assumption* might be that a property or asset has been altered in some defined way, for example, 'the market value on the special assumption that the works had been completed'. In other words, it assumes facts that differ from those existing at the *valuation date*.

10.3 If a client requests a *valuation* on the basis of a *special assumption* that the valuer considers to be unrealistic, the instruction should be declined.

10.4 Circumstances where it may be appropriate to make *special assumptions* include, for example:

- a past change in the physical aspects of the property or asset where the valuer has to assume those changes have not taken place
- where a change in the physical aspects of the property is proposed, such as a new building to be constructed or an existing building to be refurbished or demolished
- the treatment of alterations and improvements carried out under the terms of a lease
- where the property may be affected by environmental factors, including natural (such as flooding), non-natural (such as contamination) or existing use issues (such as a non-conforming user).

10.5 Some illustrations of *special assumptions* in relation to real property interests include:

- planning (zoning) consent has been, or will be, granted for development (including a change of use) at the property
- a building or other proposed development has been completed in accordance with a defined plan and specification
- the property has been changed in a defined way (for example, removal of process equipment)
- a property that is currently vacant had been leased on defined terms
- a property currently leased on defined terms was vacant and the lease terminated
- the exchange takes place between parties where one or more has a special interest and that additional value, or *synergistic value* (*marriage value*), is created as a result of the merger of the interests. This example only applies if a party with a special interest has not indicated a willingness to acquire the subject asset on the *valuation date*. If an exchange with a buyer with a special interest is anticipated, this is part of the factual background to the *valuation* and therefore is not a *special assumption*. However, the valuer should make it clear that any *synergistic value* would not arise in a sale to a party without the special interest.

10.6 Where a property has been damaged, the *special assumptions* may include:

- treating the property as having been reinstated (reflecting any insurance claims)
- valuing as a cleared site with development permission assumed for the existing use
- refurbishment or redevelopment for a different use, reflecting the prospects of obtaining the necessary development permissions.

10.7 The adoption of some of these *special assumptions* may qualify the application of *market value*. They are often particularly appropriate where the client is a lender and *special assumptions* are used to illustrate the potential effect of changed circumstances on the value of a property as a security.

10.8 Where *valuations* are prepared for *financial statements*, the normal *basis of value* will exclude any additional value attributable to *special assumptions*. However, if (exceptionally) a *special assumption* is made, this **must** be referred to in any published reference. See **VPS 6 paragraph 2.2(i)** and **2.2(l)**.

11 Valuations reflecting an actual or anticipated market constraint, and forced sales

Wherever the valuer, or client, identifies that a *valuation* may need to reflect an actual or anticipated marketing constraint, details of that constraint **must** be agreed and set out in the *terms of engagement*.

11.1 The valuer may be instructed to undertake a *valuation* reflecting an actual or anticipated market constraint, which may take one of many different forms.

11.2 If a property or asset cannot be freely or adequately presented to the market, the price is likely to be adversely affected. Before accepting instructions to advise on the likely effect of a constraint, the valuer should ascertain whether this arises from an inherent feature of the asset, or of the interest being valued, or from the circumstances of the client or some combination of all of these.

11.3 If an inherent constraint exists at the *valuation date*, it is normally possible to assess its impact on value. The constraint should be identified in the *terms of engagement*, and it should be made clear that the *valuation* will be provided on this basis. It may also be appropriate to provide an alternative *valuation* on the *special assumption* that the constraint did not exist at the *valuation date* to demonstrate its impact.

11.4 Greater care is needed if an inherent constraint does not exist at the *valuation date*, but is a foreseeable consequence of a particular event or sequence of events. Alternatively, the client may request a *valuation* to be on the basis of a specified marketing restriction. In either case the *valuation* would be provided on the *special assumption* that the constraint had arisen at the *valuation date*. The precise nature of the constraint **must** be included in the *terms of engagement*. It may also be appropriate to provide a *valuation* without the *special assumption* to demonstrate the impact that the constraint would have if it arose.

11.5 A *special assumption* that simply refers to a time limit for disposal without stating the reasons for that limit would not be a reasonable *assumption* to make. Without a clear understanding of the reasons for the constraint, the valuer would be unable to determine the impact that it may have on marketability, sale negotiations and the price achievable, or to provide meaningful advice.

11.6 A marketing constraint should not be confused with a forced sale. A constraint may result in a forced sale, but it can also exist without compelling the owner to sell.

11.7 The term 'forced sale value' **must not** be used. A 'forced sale' is a description of the situation under which the exchange takes place, not a distinct *basis of value*. Forced sales arise where there is pressure on a particular vendor to sell at a specific time – for example, because of the need to raise money or to extinguish a liability by a given date. The fact that a sale is 'forced' means that the vendor is subject to external legal or personal commercial factors, and therefore the time constraint is not merely a preference of the vendor. The nature of these external factors and the consequences of failing to conclude a sale are just as important in determining the price that can be achieved within the length of time available.

11.8 While a valuer can assist a vendor in determining a price that should be accepted in forced sale circumstances, this is a commercial judgement. Any relationship between the price achievable by a forced sale and the *market value* is coincidental; it is not a *valuation* that can be determined in advance, but a figure that might be seen as a reflection of worth to that particular vendor at the particular point in time, having regard to the specific context. As emphasised in paragraph 11.7 above, although advice may be given on the likely realisation in forced sale circumstances, the term is a description of the situation under which the sale takes place, and so it **must not** be described or used as a *basis of value*.

11.9 It is a common misconception that in a poor or falling market there are automatically few 'willing sellers' and that, as a consequence, most transactions in the market are the result of 'forced sales'. Accordingly, the valuer may be asked to provide forced sale advice on this basis. This argument has little merit because it suggests that the valuer should ignore the evidence of what is happening in the market. The commentary for *market value* in **VPS 2 section 4** makes it clear that a willing seller is motivated to sell at the best terms available in the market after proper marketing, whatever that price may be.

11.10 The valuer should be careful not to accept instructions on the basis of a misconception and should explain to clients that, in the absence of a defined constraint affecting either the asset or the vendor, the appropriate basis is *market value*. In a depressed market, a significant proportion of sales may be made by vendors that are obliged to sell, such as administrators, liquidators and receivers. However, such vendors are normally under a duty to obtain the best price in the current circumstances and cannot impose unreasonable marketing conditions or constraints of their own volition. These sales will normally comply with the definition of *market value*.

12 Assumptions and special assumptions related to projected values and property risk advice

Any *assumptions* or *special assumptions* relating to projected values **must** be agreed with the client prior to reporting an opinion of value.

The *valuation* report **must** make reference to the higher degree of uncertainty that is likely to be implicit with a projected value where, by definition, comparable evidence will not be available.

12.1 By their nature, projected values rely wholly on *assumptions*, which may include some significant *special assumptions*. For example, the valuer may make various *assumptions* about the state of the market in the future – yields, rental growth, interest rates, etc., which **must** be supported by credible studies or economic outlook-based forecasts.

12.2 Detailed attention is required to ensure that all *assumptions* made are:

- in accordance with any applicable national or jurisdictional standard
- realistic and credible, and
- clearly and comprehensively set out in the report.

12.3 When making *special assumptions*, great care **must** also be exercised concerning the reliability and precision of any methods, models, tools or data used for forecasting or extrapolation.

~~The valuer must ensure that the basis of value adopted is appropriate for, and consistent with, the purpose of the valuation.~~
~~If one of the bases of value defined in these global standards (including IVS-defined bases) is used, then it should be applied in accordance with the relevant definition and guidance, including the adoption of any assumptions or special assumptions that are appropriate.~~
~~If a basis of value not defined in these global standards (including IVS-defined bases) is used, it must be clearly defined and stated in the report, which must also draw attention to the fact that it is a departure if use of the basis in the particular valuation assignment is voluntary and not mandatory.~~
~~A valuer can only depart from~~ **the** ~~IVS as described in section 60 of the IVS Framework.~~

~~2 General principles~~

~~2.1 A basis of value is a statement of the fundamental measurement assumptions of a valuation.~~

~~2.2 The following bases are defined in the International Valuation Standards (see IVS 104 paragraph 20.1(a)) and most are in common use, albeit that they may not be universally adopted in all markets:~~

- ~~market value (see section 4 below)~~
- ~~market rent (see section 5 below)~~
- ~~investment value (or worth) (see section 6 below)~~
- ~~*equitable value* (previously, IVS-defined fair value)~~
- ~~*synergistic value* and~~

~~• liquidation value.~~

~~Particular care is necessary to ensure that, where used, synergistic value is fully understood by the client.~~

~~2.3 In addition, for the purposes of financial reporting, fair value (under International Financial Reporting Standards) is widely recognised (including by RICS) and used, albeit again not universally – see further detail in section 7 below.~~

~~2.4 For some~~ *valuation* ~~assignments, particularly in relation to specific jurisdictions within which there may be mandatory requirements, another basis of value may be specified (for example, in legislation) or appropriate (members should note that IVS 104 gives some illustrative examples at paragraph 20.1 (b)). Where this is so, the valuer must define clearly the basis adopted and, in any case where adoption of the basis is other than mandatory, explain in the report why use of a basis reproduced in these global standards (including any jurisdiction-specific supplement to these standards) is considered inappropriate (see PS 1 section 4).~~

~~2.5 As markets continue to develop and advance, and as clients' needs continue to grow in terms of sophistication, additional demands are being placed on valuers to provide advice involving some element of prediction or forecast. Great care is needed to ensure that such advice is not misunderstood or misrepresented,~~ and ~~that any sensitivity analysis is carefully presented so as not to undermine the basis of value adopted.~~

~~2.6 Valuers are cautioned that the use of an unrecognised or bespoke basis of value without good reason could result in breach of the requirement that~~ the *valuation* report should not be ~~ambiguous or misleading (see VPS 3 section 1).~~

~~2.7 Attention is drawn to the fact that IVS 104 includes material on 'premises of value' that is not reproduced here.~~

~~3 Bases of value~~

~~3.1 The valuer has responsibility for ensuring that the basis of value adopted is consistent with the purpose~~ regarded as an *ESG* risk assessment or for any other use beyond the scope of the *valuation* ~~and appropriate to the circumstances – this responsibility is subject to compliance with any mandatory requirements, such as those imposed by statute. It is important that the basis to be adopted is discussed and confirmed with the client at the outset in any case where the position is not straightforward.~~

~~3.2 It is important to note that bases of value are not necessarily mutually exclusive. For example, the *worth* of a property or asset to a specific party, or the *equitable value* of a property or asset in exchange between two specific parties, may match the *market value* even though different assessment criteria are used.~~

~~3.3 Because bases other than market value may produce a value that could not be obtained on an actual sale, whether or not in the general market, the valuer must clearly distinguish the assumptions or special assumptions that are different from, or additional to, those that would be appropriate in an estimate of market value. Typical examples of such assumptions and special assumptions are discussed under the appropriate heading below.~~

~~**3.4** 3.4 Valuers **must** ensure in all cases that the *basis of value* is reproduced or clearly identified in both the *terms of engagement (scope of work)* and the report.~~

~~3.5 A valuer may be legitimately instructed to provide *valuation* advice based on other criteria, and therefore other *bases of value* may be appropriate.~~ �

Implementation

~~In such cases the definition adopted must be set out in full and explained. Where such a basis differs significantly from market value it is recommended that a brief comment is made indicating the differences.~~

~~4 Market value~~

~~Market value is defined in IVS 104 paragraph 30.1 as:~~

1 ~~'the estimated amount~~Examples of *ESG* factors for ~~which an~~ all asset classes are included at IVS 104 Data and Inputs: Appendix. These may or may not be significant depending on the *valuation*.

~~1~~2 The relevance of *ESG* factors and whether they are significant will depend on the asset or liability ~~should exchange on~~being valued, as well as the *valuation* ~~date between a willing buyer~~*purpose* and ~~a willing seller in an arm's length transaction, after proper marketing~~*basis of value*. Some factors will only be relevant in certain locations and ~~where the parties had each acted knowledgeably, prudently~~*valuation* circumstances. Significant *ESG* considerations should be proportionate to the *valuation* task. Additional and ~~without compulsion.'~~more detailed considerations may be required for some *ESG* factors depending on the type of *valuation*. The VPGAs below include *ESG* considerations specific to certain *valuation purposes* and asset types.

~~4.1 Market value is a basis of value that is internationally recognised and has a long-established definition. It describes an exchange between parties that are unconnected and are operating freely in the marketplace and represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the *valuation date*, reflecting all those factors that would be taken into account in framing their bids by market participants at large and reflecting the highest and best use of the asset. The highest and best use of an asset is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible – fuller treatment of this particular premise of value can be found at section 140 of IVS 104.~~

~~4.2 It ignores any price distortions caused by special value (an amount that reflects particular attributes of an asset that are only of value to a special purchaser) or marriage value. It represents the price that would most likely be achievable for an asset across a wide range of circumstances. Market rent (see below) applies similar criteria for estimating a recurring payment rather than a capital sum.~~

~~4.3 In applying market value, regard must also be had to the requirement that the valuation amount reflects the actual market state and circumstances as of the effective valuation date. The full conceptual framework for market value can be found at paragraph 30.2 of IVS 104.~~

~~1.1 4.4 Notwithstanding the disregard of *special value*, where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, the impact of that expectation is reflected in *market value*. Examples of where the expectation of additional value being created or obtained in the future may have an impact on the *market value* include:~~

- ~~the prospect of development where there is no current permission for that development and~~
- ~~the prospect of marriage value arising from merger with another property or asset, or interests within the same property or asset, at a future date.~~

~~1.2 4.5 The impact on value arising by use of an *assumption* or *special assumption* should not be confused with the additional value that might be attributed to~~

~~an asset by a *special purchaser*.~~

~~4.6 In some jurisdictions a basis of value described as 'highest and best use' is adopted and this may either be defined by statute or established by common practice in individual countries or states.~~

~~2 5 Market rent~~

~~Market rent is defined in IVS 104 paragraph 40.1 as:~~

~~'the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'~~

~~5.1 *Market rent* will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the property is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews and the responsibilities of the parties for maintenance and outgoings will all affect the *market rent*. In certain countries or states, statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate.~~

~~**2.1** 5.2 Market rent will normally be used to indicate the amount for which a vacant property may be let, or for which a let property may re-let when the existing lease terminates. *Market rent* is not a suitable basis for settling the amount of rent payable under a rent review provision in a lease, where the definitions and *assumptions* specified in the lease have to be used.~~

~~**2.2** 5.3 Valuers must therefore take care to set out clearly the principal lease terms that are assumed when providing an opinion of *market rent*. If it is the market norm for lettings to include a payment or concession by one party to the other as an incentive to enter into a lease, and this is reflected in the general level of rents agreed, the *market rent* should also be expressed on this basis. The nature of the incentive assumed **must** be stated by the valuer, along with the assumed lease terms.~~

~~6 Investment value~~

~~Investment value (worth) is defined in IVS 104 paragraph 60.1 as:~~

~~'the value of an asset to a particular owner or prospective owner for individual investment or operational objectives.'~~

~~**2.3** As the definition implies, and in contrast to *market value*, this *basis of value* does not envisage a hypothetical transaction but is a measure of the value of the benefits of ownership to the current owner or to a prospective owner, recognising that these may differ from those of a typical market participant. It is often used to measure performance of an asset against an owner's own investment criteria.~~

VPS 3 Valuation approaches and methods

Valuers are responsible for adopting, and as necessary justifying, the *valuation* approach(es) and the *valuation* method(s) used to fulfil individual *valuation* assignments. These **must** always have regard to:

- the nature of the asset (or liability)
- the purpose, intended use and context of the particular assignment and
- any statutory or other mandatory requirements applicable in the jurisdiction concerned.

Valuers should also have regard to recognised best practice within the *valuation* discipline or specialist area in which they practise, although this should not constrain the proper exercise of their judgement in individual *valuation* assignments in order to arrive at an opinion of value that is professionally acceptable for its purpose.

Unless expressly required by statute or by other mandatory requirements, no one *valuation* approach or single *valuation* method necessarily takes precedence over another. In some jurisdictions and/or for certain purposes, more than one approach and/or method may be expected or required to arrive at a balanced judgement. In this regard, the valuer **must** always be prepared to appropriately report and document the approach(es) and method(s) adopted.

Valuation methods are typically implemented through a *valuation model* and therefore attention is also drawn to **VPS 5**.

1 Although no formal, universally recognised definition of *valuation* approach exists, IVS defines it as 'a generic term for the use of the cost, income or market approach'. The term *valuation method* is defined in IVS as 'within a valuation approach, a specific technique to conclude a value'.

2 *Valuations* are required of different interests in different types of assets for a range of different purposes. Given this diversity, the approach to the estimation of value in one case may well be inappropriate in another, let alone the actual method(s) or model(s) used. Using the definition in paragraph 1 above, the overall *valuation* approach is usually classified into one of three main categories.

- The *market approach* is based on comparing the subject asset with identical or similar assets (or liabilities) for which price information is available, such as a comparison with market transactions in the same, or closely similar, type of asset (or liability) within an appropriate time horizon.
- The *income approach* is based on capitalisation or conversion of present and predicted income (cash flows), which may take a number of different forms, to produce a single

current capital value. Among the forms taken, capitalisation of a conventional market-based income or discounting of a specific income projection can both be considered appropriate, depending on the type of asset and whether such an approach would be adopted by market participants. The *income approach* can also consider the value of an asset in terms of projected costs and cost savings, for example capital expenditure on retrofit.

- The *cost approach* is based on the economic principle that a purchaser will pay no more for an asset than the cost to obtain one of equal utility, whether by purchase or construction.

3 Underlying each *valuation* approach and *valuation* method is the need to make such comparisons as are practically possible. It may well be possible to arrive at a *valuation* opinion by adopting multiple approaches, methods and models, unless statute or some other mandatory authority imposes a particular requirement. Great care **must** be exercised when relying on the *cost approach* as the primary or only approach, as the relationship between cost and value is rarely direct.

4 Further detail on the application of approaches and methods can be found in IVS 103 and IVS 105 in terms of the responsibilities of valuers in relation to *valuation modelling* (see also **VPS 5**). It must be emphasised that the valuer is ultimately responsible for selection of the approach(es) and method(s) to be used in individual *valuation* assignments, unless statute or other mandatory authority imposes a particular requirement.

5 In some cases a valuer may need to report and record why a *valuation* method has not been used.

6 Valuers are encouraged to be analytical and to select and use *valuation* methods that support more in-depth analysis where appropriate. Valuers should not select and use *valuation* methods only on the basis that they are methods they have always used previously for similar *valuation* assignments – there **must** be a rationale for the selection.

7 There has been a trend in some markets towards greater interest and use of growth explicit *valuation* methods, including growth explicit discounted cash flow (DCF) methods. Use of such methods is not mandated but encouraged in appropriate circumstances. Further supporting information and global practice information can be found on the RICS website.

VPS 4 Inspections, investigations and records

1 Inspections and investigations

Inspections and investigations **must** always be carried out to the extent necessary to produce a *valuation* that is professionally adequate for its purpose. The valuer **must** take reasonable steps to verify the information relied on in the preparation of the *valuation* and, if not already agreed, clarify with the client any necessary *assumptions* that will be relied on.

These general principles are supplemented by the following additional requirements in **VPS 1** and **VPS 6**.

- Any limitations or restrictions on the *inspection*, inquiry and analysis for the *purpose of the valuation* assignment **must** be identified and recorded in the *terms of engagement* (**VPS 1 paragraph 3.2(i)** and **VPS 6 paragraph 2.2(h)**) and also in the report.
- If the relevant information is not available because the conditions of the assignment restrict the *investigation*, then if the assignment is accepted, these restrictions and any necessary *assumptions* or *special assumptions* made as a result of the restriction **must** be identified and recorded in the *terms of engagement* (**VPS 1 paragraph 3.2(i)** and **VPS 6 paragraph 2.2(h)**) and in the report.

1.1 When settling the *terms of engagement* the valuer **must** agree the extent to which the subject asset is to be inspected and any investigation is to be made – see ~~VPS 1~~**VPS 1**.

1~~.~~.2 When determining the extent of evidence necessary, professional judgement is required to ensure the information to be obtained is adequate for the *purpose of the valuation* and consistent with the *basis of value* adopted. In each case the valuer **must** judge the extent to which the information to be provided is likely to be reliable, and ~~be mindful to~~ recognise and not ~~to~~ exceed the limitations of their qualification and expertise when making this ~~judgment~~judgement.

1~~.~~.3 When a property or other physical asset is inspected or examined, the degree of investigation that is appropriate will vary, depending on the nature of the asset and the *purpose of the valuation*. Except in the circumstances described in ~~the~~ section ~~‘Revaluation without re-inspection’ below~~2, valuers are reminded that to dispense voluntarily with an *inspection* or examination of physical assets may introduce an unacceptable degree of risk in the *valuation* advice to be provided~~ – they~~. They **must** therefore carefully assess that risk before proceeding~~:~~, see ~~VPS 1 paragraph 3.2(i)~~**VPS 1 paragraph 3.2(i)** regarding ‘restricted services’, including the use of automated valuation models.

1.4 ~~1.4~~ Where measurement needs to be undertaken or checked, members ~~must~~should have regard to the ~~International Property Measurement Standards~~International Property Measurement Standards wherever applicable.~~ The~~

~~RICS property measurement, RICS professional statement contains more detail.~~

~~1.5 VPGA 8~~

1.5 VPGA 8 provides detailed commentary on matters evident or to be considered during *inspection* of *real estate*, including those matters that fall within the general heading of '*sustainability* and *ESG* matters'. Such factors are commonly important in terms of market and societal perception and influence, and valuers ~~should~~**must** have proper regard to their relevance and significance in relation to individual *valuation* assignments. VPGA 5 provides commentary on matters to be considered during the *inspection* of *plant and equipment (including infrastructure)*. Attention should also be given to IVS 104 ESG Data and Inputs: Appendix.

1.6 ~~1.6 Subject to PS 2 paragraph 2.4 and VPS 1 paragraph 3.2(j)~~Subject to **PS 2 paragraph 2.4** and **VPS 1 paragraph 3.2(j)**, the valuer **must** take reasonable steps to verify the information relied on in the preparation of the *valuation* and, if not already agreed, clarify with the client any necessary *assumptions* that will be made. While a client may request, or consent to, an *assumption* being relied on, ~~nevertheless~~ if – following an *inspection* or examination – the valuer considers that such an *assumption* is at variance with the observed facts, then its continued adoption could, providing that it is realistic, relevant and valid for the particular circumstances of the *valuation*, become a *special assumption* (see **VPS ~~4~~2 section ~~9~~10**).

1.7 ~~1.7~~ If relevant information is not available because the conditions of the instruction prevent *inspection*, or where it is agreed that *inspections* and investigations may be limited, then if the instruction is accepted, the *valuation* will be on the basis of restricted information and ~~VPS 1 paragraph 3.2(j)~~**VPS 1 paragraph 3.2(j)** will apply. Any restriction on *inspection* or examination, or lack of relevant information, should be set out in the *terms of engagement* and *valuation* report. If the valuer considers that it is not possible to provide a *valuation* even on a restricted basis, the instruction should be declined.

1.8 ~~1.8~~ When a *valuation* assignment involves reliance on information supplied by a party other than the valuer, the valuer should consider whether the information is credible and may be relied on without adversely affecting the credibility of the *valuation* opinion. In that event, the assignment may proceed. Significant inputs provided to the valuer (for example, by management or owners) that materially affect the *valuation* outcome but about which the valuer considers some element of doubt arises will require assessment, investigation and/or corroboration~~, as the case may be.~~. In cases where the credibility or reliability of information supplied cannot be supported, such information should not be used.

1.9 ~~1.9~~ While the valuer should take reasonable care to verify any information provided or obtained, any limitations on this requirement **must** be clearly stated~~. (See~~ (see ~~VPS 1.)~~**VPS 1**). When preparing a *valuation* for *financial statements*, the valuer should be prepared to discuss the appropriateness of any *assumptions* with the client's auditor, other professional adviser or regulator.

1.10 ~~1.10~~ A valuer meeting the criteria in ~~PS 2 section 2,~~**PS 2 section 2** will be familiar with, if not expert on, many of the matters affecting either the type of asset, including where applicable the locality.

Where an issue, or potential issue, that could affect value is within the valuer's knowledge or evident from an *inspection* or examination of the asset, including where applicable the immediate locality, or from routine enquiries, it should be drawn to the client's attention no later than when the report is issued, and ideally in advance of the report in cases where the impact is significant.

~~2~~

2 Revaluation without ~~re-inspection~~reinspection of real property previously valued

~~Implementation~~

2~~.~~.1 A re*valuation* without a ~~re-inspection~~re*inspection* of an interest in real property previously valued by the valuer or *firm* **must not** be undertaken unless the valuer is satisfied that there have been no material changes to the physical attributes of the property, or the nature of its location, since the last assignment.

2~~.~~.2 It is recognised that the client may need the *valuation* of its property updated at regular intervals and that ~~re-inspection~~re*inspection* on every occasion may be unnecessary. Provided that the valuer has previously inspected the property, and the client has confirmed that no material changes to the physical attributes of the property and the area in which it is~~-~~
situated have occurred, a re*valuation* without ~~re-inspection~~re*inspection* may be undertaken. The *terms of engagement* **must** state that this *assumption* has been made.

2~~.~~.3 The valuer **must** obtain from the client information of current or anticipated changes in rental and other relevant income from *investment properties*, and any material changes to the non-physical attributes of each property, such as other lease terms, planning consents, statutory notices and so on. The valuer **must** ~~also~~ consider ~~any~~how *sustainability* and *ESG* factors ~~that~~ could affect the *valuation*.

2.4 ~~2.4~~ Where the client advises that there have been material changes, or if the valuer is otherwise aware or has good reason to believe that such changes have taken place, the valuer **must** inspect the property. In all other cases, the interval between *inspections* is a matter for the professional ~~judgment~~judgement of the valuer who will, among other considerations, have regard to its type and location.

2.5 ~~2.5~~ If the valuer believes that it is inappropriate to undertake a re*valuation* without ~~re-inspection~~re*inspection* because of material changes, the passage of time or other reasons, the valuer may nevertheless accept an instruction to proceed without *inspection*, providing the client confirms in writing~~, ~~ (prior to the delivery of the report~~,~~) that it is required solely for internal management purposes, ~~that~~ no publication or disclosure will be made to *third parties* and ~~that~~ the client accepts responsibility for the associated risk. A statement declaring this position, and that the report must not be published, **must** be set out unequivocally in the report.

3 ~~3~~ Valuation records

3.1 A proper *record* **must** be kept of *inspections* and investigations, and of other key inputs, in an appropriate business format. This applies regardless of whether the valuer is employed by the client or externally engaged by the client.

3.2 Written *records* of the *valuation* or *valuation review* are termed as 'documentation' in IVS and might contain client correspondence, working papers or both. *Documentation* serves as evidence for the findings drawn and ensures Red Book Global Standards and IVS compliance. It should, where appropriate, include a description of the *valuation* or *valuation review* and the valuer's risk management techniques used to minimise the potential for inaccurate *valuations*, such as stress testing, standardisation, model validation and independence, which could include obtaining second opinions, using different methods and input validation.

3.3 In order to sufficiently describe and explain the *valuation* and the valuer's opinion, *documentation* **must** be maintained throughout the *valuation* process, and include the conclusions reached. Adequate *documentation* subject to the nature of the instruction **must** be provided to enable understanding of the scope of the *valuation*, the work undertaken and the basis of conclusions.

3.4 *Documentation* can be included in the *valuation* report itself, the working papers or both (see also 3.5 below). It should normally include (but not be limited to):

- the valuer's use of professional judgement
- communication with the client
- data and inputs considered
- different methods used for the *valuation*
- the valuer's handling of any risks to help minimise the potential for inaccurate *valuations* and
- the quality control procedures adhered to.

3.5 To maintain a proper audit trail (for future review and/or audit) and be in a position to respond effectively to a future enquiry, legible notes **must** be made (which may include photographs or other images) of the findings and, particularly, the limits of *inspection* and the circumstances in which it was carried out. The notes should also include a record of the key inputs and all calculations, investigations and analyses considered when arriving at the *valuation*.

3.6 The valuer **must** keep a copy of the *valuation* report and all supporting *documentation* for any time period stipulated by any relevant legal, regulatory or contractual requirements.

~~Implementation~~

~~3.4~~3.7 ~~3.1~~ Details of the *inspection* and any investigations **must** be clearly and accurately recorded in a manner that is neither ambiguous nor misleading and does not create a false impression.

~~3.2 To maintain a proper audit trail~~Valuers **must** request and ~~be in a position~~seek to ~~respond effectively to a future enquiry, legible notes (which may include photographs or other images) of the findings and, particularly, the limits of inspection and the circumstances in which it was carried out must be made. The notes should also include a record of the key inputs and all calculations, investigations and analyses considered when arriving at the *valuation*.~~

~~3.5~~3.8 ~~3.3~~ ~~Valuers should~~ collect ~~and record~~ appropriate and sufficient *sustainability* and *ESG* data for the *valuation*. What is appropriate and sufficient will be subject to and proportionate to the *valuation* circumstances. There may be matters outside the valuer's control, such as but not limited to the prevention of *ESG* data sharing by the owner or
~~3.4~~ occupier of an asset. Any limitation on investigations **must** be considered in accordance with **VPS 1 paragraph 3.2(i)** and **VPS 6 paragraph 2.2(g)**. Relevant *ESG* data used in a *valuation* **must** also be appropriately recorded.

~~3.6~~3.9 All notes and *records* should be retained in an appropriate business format. The appropriate period for retention will depend on the *purpose of the valuation* and the circumstances of the case but **must** have regard to any relevant statutory, legal or regulatory requirements.

VPS ~~3~~ 5 Valuation ~~reports~~models

~~This mandatory standard:~~

~~applies International Valuation Standard (IVS) 103 Reporting~~

~~specifies additional mandatory requirements for RICS members designed to enhance client understanding and use of reports~~

~~addresses particular aspects of implementation that may arise in individual cases.~~

~~1~~

For the first time, IVS includes a standalone section covering *valuation models*: IVS 105. It is not the intention to fully repeat that here, but rather set out mandatory and best practice requirements and additional context for RICS members and *RICS-regulated firms*.

1 IVS defines a *valuation model* as 'a quantitative implementation of a method in whole or in part that converts inputs into outputs used in the development of a value'. This is distinct from a *valuation* method, defined as 'within a valuation approach, a specific technique to conclude a value'.

2 Where a complex or proprietary *valuation model* is used, valuers **must** make sure the model is suitable for the *valuation purpose*, using appropriate professional judgement.

3 Members and, where appropriate, *RICS-regulated firms* **must** consider and appropriately apply the provisions of IVS 105 not repeated here.

4 *Valuation modelling* can involve advanced numerical and statistical practices and the use of advanced technology and automation (see **PS 1 paragraphs 1.4–1.6**). In general, the more advanced the model(s), the greater the degree of vigilance needed to ensure there is no internal inconsistency or error.

VPS 6 Valuation reports

1 General principles

~~The report must:~~

- ~~clearly and accurately set out the conclusions of the valuation in a manner that is neither ambiguous nor misleading, and which does not create a false impression. If appropriate, the valuer should draw attention to, and comment on, any issues affecting the degree of certainty, or uncertainty, of the valuation under item (o) below.~~
- ~~deal with all the matters agreed between the client and the valuer in the terms of engagement (scope of work) (see VPS 1).~~

Valuation reports and *documentation* are a critical and defining feature of the Red Book Global Standards process. The report and *documentation* **must**:

- clearly and accurately set out the conclusions of the *valuation* in a manner that is neither ambiguous nor misleading, and which does not create a false impression. If appropriate, the valuer should draw attention to, and comment on, any issues affecting the degree of certainty, or uncertainty, of the *valuation* under paragraph 2.2(o) below
- deal with all the matters agreed between the client and the valuer in the *terms of engagement (scope of work)* (see **VPS 1**).

1.~~.~~1 In brief, the *valuation* report ~~should~~and supporting *documentation* **must** convey a clear understanding of the opinions being expressed by the valuer and provide transparency to the intended user on the *valuation* approach(es), methods, inputs, models, professional judgement and resultant value(s). *Valuation* reports should be ~~couched~~ in terms that can be read and understood by someone with no prior knowledge of the subject asset or liability.

1.~~.~~2 A *valuation's* findings **must** be recorded and submitted to the client in writing, using paper *records*, electronic files or other types of recorded media. The level of reporting **must** at a minimum meet the requirements contained in paragraph 2.1 below.

1.3 *Documentation* and reporting requirements apply whether the valuer is externally engaged by the client or employed by the client.

1.4 The format and detail of the report is a matter to be agreed between the valuer and the client in the *terms of engagement*. It should ~~always~~ be proportionate to the task, and – as for the *valuation* itself – professionally ~~adequate~~appropriate for the purpose. Where the report is to be provided on a form~~,~~ or in a format~~,~~ specified by the client that omits reference to one or more of the headings in section 2 below, then either the initial service agreement or the *terms of engagement* – or an appropriate combination of the two – **must** clearly address these matters. Failure to do so would result in the *valuation* not being undertaken in accordance with these global standards. See also ~~VPS 1(l) in this regard.~~**VPS 1 paragraph 3.2(l).**

~~1.4~~1.5 ~~1.3~~ Where multiple reports are to be made to a single client over a period of time, with ~~identical~~the same *terms of engagement*, ~~it~~supplementary correspondence or *documentation* would be required for the case and time-specific aspects of the instruction. It **must** be made clear to the client and to any others who may rely on the *valuation* advice provided~~,~~ that the *terms of engagement* and form of report **must** always be read together.

~~1.4~~

1.6 A valuer may provide the client with preliminary *valuation* advice, or a draft report or draft *valuation*, in advance of the completion of the final report – see ~~PS 2 paragraphs 3.12–3.15.~~**PS 2 paragraphs 3.12–**
3.15. However, it is essential that the preliminary or provisional status is made clear, pending issue of the formal and final report.

~~1.5~~1.7 ~~1.5~~ Members are reminded that any *valuation* advice provided, in whatever format, creates a potential liability to the client, or under certain circumstances~~,~~ to one or more *third parties*. Great care should therefore be taken to identify and understand when and how such liabilities do, or may, arise, and their likely extent. ~~See paragraph 2.2(p)~~See paragraph 2.2(p) below.

~~1.6~~1.8 ~~1.6~~ The terms 'certificate of value', 'valuation certificate'~~,~~ and 'statement of value' should not be used in connection with the provision of *valuation* advice. However, a valuer may use the term 'certified'~~,~~ or similar words in the body of the report where it is known that the *valuation* is to be submitted for a purpose that requires formal certification of a *valuation* opinion. (See ~~VPS 1(l)~~**VPS 1 paragraph 3.2(l)**.)

~~2~~

2 Report content

2~~.~~.1 *Valuation* reports **must** address the following matters, which reflect the requirements set out in ~~VPS 1~~**VPS 1** for the *terms of engagement (scope of work)*. Although reports may often commence with identification of the asset (or liability) and confirmation of the *purpose of the valuation*, valuers are otherwise strongly advised where possible to consider and follow the headings set out below when reporting, to ensure that all relevant matters are covered.

- **a** ~~a~~ Identification and status of the *responsible valuer*
- **b** ~~b~~ Identification of the client and any other intended users
- **c** ~~c~~ *Purpose of the valuation*
- **d** ~~d~~ Identification of the asset(s) or liability(ies) valued
- **e** ~~e~~ *Basis(es) of value* adopted
- **f** ~~f~~ *Valuation date*
- **g** ~~g~~ Extent of investigation
- **h** ~~h~~ Nature and source(s) of the information relied, upon including sources of key data and inputs used
- **i** ~~i~~ *Assumptions* and *special assumptions*
- **j** ~~j~~ Restrictions on use, distribution and publication of the report

k ~~k~~ Confirmation that the *valuation* has been undertaken in accordance with ~~the IVS~~IVS and/or RICS Red Book Global Standards

l ~~l~~ *Valuation* approach and reasoning, including any *valuation* method(s) and complex or proprietary model(s) used

m ~~m~~ Amount of the *valuation* or *valuations*

~~n~~

n Date of the *valuation* report

o Commentary on any material valuation uncertainty (MVU) in relation to the *valuation*~~-~~ where it is essential to ensure clarity on the part of the *valuation* user

p ~~p~~ A statement setting out any limitations on liability that have been agreed~~.~~

q Significant *environmental, social and governance (ESG)* factors used and considered

2~~.~~�2 Each report heading is considered in more detail below. The text in bold specifies the key principles. The accompanying text~~ that follows~~ specifies how the principles are to be interpreted and implemented in individual cases.

a) ~~a)~~ Identification and status of the responsible valuer

The valuer can be an individual or a member of a *firm*. The report must include:

a **the signature of the individual responsible for the *valuation* assignment**

b **a statement confirming that the valuer is in a position to provide an objective and~~-~~ unbiased *valuation*, and is competent to undertake the *valuation* assignment.**

If the valuer has obtained material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance must be referenced in the report~~.~~.

Implementation

1 ~~1~~ A *valuation* is the responsibility of an individual member. RICS does not allow a *valuation* to be prepared by a ~~'firm'~~*firm*, although the use of 'for and on behalf of' under the *responsible valuer's* signature is an acceptable substitution.

2 ~~2~~ In all cases the signatory's professional designation (for example~~,~~ MRICS~~)~~), or other relevant professional qualification, **must** be made clear.

3 ~~3~~ The valuer should confirm in the report that they meet any regulatory or legal criteria for their appointment. Where it is a specific requirement to do so, the valuer **must** state ~~if he or she is~~whether they are acting as an *internal* *valuer* or *external valuer* as defined in the ~~RICS glossary.~~Glossary. However, for certain purposes in individual jurisdictions, other definitions of these terms may apply, which **must** be recognised in the *terms of engagement* (assuming the valuer meets the criteria specified in the definition) and made explicit in the report. ~~Where other criteria concerning the status of a valuer have been adopted they must again be confirmed, together with a statement that the valuer meets them.~~Where other criteria

~~4~~ concerning the status of a valuer have been adopted, they **must** again be confirmed, together with a statement that the valuer meets them.

4 In considering the extent of any material ~~previous~~ involvement, whether past, current or possible future, the valuer **must** have regard to the requirements of ~~PS 2 section 8.~~**PS 2 section 7.** Any disclosures or statements made in accordance with ~~VPS 1 paragraph 3.2(a)(3),~~**VPS 1 paragraph 3.2(a)(3)** **must** be repeated in the *valuation* report. Where there has not been any ~~previous~~other material involvement, a statement to that effect **must** be made in the *valuation* report. See also ~~PS 2,~~**PS 2** relating to the resolution of conflicts of interest.

~~5~~

5 A statement should be made that the valuer and/or the valuer's *firm* has sufficient current local, national and international (as appropriate) knowledge of the particular market, and the skills and understanding to undertake the *valuation* competently. Where more than one valuer ~~within~~in a *firm* has contributed, confirmation that ~~PS 2 paragraph 2.7~~**PS 2 paragraph 2.7** has been satisfied is needed, ~~though~~although it is not necessary to provide any details.

6 ~~6~~ Where the valuer incorporates into the report a *valuation* prepared by another valuer or *firm* – whether in the capacity of a subcontractor or *third-party* expert in one or more aspects – see ~~(j) subparagraphs 4–5~~(j) subparagraphs 3–4 below.

7 ~~7~~ In some countries or states the ~~relevant~~ valuation standards specific to that jurisdiction may require additional disclosures to be made with regard to the status of the valuer.

b) ~~b)~~ Identification of the client and any other intended users

The party commissioning the *valuation* assignment must be identified, together with any other parties whom it is intended may rely on the results of the assignment (see also (j) ~~Restrictions on use, distribution or publication of the report, below).~~below).

Implementation

~~Implementation~~

1 ~~1~~ The report **must** be addressed to the client or its representatives. The source of the instructions and the identity of the client **must** be stated, if different from the addressee. Other known users of the report are to be named.

2 ~~2~~ For some purposes valuers may be unable to exclude liability to *third parties* (see ~~PS 2 section 5~~**PS 2 section 5**). Any limitation on disclosure of a *valuation* based on restricted information or instruction should be included (see **VPS 1 paragraph 3.2(j)**).

c) ~~c)~~ Purpose of the valuation

The *purpose of the valuation* assignment must be clearly stated.

Implementation

1 The report **must** be unambiguous. Where the *purpose of the valuation* is not disclosed by the client, the valuer should seek clarification on why this is so. The *valuation* report **must** include an appropriate statement to clarify the circumstances.

d) ~~d)~~ Identification of the asset(s) and/or liability(ies) to be valued

The asset <u>and/</u>or liability to which the *valuation* assignment relates must be clearly identified. Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset.

If the *valuation* is of an asset that is used in conjunction with other assets, ~~it will be necessary to~~<u>the valuer must</u> clarify whether those assets are:

- **included in the *valuation* assignment**
- **excluded but assumed to be available or**
- **excluded and assumed not to be available~~.~~.**

If the *valuation* is of a fractional interest held in an asset or liability, the relationship of the fractional interest being valued relative to all other fractional interests and the obligations of the fractional interest ownership, if any, to other fractional interest owners, must be made clear~~.~~.

<u>Particular regard must be had to the identification of portfolios, collections and groups of properties.</u> ~~Particular regard must be had to the identification of portfolios, collections and groups of properties.~~ ~~It is essential to~~<u>The valuer must</u> **consider 'lotting' or 'grouping'; the identification of different property or asset categories; and any *assumptions* or *special assumptions* relating to the circumstances under which the properties, assets, liabilities or collections may be brought to the market.**

~~Implementation~~

<u>Implementation</u>

1 ~~1~~ The legal ~~interest~~<u>interests</u> in each asset or liability should be stated. Clarification is essential to distinguish between the characteristics of the asset in its entirety and the particular right or interest that is being valued. Where the asset is a property, the extent to which vacant possession is, or may be<u>,</u> available (if required~~),~~<u>)</u> should also be noted.

2 ~~2~~ Where the assets are located in more than one country or state, the report **must** list the assets ~~within~~<u>in</u> each country or state separately<u>,</u> and should normally be arranged so that all the assets in one country or state are grouped together. The legal interest in each asset or liability should be stated.

3 ~~3~~ Where the *terms of engagement* have required separate identification of assets or liabilities by their use, category or class, the report should be structured accordingly.

4 ~~4~~ Where there is doubt about what constitutes a single property or asset, the valuer should generally 'lot', or group, the properties for *valuation* in the manner most likely to be adopted in the case of an actual sale of the interest(s) being valued. However, the valuer should discuss the options with the client and **must** confirm the approach adopted in both the *terms of engagement* and the report. For further guidance on portfolios, collections and groups of properties<u>,</u> including the reporting format, see ~~VPGA 9~~<u>VPGA 9</u>.

e) ~~e)~~ Basis(es) of value adopted

The *basis of value* must be appropriate for the purpose. The source of the definition of any

~~basis of value used must be cited or the basis explained.~~
~~This requirement does not apply to a valuation review where no opinion of value is to be provided or no comment is required on the basis of value used.~~
basis of value used must be cited or the basis explained�

Implementation

~~Implementation~~

1 ~~1~~ The *basis of value*, together with its definition (but not supporting conceptual framework or other explanatory material regarding that definition), **must** be stated in full in the report.

2 ~~2~~ Unless agreed otherwise in the *terms of engagement*, the valuer is not required to provide a *valuation* on an alternative *basis of value*. However, where the *basis of value* is not a market-based figure and the *valuation* is materially different from *market value*, an explanatory statement to that effect may be appropriate~~, where necessary~~. This is to ensure that the user of
the *valuation* is alerted to the possibility that, although relevant for the specified purpose, the *valuation* may not bear a relation to the price that could be obtained if the asset or liability were placed on the market for disposal.

~~2~~3 ~~3~~ Where, exceptionally, a *valuation* is provided relating to a future date, this **must** be made explicit (see **paragraph (f)** below~~ and VPS 4 paragraph 2.5)~~). It should ~~always~~ be separately reported with confirmation that it complies as appropriate with any applicable jurisdictional and/or national standards. A projection may take one of ~~a number of~~several forms and does not normally constitute a distinct *basis of value* in itself. But, as it rests substantially on *special assumptions*, which may or may not be borne out by actual events, it is of a different character from advice relating to a current or ~~past date and **must not** be represented as if it were on an equal footing. In particular it must never be described or represented simply as 'market value'.~~
past date and **must not** be represented as if it were on an equal footing. ~~f)~~ In particular, it **must** not be described or represented as *market value*.

f) Valuation date

The *valuation date* may be different from the date on which the *valuation* report is issued or the date on which investigations are to be undertaken or completed. Where appropriate, these dates must be clearly distinguished in the report.

Implementation
~~This requirement does not apply to a valuation review unless the reviewer is required to comment on the valuation date used in the valuation under review.~~

~~Implementation~~

1 ~~1~~ The *valuation date* **must** be stated (see ~~VPS 1 paragraph 3.2(h)~~**VPS 1 paragraph 3.2(h)**).

2 ~~2~~ If there has been a material change in market conditions, or in the circumstances of a property, asset or portfolio, between the *valuation date* (where this is earlier than the *date of the report*) and the *date of the report*, the valuer should draw attention to this. It may also be prudent in appropriate instances for the valuer to draw the client's attention to the

fact that values change over time and a *valuation* given on a particular date may not be valid on an earlier or later date.

3 ~~3~~ Additional care is needed when providing a projection of value, ~~in order~~ to ensure that the client understands that the actual value at the future date, on whatever basis is adopted, may diverge from that being reported, and almost certainly will if the then state of the asset or conditions of the market differ from the *special assumptions* statements made at the time of the projection. See also **paragraph (e)(3)** above.

g) ~~g)~~ Extent of investigation

The extent of the investigations undertaken, including the limitations on those investigations set out in the *terms of engagement (scope of work)*, must be disclosed in the report.

Implementation

~~Implementation~~

1 ~~1~~ Where the asset is a real property interest, the report **must** record the date and extent of any *inspection*, including reference to any part of the property to which access was not possible (see ~~VPS 2).~~**VPS 4).** Equivalent steps, appropriate to the class of asset concerned, should be taken in relation to tangible *personal property*.

~~2~~

2 The valuer **must** make it clear if the *valuation* has been made without an opportunity to carry out an ~~adequate~~appropriate *inspection* (see VPS ~~2~~4 paragraphs 1.2 and 1.7) or equivalent check.

3 ~~3~~ In the case of a re*valuation*, the report should also refer to any agreement in respect of the requirement for, or frequency of, an *inspection* of the property (see ~~VPS 2~~VPS 4).

4 ~~4~~ Where a substantial number of properties are being valued, a generalised statement of these aspects (i.e. regarding *inspection*) is acceptable, provided that it is not misleading.

5 ~~5~~ Where the asset is not real or tangible *personal property*, particular care should be taken in the report to note the extent to which investigations were possible.

6 ~~6~~ Where the *valuation* is undertaken on the basis of restricted information, or is a re*valuation* without an *inspection*, the report **must** include full particulars of the restriction (see also VPS 1 paragraph 3.2(i)).

h) ~~h)~~ Nature and source(s) of the information relied upon, including sources of key data and inputs used

The nature and source of any relevant information relied upon in the *valuation* process and the extent of any steps taken to verify that information must be disclosed.

To the extent that information provided by the commissioning party, or another party, has not been verified by the valuer, this should be clearly stated with reference, as appropriate, to any representation from that party.

For this purpose, ‘information’ is to be interpreted as including data and other such~~-~~ inputs~~.~~.

Implementation

~~Implementation~~

1 ~~1~~ Where the client has provided information that is to be relied on, the valuer has a responsibility to state clearly that the information is covered by, or in, the *terms of engagement* (see ~~VPS 1~~VPS 1) and, where appropriate, to specify its source. In each case the valuer **must** judge the extent to which the information to be provided is likely to be reliable and whether any further~~,~~ reasonable steps are required to verify it.

2 ~~2~~ The valuer **must** make it clear if the *valuation* has been carried out without information that would normally be, or be made, available. The valuer **must** also indicate in the report if verification (where practicable) is needed of any information or *assumptions* on which the *valuation* is based, or if any information considered material has not been provided.

3 ~~3~~ If any such information or *assumption* requiring verification is material to the amount of the *valuation*, the valuer **must** make clear that the *valuation* should not be relied on without that verification (see ~~VPS 1 paragraph 3.2(j)).~~**VPS 1 paragraph 3.2(j)).** In the case of a re*valuation*, a statement of any material changes advised by the client or a stated *assumption* that there have been no material changes~~,~~ should be included.

4 The client may expect the valuer to express an opinion, and in turn the valuer may wish to express an opinion, on legal issues that affect the *valuation*. ~~4 The client may expect the valuer to express an opinion, and in turn the valuer may wish to express an opinion, on legal issues that affect the *valuation*.~~ In these circumstances the valuer **must** ~~therefore~~ make clear in the report any information that must be verified by the client’s or other interested parties’ legal advisers before the *valuation* can be relied on or published.

5 ~~5~~ The report should state any additional information that has been available to, or established by, the valuer, and is believed to be crucial to the client’s ability to understand and benefit from the *valuation*, with regard to the purpose for which it has been prepared.

6 ~~i)~~ The rationale for the valuer's opinion of the general reliability and quality of the important data, inputs, modifications and *assumptions* **must** be documented in the report by the valuer. This should contain sources, procedures, the valuer's reasoning for selecting to utilise particular data, *assumptions*, modifications and inputs.

i) Assumptions and special assumptions

All *assumptions* and any *special assumptions* made must be clearly stated~~.~~.

Implementation

1 All *assumptions* and any *special assumptions* **must** be set out in the report in full, together with any reservations that may be required and a statement that they have been agreed with the client. Both the *valuation* conclusion and the executive summary (if provided) should explicitly set out all *special assumptions* that have been made to arrive at the reported figure. Where the *assumptions* vary in different countries or states, the report **must** make this clear.

j) ~~j)~~ Restrictions on use, distribution and publication of the report

Where it is necessary or desirable to restrict the use of the *valuation* or those relying upon ~~it, this must be stated.~~

it, this must be stated�

Implementation

1 ~~1~~ The valuer **must** state the permitted use, distribution and publication of the *valuation*.
~~2 Where the purpose of~~It may have been agreed that the report ~~requires a published reference to it, the valuer must provide a draft statement for inclusion in the publication. This should be provided as a separate document, which may be annexed to the report.~~

2 ~~3 A report~~ may be published in full or in a condensed publication statement, for instance in the annual accounts of a company, but it is more common for only a reference to be made to it. In this case it is essential that the valuer ~~has a close involvement in the~~approves any published reference or publication statement to ensure that all the references are accurate and ~~that~~ the reader is not misled~~. This is particularly important if the valuer is asked to take responsibility for any published statement or any part of a published statement~~.

3 ~~4 If the whole report is not to be published~~If it has been agreed that a condensed publication statement is required, the draft statement should be prepared as a separate document and provided to the client at the same time as the report. The content of the statement may be governed by rules issued by local regulatory bodies, but it should contain the following minimum information:

- the name and qualification of the valuer, or the valuer's *firm*
- an indication of whether the valuer is an *internal* *valuer* or *external valuer*~~,~~ and, where required, that the specific criteria relating to this status have been met
- the *valuation date* and *basis* ~~(or bases~~*(es)* *of value*, together with any *special assumptions*
- comment on the extent to which the values were determined directly by reference to market evidence or were estimated using other *valuation* techniques
- confirmation that the *valuation* has been made in accordance with these standards, or the extent of and reason(s) for *departure* from them and
- a statement indicating any parts of the report prepared by another valuer or specialist.

4 ~~5~~ For *valuations* in which the public has an interest or which may be relied on by parties other than the client commissioning the report or to which it is addressed, the valuer **must** make additional disclosures in the *valuation* report and any published reference to it. These are set out in PS 2 section 5.

5 ~~6~~ 'Publication' does not include making the report or the *valuation* figure available to a mortgage (lending) applicant or borrower.

6 ~~7~~ The valuer should check the accuracy of any other relevant material referring to the properties or to the *valuation* that is to be published.

7 ~~8~~ The valuer is also advised to read the whole document in which the report or reference is to be published to ensure that there is no misstatement of any other matter or

opinion of which the valuer may have knowledge.

8 ~~9~~ The valuer should insist that a copy of the final proof of the document or the reference is supplied before issue, and attach that proof to the letter of consent. Any pressure by other parties or persuasion to delegate power to sign should be resisted.

9 ~~10~~ The valuer is permitted to exclude information of a commercially sensitive nature from a report that is published in full, subject to any legal requirements that may apply in a particular country or state.

10 ~~11~~ An opinion may be expressed ~~which~~that, if included in a public document, might have some effect on a matter that is in dispute, under negotiation or subject to certain rights between the owner and a *third party* (for example, an opinion of the rental or capital value of a property with an imminent rent review). The report may also include information about a company's trading that would not usually be in the public domain. Such information is commercially sensitive and the client must decide, subject to the approval of the auditors and any regulatory body, whether it should be included in the publication.

~~10~~11 ~~12~~ In the published reference, the valuer **must** refer to the omission(s) and state that this has been done on the express instructions of the client and with the approval of the ~~regulatory body and/or auditors. Without this note the valuer may be inadvertently placed in a situation where there is unjustifiable criticism.~~ regulatory body and/or auditors. ~~13~~ Without this note, the valuer may be inadvertently placed in a situation where there is unjustifiable criticism.

~~11~~12 Where the full report is not published, the publication statement **must** refer to any *special assumption* made and any additional *valuation* provided. Similarly, sufficient reference to any *departures* should be made in any published document.

~~14~~

~~12~~13 In each case the onus is on the valuer to determine what constitutes a 'sufficient reference'. A reference would not be regarded as 'sufficient' if it failed to alert the reader to matters of fundamental importance as to the basis or amount of the *valuation*, or if there was any risk that the reader might be misled.

~~13~~14 ~~15~~ It is expected that a valuer would not normally consent to the publication of a projected value. Where, in exceptional cases, consent is given, great care should be taken to ensure that any associated provisos or disclaimers are accurately reproduced.

k) ~~k)~~ Confirmation that the valuation has been undertaken in accordance with ~~the IVS~~IVS and/or RICS Red Book Global Standards

The valuer should provide:

~~The valuer should provide:~~

- **confirmation that the *valuation* has been undertaken in accordance with ~~the International Valuation Standards (~~IVS~~)~~ and that all significant inputs have been assessed by the valuer and found to be appropriate for the *valuation* provided**

or (depending on clients' particular requirements)

~~or (depending on clients' particular requirements)~~

- **confirmation that the *valuation* has been undertaken in accordance with ~~the~~ *RICS Valuation – Global Standards*, which incorporate ~~the~~ IVS, and (where applicable) the relevant RICS national or jurisdictional supplement. Where appropriate, such confirmation may ~~be abbreviated to~~ refer simply to ~~the~~ RICS Red Book Global Standards.**

In ~~both cases~~the case of Red Book Global Standards applying, an accompanying note and explanation of any *departures* from ~~the IVS or the RICS~~ Red Book Global Standards must be included. A *departure* would not be justified if it resulted in a *valuation* that is misleading.

Implementation

1 ~~1~~ There is no material difference in outcome between the respective forms of endorsement above, which may be used according to the ~~particular~~ requirements of the *valuation* assignment. Some clients will expressly wish to have confirmation that the *valuation* has been undertaken in accordance with ~~the~~ IVS, and ~~it is naturally in order for~~ this ~~to~~can be given. In all other cases, confirmation ~~that the valuation has been undertaken in accordance with the RICS Red Book Global Standards carries with it the dual assurance of compliance with the IVS technical standards and with the RICS professional standards overall.~~
~~2~~ that the *valuation* has been undertaken in accordance with RICS Red Book Global Standards carries with it the dual assurance of compliance with IVS and with RICS professional standards overall.

2 References to ~~the RICS~~ Red Book Global Standards without reference to the year of issue will be taken to mean the version of the RICS ~~standards~~standard operative at the *valuation date*, provided that it is on or before the date of signature of the report.

3 ~~3~~ The statement of compliance should draw attention to any *departures* ~~(see PS 1 section 6~~from Red Book Global Standards (see **PS 1 section 6**). ~~Where a departure is made that is not mandatory, it will not be possible to confirm compliance with the IVS.~~

4 ~~4~~ Where valuation standards specific to a particular jurisdiction have been followed, a formal statement regarding compliance with those jurisdictional standards may be added.

~~5~~

5 Where the valuer incorporates into the report a *valuation* prepared by another valuer or *firm* – whether as a subcontractor or as a *third-party* expert – it **must** be confirmed that such *valuations* have been prepared in accordance with these global standards, or other standards that may apply in the particular circumstances.

6 ~~6~~ The valuer may be requested to incorporate a *valuation* commissioned directly by the client. In such cases the valuer **must** be satisfied that any such report has been prepared in accordance with these global standards.

l) ~~l)~~ Valuation approach and reasoning, including any valuation method(s) and complex or proprietary model(s) used

To understand the *valuation* figure in context, the report must make reference to the approach ~~or approaches~~(es) adopted, the method(s) and model(s) applied ~~and~~, key inputs used and the principal reasons for the conclusions reached.

~~Where the report is of the results of a valuation review it must state the reviewer's conclusions about the work under review, including supporting reasons.~~

This requirement does not apply if it has been specifically agreed and recorded in the *terms of engagement (scope of work)* that a report ~~shall~~will be provided without reasons or other supporting information.

~~Implementation~~

Implementation

1 ~~1~~ Where different *valuation* approaches and *assumptions* are required for different assets, it is important that they are separately identified and reported.

2 ~~2~~ For the distinction between approach and method see ~~VPS 5 paragraph 1.~~**VPS 3 paragraph 1.** The extent of description of these in individual assignments should be proportionate to the task, being ~~focussed~~focused on assisting understanding ~~by~~of the client and other intended users. The supporting reasons, or rationale, for the conclusions reached should, where relevant, include an explanation of any deviation from common practice within the profession.

3 ~~3~~ Refer to **VPS 5** in respect of the use of *valuation models*. A *valuation model* is a tool used for the quantitative implementation of a *valuation* method and transforms inputs into outputs used in the development of a value.

~~3~~4 In the case of assets and/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 ESG matters should form an integral part of the valuation approach and reasoning supporting the reported figure.~~**VPS 4 paragraph 1.5.**

m) ~~m)~~ Amount of the valuation or valuations

This must be expressed in the applicable currency.

Implementation

~~This requirement does not apply to a valuation review if the valuer is not required to provide their own valuation opinion.~~

~~Implementation~~

1 ~~1~~ In the main body of the report, the opinion of value ~~is required~~**must be** provided in words, as well as in figures.

2 ~~2~~ Where the *valuation* instruction includes ~~a number of~~several assets falling into different use categories or geographic ~~location~~locations, whether the *valuation* is reported asset by asset or otherwise will depend on the purpose for which the *valuation* is required, the circumstances

and client preferences. Where a portfolio includes assets of differing tenures, the value of the tenure groups may be subtotalled, together with a statement of the overall value.

~~2~~3 ~~3~~ An entity will usually require asset and/or liability values to be expressed in the currency of the country in which it is based. For *financial statement* purposes, this is known as the 'reporting currency'. Irrespective of the location of the client, *valuations* **must** be made in the currency of the country in which the asset or liability is located.

~~3~~4 ~~4~~ Where the client requires the *valuation* to be translated into a different currency (for example, into the reporting currency), unless agreed otherwise the exchange rate to be adopted is the closing rate (also known as the 'spot rate') on the *valuation date*.

~~4~~5 ~~5~~ Where the *valuation* instruction requires the opinion of value to be reported in more than one currency (such as with cross-border portfolio *valuations*), the opinion of value **must** indicate the currencies adopted and the amount ~~should~~**must** be shown in words and figures in the main body of the report. In addition, the exchange rate adopted should be as at the *valuation date* and this **must** be stated in the *valuation* report.

~~5~~6 ~~6~~ If the identification of individual assets and their values is consigned to a schedule(s) appended to the report, a summary of values **must** be included within the body of the report.

~~6~~7 ~~7~~ If there has been a material change in market conditions, or in the circumstances of an asset or portfolio, between the *valuation date* (where this is earlier than the *date of the report*) and the *date of the report*, the valuer should draw attention to this. ~~It may also be prudent in appropriate instances for the valuer to draw the client's attention to the fact that values change over time and a valuation given on a particular date may not be valid on an earlier or later date.~~It may also be prudent
~~8~~ in appropriate instances for the valuer to draw the client's attention to the fact that values change over time, and a *valuation* given on a particular date may not be valid on an earlier or later date.

~~7~~8 'Negative values' and liabilities may arise and **must** always be stated separately. They should not be offset.

n) ~~n)~~ Date of the valuation report

The date on which the report is issued must be included. This may be different from the ~~valuation date (see (f) above).~~ ~~o)~~ ***valuation date* (see (f) above).**

o) Commentary on any material valuation uncertainty (MVU) in relation to the valuation where it is essential to ensure clarity on the part of the valuation user

Implementation

~~Implementation~~

1 ~~1~~ This requirement is mandatory only where the uncertainty is material. For this purpose, 'material' means where the degree of uncertainty in a *valuation* falls outside any parameters that might normally be expected and accepted.

2 ~~2~~ All *valuations* are professional opinions on a stated *basis of value*, coupled with any

appropriate *assumptions* or *special assumptions*, which **must** also be stated (see ~~VPS 4)~~**VPS 2)** – a *valuation* is not a fact. Like all opinions, the degree of subjectivity involved will inevitably vary from case to case, as will the degree of 'certainty' – for example, the probability that the valuer's opinion of *market value* would exactly coincide with the price achieved were there an actual sale at the *valuation date*, even if all the circumstances envisaged by the *market value* definition and the *valuation assumptions* were identical to the circumstances of an actual sale. Most *valuations* will be subject to a degree of variation (that is, a difference in professional opinion), a principle well-recognised by the courts in a variety of jurisdictions.

3 ~~3~~ Ensuring user understanding and confidence in *valuations* requires clarity and transparency, hence the general requirement under subsection (m) above for the report to make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached, thereby enabling the user to understand the *valuation* figure in context. How much explanation and detail is necessary concerning the supporting evidence, the *valuation* approach and the particular market context is a matter of ~~judgment~~judgement in individual cases.

~~3~~4 ~~4~~ Normally, *valuations* will not require additional explanation or clarification beyond the general requirement referred to in paragraph 3 above. However, in some cases there may be a greater degree of uncertainty concerning the *valuation* figure reported than usual, and where that uncertainty is material – which should be expressly signalled in the report – further proportionate commentary **must** be added ~~in order~~ to ensure ~~that~~ the report does not create a false impression. Valuers should not treat such a statement expressing less confidence in a *valuation* than usual as an admission of weakness – it is not a reflection on their professional skill or ~~judgment~~judgement, but a matter entirely proper for disclosure. Indeed, if a failure to draw attention to material uncertainty gave a client the impression that greater weight could be attached to the opinion than was warranted, the report would be misleading.

~~4~~5 ~~5~~ For further guidance on material valuation uncertainty (MVU) see ~~VPGA 10~~VPGA 10.

p) ~~p)~~ A statement setting out any limitations on liability that have been agreed

Implementation

1 The issues of risk, liability and insurance are closely linked. Pending the issue of guidance of global application, members should check the ~~latest RICS guidance~~latest RICS guidance applicable in their jurisdiction.

q) ~~1~~ Significant environmental, social and governance factors (ESG) used and considered

Valuers must identify, report and document the consideration of significant *ESG* factors and any impact on the *valuation* conclusion and/or rationale.

When it comes to the significant *ESG* aspects influencing a *valuation*, the valuer should be reasonably informed of *ESG* frameworks and legislation relevant to the *valuation* being undertaken.

***ESG* considerations have the potential to require qualitative and/or quantitative reporting and *documentation*. They may present opportunities and/or risks that need to be taken into account.**

ESG factors beyond the scope of what was agreed in the *terms of engagement* and/or where not considered significant by the reasonable professional judgement of the valuer do not need to be reported and *documented*.

Part 5: Valuation practice guidance applications

~~Introduction~~

~~This part of the Red Book Global Standards is concerned with the application and implementation of the global standards in specific contexts, whether for a particular purpose or in relation to a particular asset type.~~

~~The RICS valuation practice guidance – applications (VPGAs) that follow are intended to set out the key issues that need to be taken into account and also focus in greater detail on the practical application of the standards in specific contexts. While not themselves mandatory, the VPGAs do include links and cross-references to important material in the International Valuation Standards and elsewhere in these global standards which is mandatory. These links and cross references are intended to assist members in identifying material relevant to the particular valuation assignment they are undertaking.~~

~~Members are expressly reminded that the IVS include the following IVS Asset Standards, the full text of which is reproduced in Part 6 of these global standards:~~

- ~~IVS 200 Businesses and Business Interests~~
- ~~IVS 210 Intangible Assets~~
- ~~IVS 220 Non-Financial Liabilities~~
- ~~IVS 230 Inventory~~
- ~~IVS 300 Plant and Equipment~~
- ~~IVS 400 Real Property Interests~~
- ~~IVS 410 Development Property~~
- ~~IVS 500 Financial Instruments.~~

~~The full list of RICS VPGAs is as follows:~~jurisdiction and asset

- ~~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 – Identification of portfolios, collections and groups of properties~~
- ~~VPGA 10 – Matters that may give rise to material valuation uncertainty.~~

VPGA 1 Valuations for financial reporting

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Scope

1.1 This VPGA provides guidance on *valuations* that may be required for *financial reporting*. It provides an overview of the typical components of a financial report, matters that the valuer needs to consider when agreeing *terms of engagement* for work of this type and additional matters that need to be addressed in the report. It then provides a summary of those *International Financial Reporting Standards* (IFRS) that may require *valuation* inputs for different types of asset or liability to meet specific accounting requirements.

1.2 Valuers are reminded that financial reporting standards continue to evolve and they should be aware of, and refer to, the standard applicable on the reporting date.

2 Background

2.1 Financial reports, also known as *financial statements*, provide information about an entity's financial position, performance and changes in its financial position that is useful to management, owners and other stakeholders in making economic decisions. An entity can be any incorporated or unincorporated body or organisation. Periodic financial reports prepared in accordance with specified financial reporting standards are usually a legal requirement for many types of entity in most jurisdictions.

2.2 A complete financial report will typically include the following.

- A balance sheet, also referred to as a 'statement of financial position', which provides a statement of the entity's assets, liabilities and owners' equity at a given point in time.
- An income statement, also known as a 'statement of comprehensive income', or 'profit and loss account', which reports on an entity's income, expenses and profits over a given period of time.

- An equity statement or statement of retained earnings, which reports on the changes in equity of the entity during the stated period.
- A cash flow statement that shows an entity's cash flow activities, particularly its operating, investing and financing activities.
- Notes to the above.

2.3 IFRS are the most widely adopted financial reporting standards globally and include specific requirements for *valuation*, which are discussed in this VPGA. However, members should note that national standards are also extensively used, especially for smaller private sector and most public sector entities. Although it is impractical to refer to such national accounting standards in an international guidance document, many are similar to IFRS. The guidance given may therefore be relevant for *valuations* for use in financial reporting standards other than IFRS.

2.4 *Valuations* may be needed to assist in preparing some of the information that has to be included in financial reports. It is therefore important that a valuer understands the different accounting requirements for which *valuations* may be required and the applicable *valuation* criteria. Some examples of the different purposes for which *valuations* may be required in financial reports include measurement of an asset or liability for inclusion on the balance sheet, allocation of the purchase price of an acquired business between different assets, impairment testing and the calculation of depreciation charges in the profit and loss account.

2.5 This VPGA provides information on the different purposes for which *valuation* advice may be required in the preparation of *financial statements* and the different *valuation* bases, *assumptions* and approaches that may be required or allowed. Unless they are appropriately qualified, valuers should be careful not to go beyond providing the required *valuation* advice by advising on whether or how this is used in the *financial statements*, subject only to approving any published reference to their *valuation*.

3 Compliance with valuation standards

3.1 IVS 101 requires the scope of work agreed for a *valuation* to be appropriate for its intended use. If instructed to undertake a *valuation* for use in financial reporting, the valuer needs to be aware of the specific accounting purpose for which the *valuation* is required. To comply with IVS 101 and **VPS 1**, the following additional points may need to be considered in preparing and agreeing the scope of work.

- Confirmation of how the asset is used or classified by the reporting entity. The required accounting treatment and related *valuation* advice for identical or similar assets can differ according to how they are used by an entity, e.g. whether an asset is held for investment, production, is surplus and held for sale, or inventory that is held for sale.
- Identification of the applicable Financial Reporting Standards (FRS), including those for the specific accounting purpose for which the *valuation* is required.

- If an asset is utilised in conjunction with other separately identifiable assets, agree what the 'unit of account' is, i.e. how associated assets are to be aggregated or disaggregated for *valuation*.
- *Bases of value* required by the relevant accounting standard. *Fair value* as defined in IFRS 13 is the most common, but others may be required.
- Confirmation of the *assumptions* that will be made. These will need to reflect the standards applicable for the accounting purpose, which in turn will depend on how the entity uses or intends to use the asset. Unless the client has declared assets as surplus or management intends to liquidate the business, it is usually appropriate to make an *assumption* that the asset(s) will continue to be used as part of the business of which they form part.
- Restrictions on use, distribution and publication of the report. It is usual for valuers to restrict references to or publication of their *valuation* without prior consent. It is important to understand that a request to provide a client with a *valuation* that will be used for financial reporting does not automatically mean that the *valuation* will appear in the published report. Indeed, under IFRS the only non-financial asset that has to be measured at *fair value* on each reporting date is *investment property*; see IAS 40. As explained in this VPGA, *valuation* advice may be required only as one input into an entity's calculation of a figure required by the FRS or to decide which of permitted alternative measurement options it will use. However, if the client indicates that they wish to publish or refer to the *valuation* in their published financial report, then the terms **must** include a condition that any published reference must be first approved by the valuer in the context in which it is proposed to appear. (**VPS 1 section 3.2(m)**).
- The extent of the valuer's duty to respond to any questions on the *valuation* raised by the entity's auditor. (See VPGA 11.)

3.2 It should be noted that it is not normally appropriate to provide a *valuation* on a *special assumption* because all assets and liabilities should be valued 'as is' on the reporting date. One exception is where there is a lease of an asset between the reporting entity and a subsidiary or connected company where a *special assumption* that the lease had been terminated on the reporting date may be required to avoid a misstatement of the asset's value.

3.3 In addition to the minimum requirements in **VPS 6**, a *valuation* report for financial reporting should include, where applicable:

- appropriate references to matters addressed in the scope of work as outlined above
- any information that the reporting entity is required to disclose about the *valuation* by the relevant FRS. Examples of disclosures required about *fair value* measurements include methods and significant *assumptions* used in the measurement, and whether the measurement was determined by reference to observable prices or recent market transactions. Some standards also require information about the sensitivity of the measurement to changes in significant inputs

- where the effect on value of any *assumption* made is material, the effect of that *assumption* should be disclosed in the report
- if it has been agreed that the client may include a published reference to the *valuation* and who prepared it, a draft statement **must** be prepared and annexed to the report, together with a condition that the valuer approves its use in the context of the proposed financial report. (**VPS 6 section 2.2(j)**).

4 Guidance on selected IFRS

~~1.1~~4.1 IFRS are the standards and interpretations issued~~Fair value (the definition adopted~~ by the International Accounting Standards Board (IASB) ~~in IFRS 13) is~~and the International Sustainability Standards Board (ISSB). They comprise:

a ~~'The~~International Accounting Standards. Standards originally issued before 2001 are prefixed IAS, and those originally published later are prefixed IFRS

b IFRS International Sustainability Disclosure Standards, and

c interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC).

4.2 At the time of publication there are 41 effective financial reporting standards, 2 International Sustainability Disclosure Standards and almost 20 current interpretations endorsed by IFRIC. These standards are subject to regular review and updates.

4.3 This VPGA briefly summarises those standards that may require *valuations* of tangible and *intangible assets* to be undertaken, with a note of the key requirements for those *valuations*. Members involved in this work should familiarise themselves with the current version of the relevant IFRS, available from the IFRS website.

Fair Value IFRS 13

4.4 This standard defines and explains the application of *fair value*, which is the most common *basis of value* required across the whole suite of IFRS. Understanding the key principles of this standard is therefore essential for valuers providing *valuations* for *financial reporting*. *Fair value* is defined as:

> '...the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.'

~~2.4~~1.1 7.2 ~~The guidance in IFRS 13 includes an overview of the *fair value* measurement approach.~~

7.3 ~~The objective of a *fair value* measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.~~ ~~It is thus sometimes described as a 'mark to market' approach. Indeed the references in~~ IFRS 13 ~~to market participants and a sale make it clear that for most practical purposes the concept of fair value is consistent with that of market value, and so there would ordinarily be no difference between them in terms~~provides considerable guidance on how the elements of this definition are to be interpreted and applied. This includes explaining the attributes of the ~~valuation figure reported.~~

~~7.4 A fair value measurement requires an entity to determine all of~~ market in which the ~~following:~~

- transaction is deemed to take place, the ~~particular asset or liability that is the subject of~~ nature and motivation of the parties to the ~~measurement (consistently with its unit of account)~~

~~1.2~~4.5~~for a non-financial asset,~~transaction, what represents the ~~valuation premise that is appropriate for~~ most advantageous price and how the ~~measurement (consistently with its~~ principle of highest and best use~~)~~ applies.

- ~~the principal (or most advantageous) market for the asset or liability~~
- ~~the *valuation* technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the *assumptions* that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.~~

~~7.5 Valuers undertaking valuations for inclusion in financial statements~~

4.6 Many valuers will be more familiar with *market value*, as defined in IVS, than with *fair value* as defined above. However, for most practical purposes the two should produce the same result as they are both based on the same concept of a price in a free and open exchange between typical buyers and sellers on a given date. It follows that for non-financial assets both reflect the principle of highest and best use, presuming the parties are knowledgeable and informed, acting in their best interests and without undue constraint.

4.7 One condition that IFRS 13 applies to the principle of highest and best use is that it has to be determined whether the maximum value to market participants would be to use the asset in combination with other assets and liabilities, or to use on a standalone basis. The illustrative examples that accompany IFRS 13 include land developed for industrial use in an area where nearby sites have been redeveloped for high-density residential use, which is also consistent with the current zoning for land use in the area. In this example the *fair value* is determined by comparing:

a the value of the land as currently developed for the specific industrial use (i.e. the land would be used in combination with other assets, such as the factory buildings, plant, equipment and other assets or liabilities)

b the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including any uncertainty about whether the entity would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (i.e. the land is to be used by market participants on a standalone basis).

4.8 This means that a valuer of *real estate* may sometimes be instructed to provide *valuations* on alternative *assumptions* of the use. This is so the client can calculate which is the highest and best use, after taking into account the value of any assets used in combination and the costs of realising an alternative use.

4.9 IFRS 13 allows use of any techniques (methods) under the *market approach*, *income approach* and *cost approach*, subject to them being appropriate in the circumstances and for which sufficient data are available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Observable inputs are defined as inputs that are developed using market data, such as publicly available information about actual transactions. Unobservable inputs are not supportable by market data. Both types of input have to be developed using the best information available about the *assumptions* that market participants would use when pricing the asset or liability.

4.10 Consequently, valuers should provide a clear rationale for their reported *valuations*, indicating the key inputs that have been relied on in arriving at their *valuation* opinion.

4.11 There is also the requirement in IFRS 13 for the reporting entity to indicate where the inputs used fall within the 'Fair Value Hierarchy', Levels 1–3. The level determines the disclosures the reporting entity has to make about the reported values.

- Level 1 is reserved for assets for which there are quoted prices in an active market for identical assets available on the measurement date. *Valuation* experts are very unlikely to be involved in any *valuation* that would fall within Level 1.
- Level 2 are inputs other than quoted prices that are observable for similar assets in an active market, either directly or indirectly, which may need some adjustment to reflect the characteristics of the subject asset, providing that adjustment is not 'significant'.
- Level 3 is where unobservable inputs have been used, or observable inputs that have been subject to significant adjustments.

4.12 It is the reporting entity's responsibility to determine which level applies to the *fair value* measurements it discloses in its accounts. The valuer's role is to ensure that sufficient information is provided on the methods and inputs used to enable the entity to make this determination, by providing the information required in **VPS 6 section 2.2(l)**. In practice most entities report *fair values* of *real estate* as having Level 3 inputs due to the heterogeneous nature of the assets and the relative illiquidity of the market compared with other assets, and the resulting adjustments that are required to prices of similar assets.

IAS 2 Inventories

4.13 This standard applies to assets held for sale in the ordinary course of business, e.g. finished goods, works-in-process, raw materials and supplies to be used in the production process or in the provision of services. It includes land and buildings held for sale, e.g. a stock of unsold houses held by a property developer. IAS 2 excludes construction works in progress, financial instruments, biological assets used in agricultural activity and agricultural produce at the point of harvest, all of which are the subject of other IFRS.

4.14 Such assets held for sale are measured at the lower of their cost to the entity or 'net realisable value', which is 'the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale'.

4.15 A distinction is made between net realisable value and *fair value*, indicating that the former is specific to the entity and the latter the price that could be obtained in the market. So, while a stock of completed but unsold residential units held by a developer might each have an estimated *fair value* on the reporting date, the costs of holding and maintaining until a sale can be achieved will need to be taken into account by the entity. These costs will be specific to the entity, but valuers may be asked for information that would assist in their estimation, for example the rate at which sales could be achieved and the time required to complete all disposals.

IAS 16 Property, Plant and Equipment

4.16 This applies to property, plant and equipment (PP&E) expected to be used for more than one accounting period and used in the production or supply of goods and services or for administration. It excludes *investment property*. It also excludes agricultural assets except for 'bearer plants', i.e. living plants expected to bear produce for more than one reporting period.

4.17 When an item of PP&E is first recognised, it is measured at cost. In subsequent periods it is reported at its 'carrying amount', which may be measured at either cost less accumulated depreciation and accumulated impairment (the 'cost model'), or at *fair value* less subsequent accumulated depreciation and accumulated impairment (the 'revaluation model'). Under the revaluation model the *fair value* is determined according to IFRS 13. It is stipulated that if one item of PP&E is revalued, all other items of the same class or type must also be revalued, in order to prevent selective revaluation of some items and not others.

4.18 Since changes in the *fair value* of assets held for producing goods or services are often not considered relevant to the performance of a business, the cost model is more commonly used. Valuers are therefore more likely to be called to provide *valuation* advice to assist the entity in making appropriate depreciation adjustments.

4.19 Depreciation is an expense charged against income to reflect the consumption of an asset over its useful life to the entity. This expense is an apportionment of the 'depreciable amount', which is the difference between the carrying amount (determined by either the cost model or the revaluation model described above) and the 'residual amount', which is any value remaining at the end of the asset's useful life to the entity.

4.20 The useful life to the entity is not the same as economic life of the asset; it could be much shorter. For example, a specialised building designed for a specific manufacturing process may come to the end of its useful economic life to the entity when it is only a few years old, if it is no longer viable to produce the product for which it is designed. However, if it is in good physical condition, it may still have a residual value if it can be economically adapted for an alternative use.

4.21 An entity has discretion over the apportionment of the depreciable amount applied to each period, as long as it reflects the pattern at which the benefits of the asset are consumed over its useful life. Depreciation in this context should not be confused with the way the word is used in valuation, for example when applying the *depreciated replacement cost* (DRC) method. The *fair value* of an asset can be determined using the DRC method under the revaluation model, and then the entity will need to decide on the appropriate depreciation charge to apply to this *fair value* as a separate exercise.

4.22 IAS 16 requires components of an asset that have a cost that is significant in relation to the whole must be depreciated separately. In the standard it gives the example of the engines of an aircraft being depreciated separately from the airframe. In the case of commercial buildings, the *plant and equipment* providing heating, cooling or other services is often depreciated separately from the superstructure as they each have different economic lives. On the other hand, components that have a similar useful life and that are depreciated in a similar manner may be grouped.

4.23 The standard regards land and buildings as separable assets, even if they are acquired together. The land is not normally depreciated, except in special cases such as quarry or landfill sites. This means that valuers are frequently asked to provide either a value of the land component alone or an apportionment of the value of the whole between the land and the buildings.

4.24 An apportionment of the current *fair value* of the whole property is normally done by deducting the value of the land element in order to establish the proportion that can be attributed to the building(s). It is important to note that this proportion is not necessarily the same as the depreciable amount of the building(s) if the useful life to the entity of the building(s) is less than the economic life that is reflected in the value of the whole property. Where this is the case, the valuer will also need to additionally estimate the residual value of the building(s). This is the value of each building on the reporting date, but assuming that it is of the age and in the condition expected at the end of its useful life to the entity.

4.25 Confusion sometimes arises as to the basis on which land that buildings have been constructed on should be valued. Is the value confined to the existing use, or is it the value that could be obtained assuming that the buildings were at the end of their useful life at the *date of valuation*? IAS 16 provides that any increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building. Accordingly, for the purpose of calculating the depreciable amount attributable to the buildings, the land value for the existing use of the buildings should be used. However, if the value of the land is higher for an alternative use, this should also be reported, as it could be material to the entity's view of the useful life of the buildings.

4.26 IAS 16 does not prescribe how values should be allocated between components of an asset, and the valuer has an obvious difficulty where it clearly would be impractical, if not impossible, to sell a component that is an integral part of the overall asset, for example the service installations in a building. However, providing a clear rationale is given, for example looking at the percentage of the initial building cost that was attributable to its services and applying a similar percentage to the current *fair value* of the whole building, this is normally acceptable.

IAS 36 Impairment of Assets

4.27 Impairment arises where the carrying amount of an asset exceeds the amount that can be recovered from the higher of its continued use or the sale of the asset. If impairment is considered to have arisen, the carrying amount of the asset, whether derived from either historic cost or a previous *valuation*, should be written down to the 'recoverable amount'. The recoverable amount of an *intangible asset* with an indefinite useful life is to be measured annually, irrespective of whether there is any indication that it may be impaired.

4.28 The recoverable amount is the higher of the 'value in use' and 'fair value less costs of disposal'. It is not always necessary to determine both these amounts; if either exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

4.29 IAS 36 sets out detailed considerations for assessing value in use. In summary it is the present value of the future cash flows expected to be derived from the asset or cash-generating unit. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Value in use is specific to the entity as it reflects the cash flows that the entity expects to obtain from continuing use of an asset or cash generating unit over its anticipated useful life, including any proceeds from its ultimate disposal. The standard sets detailed criteria for matters that should be reflected in this discounted cash flow analysis, and any valuer instructed to calculate value in use should familiarise themselves with ~~the relevant~~ these criteria.

4.30 *Fair value* is as defined in IFRS 13, less costs of disposal. The costs of disposal are those directly attributable to the transaction, e.g. legal fees, marketing costs, removal costs, unrecoverable transaction taxes and any costs directly incurred in preparing the asset or cash-generating unit for sale. They exclude consequential costs, e.g. those involved in reorganising the business following the disposal.

4.31 In practice a valuer is more likely to be engaged just to provide an estimate of the *fair value* less cost to sell, given that the calculation of value in use requires many inputs that are specific to the particular entity's business.

IAS 38 Intangible Assets

4.32 An *intangible asset* is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it is separable from other assets of the entity or when it arises from contractual or other legal rights. Separable assets can be sold, transferred or licensed independently from the business that owns them. Expenditure on an *intangible asset* is treated as an expense when acquired unless:

- it is probable that there will be future economic benefits from the asset, and
- the cost of the asset can be reliably measured.

If it meets both these criteria, it is recognised as an asset on the balance sheet.

4.33 Initially an *intangible asset* is carried at cost but subsequently can be carried at either cost or *fair value* as defined in IFRS 13, less any subsequent depreciation. However, the *fair value* option can normally only be used if there is an active market for the *intangible asset*, which is rare apart from examples such as taxi licences. An exception is where an *intangible asset* has been acquired as part of a business combination, where the absence of a specific cost for the asset means that a *fair value* must be estimated for its initial recognition, as per IFRS 3.

IAS 40 Investment Property

4.34 *Investment property* is land or a building, part of a building or both held by the owner to earn rentals or for capital appreciation rather than for:

- use in the production or supply of goods or services, or for administrative purposes
- sale in the ordinary course of business.

This definition includes property that is being constructed or developed for future use as *investment property*. It includes property that is owned outright and property held under a lease by the reporting entity, providing it is sublet or intended to be sublet under an operating lease or leases (see IFRS 16).

4.35 *Investment property* is initially recognised at its cost of purchase plus any directly attributable costs. For all subsequent statements the entity may adopt either the *fair value* model or the cost model. If the cost model is adopted in the balance sheet, the entity must still disclose the *fair value* in the notes to the accounts. All *investment property* owned by the entity must use the same option, except that if the *fair value* option is used and a specific property is incapable of reliable *valuation*, the cost model may be used for that property only. *Fair value* is applied in accordance with IFRS 13.

4.36 The test for when a property can be deemed incapable of reliable *valuation* is strict and arises when, and only when, the market for comparable properties is inactive and alternative reliable measurements of *fair value* (for example, based on discounted cash flow projections) are not available. In practice this is only likely to arise where:

- an entity has acquired a property for a highly speculative or unusual development, for which no reliable comparables exist or
- an *investment property* is under construction. The entity may carry the asset at cost until either its *fair value* becomes reliably measurable or construction is completed, whichever is earlier.

4.37 Subject to these limited exceptions, *investment property* is the only asset type where a current *fair value* is required at each reporting date. The entity is also required to disclose the extent to which the *fair value* of *investment property* is based on a *valuation* by an independent valuer who holds a recognised and relevant professional qualification, and has recent experience in the location and category of the *investment property* being valued. Consequently, if instructed to value *investment property* for financial reporting, the valuer **must** have regard to the requirements ~~– see also VPGA 1.~~in **VPS 6 section 2.2(j)**, and provide a draft publication statement.

~~8 Assumptions~~

~~An assumption~~ IAS 41 Agriculture

4.38 IAS 41 applies to biological assets and agricultural produce. It does not apply to:

- bearer plants (see IAS 16)
- land used or held for agricultural purposes (see IAS 16 or IAS 40)
- *intangible assets* related to agricultural activity.

4.39 A biological asset is ~~made where~~a living animal or plant. Agricultural produce is the harvested produce of an entity's biological assets. The following are not bearer plants and therefore fall within the scope of IAS 41:

- plants cultivated to be harvested as agricultural produce (e.g. trees grown for their timber)
- plants cultivated to produce agricultural produce when it is likely that the entity will also harvest and sell the plant as agricultural produce (e.g. trees that are cultivated both for their fruit and timber, other than incidental scrap sales)
- annual crops (e.g. potatoes or wheat).

4.40 Biological assets and agricultural produce are recognised in the accounts of the entity that controls them at *fair value*, less costs to sell. *Fair value* is generally determined in accordance with IFRS 13.

4.41 Biological assets or agricultural produce sharing significant attributes such as species, breed, age or quality may be grouped together for *valuation* purposes.

4.42 Contracts for sale for a fixed price at a future date are not necessarily relevant in establishing *fair value*, which **must** reflect the price that would be agreed between market participants on the reporting date (see **VPS 2**). No adjustment should be made to *the fair value* to reflect the existence of a contract for a future sale.

4.43 Cost may sometimes be a good indicator of *fair value*, particularly when:

- little biological transformation has taken place since the cost was incurred, e.g. for seedlings planted immediately prior to the end of a reporting period or newly acquired livestock
- the impact of the biological transformation on price is not expected to be material, e.g. the initial growth in a plantation that will not be harvested for many years.

IFRS 3 Business Combinations

4.44 This standard sets principles for the recognition and measurement of assets and liabilities acquired in a business combination, in other words in a takeover or merger. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business. The formation of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations.

4.45 In general the standard requires the acquiring entity to measure at *fair value* the identifiable assets acquired and the liabilities assumed as at the date of acquisition, even if it adopts the cost less depreciation option for similar assets in the rest of its business. *The fair values* of the assets and liabilities acquired are used in determining the value of any *goodwill* acquired. There are exceptions to the recognition and measurement requirements for some assets and liabilities, such as contingent liabilities, income taxes, employee benefits and assets held for sale.

4.46 An asset is identifiable if it either:

- is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged regardless of whether the entity intends to do so, or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

4.47 All identifiable assets have to be measured at their *fair value* in accordance with IFRS 13 at the first reporting date following the combination. This is regardless of whether the acquired entity has previously carried those items at *fair value* or cost. The rule in IAS 38 that only *intangible assets* for which there is an active market can be carried at *fair value* does not apply in the case of a business combination. Thereafter, all assets and liabilities are measured at each reporting date in accordance with the relevant accounting standard.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

4.48 A non-current asset includes investments in other companies, *intangible assets* and tangible assets such as property, *plant and equipment*. To be classified as a 'non-current asset held for sale', the asset must be available for immediate sale in its present condition and the sale must be highly probable within 12 months. There needs to be commitment by the entity's management to the sale, and to active marketing of the asset at a reasonable ~~for~~ price.

4.49 A non-current asset, or group of such assets, held for sale is measured at the lower of *fair value* less costs to sell and its carrying amount prior to its reclassification.

4.50 *Fair value* is measured in accordance with IFRS 13, and the valuer may additionally be asked to advise on the probable costs to sell.

~~accept~~

4.51 IFRS 16 has different accounting requirements for lessees and lessors.

a Lessees:

For any leased assets, lessees have to account for both the 'right of use asset' and the corresponding liability on their balance sheet. The standard prescribes inputs for these calculations that ~~something~~are not necessarily market-based, although entities may require some *valuation i*nputs to assist in these calculations. RICS' IFRS 16: Principles for UK real estate professionals contains examples that are specific to the UK, but IFRS 16 is ~~true without~~applicable wherever IFRS is used.

Investment property held under a lease is excluded from the scope of IFRS 16 and is measured under IAS 40.

b Lessors:

Lessors have to classify each of their leases to another entity as either a finance lease or an operating lease. A lease is a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. The standard lists some tests that can be used to determine whether a lease is a finance lease.

To assist lessors in this classification, valuers may be asked to provide *valuation* advice on the economic life of the asset at the commencement of the lease, the probable residual value of the underlying asset at the end of the lease and the extent to which the risks and rewards of ownership are transferred by the lease.

A complication affecting leased property is that IFRS 16 requires the land and building elements of a lease be considered separately for the purposes of classification. If it appears that the element of the lease attributable to the building could be a finance lease, it will be necessary to make an allocation of the initial rent based on the relative *fair values* of the interest in each element at the inception of the lease.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

4.52 This standard requires an entity to disclose information about all *sustainability*-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. *Sustainability*-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of IFRS S1.

4.53 The standard defines criteria for determining what are material risks or opportunities and whether these are presented fairly in the entity's financial reports. The standard references industry-specific guidance issued for over 70 different industries in the Sustainable Industry Classification System (SICS), which has been the responsibility of the International Sustainability Standards Board (ISSB) since 2022.

~~1.3~~4.54 The standard has no specific requirements relating to the *valuation* of assets, although the need for ~~specific investigation or verification~~the entity to make disclosures about *sustainability* risks and opportunities may mean valuers are requested to comment on these in relation to any asset they are requested to value on the reporting date. ~~Any such assumption must be reasonable and relevant having regard to the purpose for which the valuation is required.~~

~~8.1 The full definition from the RICS glossary is as follows:~~

4.55 ~~'A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a *valuation* that, by agreement, do not need to be verified by the valuer as part of the *valuation* process.~~**VPS 4 paragraph 1.5** requires the valuer to consider any *sustainability* and *ESG* factors that could affect the *valuation*. **VPS 6 section 2.2(q)** states that *sustainability* and *ESG* factors **must** form an integral part of the *valuation* approach and reasoning. VPGA 8 provides high- level guidance on reflecting *sustainability* and *ESG* considerations in *real estate valuations*, and further guidance is provided in the current edition of RICS' Sustainability and ESG in commercial property valuation and strategic advice.

IFRS S2 Climate-related Disclosures

4.56 This requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or the cost of capital over the short, medium or long term.

4.57 The standard requires entities to disclose their governance and strategy for identifying and managing any climate-related risks, including information about how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its decision-making, and how the entity plans to achieve any climate-related targets it has set or is required to meet by law or regulation. It must also disclose any significant areas of uncertainty in its assessment of its climate resilience.

4.58 There are some specific disclosure requirements for greenhouse gas emissions and carbon credits. An entity must also provide quantitative and qualitative information about the progress of plans disclosed in previous reporting periods.

4.59 There are no requirements that affect the *valuation* of assets, but a valuer will need to be aware of how the *sustainability* risks or opportunities affect demand for the type of asset being valued, and may be asked to specifically comment on this if instructed to provide a *valuation*. Examples could be to comment on flood risk or potential water shortages.

~~1 1 Scope~~

~~1.1 The guidance below provides additional commentary on the valuation of property, assets and liabilities for inclusion in financial statements.~~

~~1.2 Valuations for inclusion in financial statements require particular care as they must comply strictly with the applicable financial reporting standards adopted by the entity. Valuers are strongly advised to clarify at the outset which standards their clients have adopted along with referencing the full definition of the relevant corresponding basis of value in reporting.~~

~~1.3 Although the International Financial Reporting Standards (IFRS) are nowadays widely adopted, other financial reporting standards may still apply in individual jurisdictions.~~

~~1.4 In all cases, valuers are reminded that both IFRS and non-IFRS financial reporting standards continue to evolve – they should always refer to the standards current at the date to which the financial statements relate.~~

~~2 Valuations under International Financial Reporting Standards (IFRS)~~

~~2.1 Where the entity has adopted IFRS the basis of value will be fair value (see also VPS 4 section 7) and IFRS 13 Fair Value Measurement will apply. It is essential that the valuer is familiar with IFRS 13 requirements, especially the disclosure requirements. IFRS 13 may be obtained from the IFRS website.~~

~~2.2 In March 2021, the International Accounting Standards Board published the exposure draft Disclosure Requirements in IFRS Standards—A Pilot Approach. The exposure draft 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.~~

~~From the valuation community perspective, the most noteworthy potential change is the expectation or requirement that information will be provided to clients as a matter of course on what are described as 'reasonably possible alternative fair value measurements', to reflect any uncertainty that may exist regarding the significant inputs used to determine fair value.~~

~~2.3 IFRS 16 Leases, introduced in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.~~

~~IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.~~

~~3 Valuations of public sector assets under International Public Sector Accounting Standards (IPSAS)~~

~~3.1 Where public sector assets fall to be included in financial statements complying with IPSAS, care must be taken to refer to the version of the standards applicable at the financial reporting date, which can be accessed at www.ifac.org/public-sector~~

~~4 Other cases~~

~~4.1 Legislative, regulatory, accounting or jurisdictional requirements may require the modification of this application in some countries/states or under certain conditions.~~

~~5 Performance standards~~

~~5.1 Financial statements, whether drawn up under IFRS or otherwise, have to be prepared with appropriate rigour, and this applies equally to valuations of assets (or liabilities) in support of them. Subject to the particular statutory, regulatory or other authoritative requirements (see PS 1 section 4) applicable to the particular valuation assignment within the jurisdiction concerned, it is recommended that the following practices are observed (note that in some jurisdictions such practices may form part of a mandatory performance framework). Where such practices contain elements that are mandatory for RICS members and firms, the appropriate cross-references are included.~~

~~Professionalism and professional competence~~

~~5.2 The mandatory general requirements regarding ethical standards (PS 2 section 1), member qualification and professional competence (PS 2 section 2) apply with equal force here, as do the requirements to provide assurance concerning competence both when establishing the terms of engagement (VPS 1 section 3) and when reporting the valuation opinion (VPS 3 section 2).~~

~~5.3 Bringing professional scepticism to bear on the valuation assignment is also essential (see PS 2 section 1 paragraph 1.5 and VPS 2 section 1 paragraph 1.2), it being particularly important in the context of financial statements to be able to demonstrate freedom from bias.~~

~~5.4 Where the member does not have the required level of expertise to deal with some aspects of the valuation assignment properly, then they may – with the client's approval wherever necessary or appropriate – draw on the expertise of others (see PS 2 section 2 paragraphs 2.4 to 2.7).~~

~~5.5 Where a sub-contractor is used to assist with the valuation assignment, the *member* or *firm* will need to be satisfied that the requirements of PS 1 can be met (see PS 2 section 2 paragraph 2.7). It is important to document and make clear in the valuation report the level of responsibility being assumed by each party to the sub-contract.~~

~~5.6 To the extent that the member with overall responsibility for the valuation assignment cannot or does not assume responsibility for any specialist input, it is important that the sub-contractor's report (and any associated working papers supplied) is retained with the member's working papers, and that it can, as~~

~~necessary, be demonstrated that the sub-contractor is content with the form in which its opinion or advice will be incorporated or reproduced in the member's report (see also VPS 3 section 2 k) paragraph 5).~~

~~Terms of engagement~~

~~5.7 It is especially important in the context of financial reporting that there are terms of engagement which are clear (PS 2 section 7), leaving no areas of doubt as to what the member undertakes to do, however comprehensive or otherwise the valuation assignment will be, including the manner in which the valuation opinion will be reproduced (see VPS 3 section 2 j) paragraphs 2 to 14). Members are reminded that any changes to the scope of work that are subsequently agreed or necessitated are to be brought to the client's attention and appropriately documented prior to the issue of the valuation report (see VPS 1 section 1 paragraph 1.6).~~

~~5.8 In addition to the comprehensive list of matters set out in VPS 1, it is important to ensure that the responsibilities of the client, insofar as they impact on the fulfilment of the valuation assignment and on the valuation opinion, are set out clearly – this will include, but is not necessarily confined to, specifying the nature of the information which the client agrees to supply. It is also expected that the terms of engagement are specific in relation to the timescale within which the report will be produced and issued.~~

~~5.9 It is the responsibility of the valuer to discuss and agree with their client and include within the terms of engagement, full details of the accounting standards to be adopted in the valuation, and to include the full definition of the basis of value, including reference of the basis of value definition (e.g. IFRS 13 or FRS 102, etc.), along with details of the accounting standard body or a local regulator whose definition has been applied.~~

~~Sources and verification of information~~

~~5.10 VPS 1 section 3 j) and VPS 3 section 2 h) address the nature and source of the information and data to be relied on.~~

~~5.11 Source documents may include information and data supplied by the entity and may extend to financial information from sources other than its audited financial statements. It may also include information prepared by third-party advisers or specialists retained by the entity. In all cases information provided by or through the reporting entity's management should be considered just as objectively as information from other sources, professional scepticism being applied when forming a view on its credibility (see VPS 2 section 1 paragraph 1.8). See also PS 2 section 3 paragraphs 3.11 to 3.15 if discussions about information are held with the client, or any other form of management interview is undertaken.~~

~~Documentation~~

~~5.12 Particular care is needed over the documentation, including both source and analysis documents and any other relevant papers or records – such as notes of inspections and investigations (see VPS 2 section 3) – used to derive and support a valuation opinion. This is because of the reliance to be placed by the reporting entity's management on the valuation opinion when producing the financial statements for which they are responsible, which must properly satisfy statutory, regulatory and auditing requirements. Members' attention is expressly drawn to PS 2 section 5.1 where the public has an interest and PS 2 section 5.2 (in particular paragraph 5.2.2) where third-party reliance may or does arise.~~

~~Reports~~

~~5.13 It is essential that valuation reports provided in support of financial statements should 'clearly and accurately set out the conclusions of the valuation in a manner that is neither ambiguous or misleading, and which does not create a false impression' – see VPS 3, which sets out a comprehensive list of~~

~~mandatory requirements designed to fulfil this objective. The following paragraphs provide additional guidance on certain aspects in the specific context of financial statements.~~

~~5.14 The extent of description of the valuation approach(es) adopted and method(s) used should always be proportionate to the task (see VPS 3 section l) paragraph 2) as should the description of the reasoning, but in the particular context of valuation for financial reporting, the presumption is towards a fuller description in order to assist understanding by the client and other intended users. It helps ensure that management decisions concerning the coverage and content of the financial statement in relation to the assets (or liabilities) concerned are properly informed and that the entity's management can in turn report in a way that is neither ambiguous or misleading.~~

~~5.15 Members should be particularly alert in relation to information or data that appears to provide contrary evidence to the valuation opinion reached and should ensure that adequate explanation of how this was considered is included in the valuation report.~~

~~5.16 While VPS 1 and VPS 3 refer to valuation date and amount of the valuation, as those italicised terms are defined in the RICS glossary, members may find that clients refer to the 'measurement date' and 'measurement' amount, as used in accounting standards. As noted in IVS 104 Paragraph 10.1, basis of value may sometimes be termed 'standard of value' by clients.~~

~~5.17 If any subsequent events are referred to in the report (see VPS 3 section 2 m) paragraph 7), the relevant date should normally be provided.~~

~~5.18 It is the responsibility of the valuer to include within the valuation reporting, full details of the accounting standards to be adopted in the valuation, and to include the full definition of the basis of value including reference of the basis of value definition (e.g. IFRS 13 or FRS 102, etc.), along with details of the accounting standard body or a local regulator whose definition has been applied. Where appropriate, the valuer should also clearly state whether the basis of value adopted is considered to be consistent with the basis of market value and identify if the specific application of the accounting basis of value definition leads to different values.~~

~~5.19 Valuers should be familiar with the measurement requirements of the relevant accounting standards to which they are applying their opinion of value. It is also important that the valuer clearly identifies within the valuation report, the client's classification of the asset(s) being valued along with reference to the corresponding accounting standard.~~

VPGA 2 Valuations for secured lending

1 Scope

1.1 The guidance below provides additional commentary on the valuation of interests in real property and in other tangible assets for secured lending globally. *Valuation* practice, process and regulation for secured lending often has particular differences depending on the jurisdiction and asset type. Reference should therefore be made to relevant secured lending coverage in RICS national supplements, jurisdiction guides and any other relevant RICS or other professional standards and best practice guidance, in addition to adhering to local laws and regulation.

~~1.2 Mandatory requirements in these global standards are highlighted using cross-references in bold type. While the remaining material is advisory in most jurisdictions, valuers should always refer to the appropriate national supplement (see PS 1 section 4) for additional mandatory requirements.~~

2 Background

2~~.~~.1 The most common examples of security in relation to real property interests where ~~a valuer's advice~~ *valuation* is likely to be sought are:

- **a** ~~a~~ property that is, or will be, owner-occupied
- **b** ~~b~~ property that is, or will be, held as an investment
- **c** ~~c~~ property that is fully equipped as a trading entity and valued with regard to trading potential and

~~d~~ property that is, or is intended to be, the subject of development or refurbishment.

- **d** Each of the above examples is discussed further in ~~paragraph 6.2~~paragraph 6.3 of this VPGA.

2~~.~~.2 This VPGA ~~deals with the following matters that are specific to valuations for~~contains additional guidance in a secured lending *valuation* context covering:

- taking instructions, *terms of engagement* and disclosures
- independence, objectivity and conflicts of interest
- *basis of value* and *special assumptions* and
- reporting and disclosures.

2~~.~~.3 In most jurisdictions there is a wide variety of real property and other tangible assets offered as security and a range of lending products available, and so each case will require a slightly different approach. It is therefore ~~open to~~important for the valuer and client (including lender, other finance party or their representatives) to agree variations, subject to ~~PS 1 section 4. The overriding objective is that the valuer should understand the lender's needs and objectives, including the terms of the loan being contemplated, and the lender should understand the advice that is given. These principles apply to real property interests and to other tangible assets alike.~~**PS 1 section 4**. The overriding objective is that the valuer should understand the client's needs and objectives, and the client should understand the advice that is given. These principles apply to real property interests and other tangible assets alike.

3 Independence, objectivity and conflicts of interest

3~~.~~.1 Members are reminded that in accordance with ~~PS 2 section 3~~**PS 2 section 3**, they **must** at all times act with integrity, independence and objectivity, and avoid conflicts of interest and any actions or situations that are inconsistent with their professional obligations. Additionally, members are reminded that they **must** also declare any potential conflicts of interest – personal or professional – to all relevant parties. ~~It will be appreciated that these requirements are of special relevance and importance in the context of secured lending.~~

3~~.~~.2 ~~Where requested or required to do so, valuers who comply with the provisions for independence and objectivity under PS 2 section 3 may confirm that they are acting as 'independent valuers', subject to compliance also with paragraph 3.3 below.~~

~~3.3 The lender may specify additional criteria for independence for a valuation for secured lending. There may also be specific criteria that apply in individual jurisdictions. In the absence of any specification, the additional criteria are deemed to include a stipulation that the valuer has had no previous, current or anticipated involvement with the borrower, or prospective borrower, the asset to be valued or any other party connected with a transaction for which the lending is required. 'Previous involvement' would normally be anything within the period of 24 months preceding the date of instruction or date of agreement of the terms of engagement (whichever is earlier), but a specific longer period may be prescribed or adopted in individual jurisdictions.~~

~~3.4 Any previous or current involvement with the borrower or the property or asset to be valued is to be disclosed to the lender prior to the acceptance of the instruction. Disclosure should also extend to any anticipated future involvement. (References to 'borrower' include a prospective borrower or any other party connected with the transaction for which the lending is required).~~ Examples of where such ~~involvement that may result in a conflict of interest include~~considerations should be made include, but are not limited to, situations where the valuer or *firm*:

- has a ~~long-standing~~longstanding professional relationship with the borrower or the owner of the property or asset
- is introducing the transaction to the ~~lender~~client or the borrower, for which a fee is payable to the valuer or *firm*
- has a financial interest in the asset or in the borrower
- is acting for the owner of the property or asset in a related transaction

- is acting (or has acted) for the borrower on the purchase of the property or asset
- is retained to act in the disposal or letting of a completed development on the subject property or asset
- has recently acted in a market transaction involving the property or asset
- has provided fee earning professional advice on the property or asset to current or previous owners or their lenders and/or
- is providing development consultancy for the current or previous owners.

~~3.5 Valuers are reminded – consistently with paragraph 3.1 above – that they must consider whether any previous, current or anticipated involvement with either the property or asset or related parties is sufficient to create a conflict with the valuer's duty to be independent and objective. Matters such as the quantum of any financial interest in a connected party, the scope for the valuer or firm to benefit materially from a particular valuation outcome and the level of fees earned from any connected party as a proportion of total fee income may all be material.~~

~~3.6 If the valuer considers that any involvement creates an unavoidable conflict with their duty to the potential client, the instruction should be declined.~~

~~3.7 If the valuer and the client agree that any potential conflict can be avoided by introducing arrangements for managing the instruction, those arrangements are to be recorded in writing, included in the terms of engagement and referred to in the report.~~

~~3.8 Although a valuer may take into account the views of the prospective client in deciding whether a recent, current or anticipated involvement creates a conflict, it remains the valuer's professional responsibility to decide whether or not to accept the instruction having regard to the principles of the RICS Rules of Conduct. If the instruction is accepted where material involvement has been disclosed, the valuer may be required to justify this decision to RICS. If a satisfactory justification is not provided, RICS may take disciplinary measures.~~

~~3.9 Members should refer to the global RICS professional statement Conflicts of interest for additional information.~~

~~4~~ 3.3 Members should refer to **PS 2 section 3** and the current edition of RICS' Conflicts of interest for additional information and take appropriate actions.

4 Taking instructions and disclosures

4.1 Valuers are reminded that the *terms of engagement* **must** incorporate the minimum requirements of ~~VPS 1 paragraph 3.1. Where the lender has additional or alternative~~**VPS 1 paragraph 3.1** with suitable *records* kept. Additional client requirements~~, they will need to be confirmed and particular~~ can be agreed as long as they do not directly conflict with **VPS 1** or any other mandatory standard. These should also be recorded. Particular care is to be taken to agree and record any *special assumptions* that are to be made.

4.2 ~~In some circumstances a valuation for~~ Valuers may be asked to agree lender's terms of engagement documentation before commencing work. Valuers should acknowledge the client's instructions in writing, confirming any **VPS 1** matters not included in the client's *terms of engagement*. Where accepting the lender's terms of engagement, the valuer should carefully consider implications such as, but not limited to, their indemnities and liability.

4.3 Particular note should be taken of **VPS 1 paragraph 1.3**, as it is a common occurrence in secured lending ~~may~~.

> 'A master service agreement may already be in place between a client and valuer. Where such an agreement exists, a valuer is not always required to complete separate additional *terms of engagement*. However a valuer **must** confirm in writing and document any additional items required to meet the minimum requirements of VPS 1 paragraph 3.1.'

4.4 It is the practice in some markets globally for *valuations* for secured lending to be commissioned by a party that is not the intended lender, for example, a prospective borrower or broker. This practice can have specific challenges that the valuer should consider. If the instructing party does not know, or is unwilling to disclose, the identity of the intended lender~~,~~(s), it ~~will need to~~should be stated in the *terms of engagement* that the *valuation* may not be acceptable to a lender~~.~~(s). This may be because some lenders do not accept ~~that~~ a *valuation* procured by a borrower ~~or an agent is sufficiently independent~~, or because ~~the particular~~a lender has specific reporting requirements. If the identity of the intended lender is unknown, this should be clearly stated in both the *terms of engagement* and the *valuation* report. Any new information regarding the identification of the lender that arises after the *terms of engagement* are agreed **must** be documented in writing as an addendum to the *terms of engagement* and referenced in the *valuation* report. Once details of the lender become available, conflicts of interest checks should be conducted and documented in writing as an addendum to the *terms of engagement* and referenced in the *valuation* report.

~~4.4~~4.5 ~~4.3~~ ~~The~~Where relevant and appropriate for the particular jurisdiction and/or market, the valuer should enquire ~~if~~whether there has been a recent transaction or a provisionally agreed price on any of the properties to be valued. If such information is revealed, further enquiries should be made, for example, the extent to which the property was marketed, the effect ~~of any incentives, the price realised or agreed and whether it was the best price obtainable.~~
~~4.4 The valuer should request details~~ of ~~the terms of the~~ any incentives, the price realised or agreed, and how the achieved price reflects current market trends and/or how it relates to comparable properties.

~~4.5~~4.6 There are different practices globally around the extent to which a valuer is provided with information about lending facilities being contemplated by the ~~lender~~client, including the term (duration) of the loan. In some jurisdictions this information is restricted. Where provided with information and where appropriate for the *valuation* circumstances, a valuer may consider pertinent details for their *valuation* such as, but not limited to, the term of the loan. This consideration is to undertake the *valuation* and not to comment on the terms of the loan. Where this is the case, it should be recorded in the report.

~~4.5 Valuers are reminded that they must ensure that all the relevant disclosures required by the instructions, in compliance with VPS 1 paragraph 3.1, and having regard to the matters in section 6 below, are made.~~

~~5~~

5 Basis of value and special assumptions

5.1 *Market value* is the *basis of value* widely used for *valuations* or appraisals undertaken for secured lending. However, in some jurisdictions alternative bases may be recognised or expressly required, for example, as a result of statute or regulation, 'mortgage lending value' being one example. These alternative bases may, and often do, involve prescribed approaches or *assumptions* and may therefore result in a value for the purpose of secured lending that is quite markedly different from *market value* as defined in ~~IVS 104 paragraph 30.1 and reproduced in VPS 4. Sometimes described as a 'mark to model' valuation approach to distinguish it from a 'mark to market' approach, the valuation output must only be used for the particular purpose for which it is provided. This is because often the basis or model used is, or forms part of, a risk assessment tool, the risk being viewed primarily from the lender's perspective across an extended period of time. While it is proper for valuers to provide advice using these alternative bases of value, what is essential is that the particular basis of value adopted is always made clear.~~IVS 102 paragraph A10.01 and reproduced in **VPS 2**. While valuers can provide advice using these alternative *bases of value*, what is essential is that the particular *basis of value* adopted is always made clear.

~~5.1~~5.2 Any *special assumptions* (see ~~VPS 4 section 9~~**VPS 2 section 10**) made in arriving at the value reported are to be agreed in writing with the ~~lender~~client in advance and referred to in the report.

5.3 ~~5.3~~ Circumstances that ~~often~~ arise in *valuations* for secured lending where *special assumptions* may be appropriate include, for example, where:

- planning consent ~~has~~had been granted for development at the property
  - ~~there~~ when it has not been granted on the *valuation date*
  - a physical change to the property, such as proposed new construction or refurbishment, had occurred on the *valuation date*
  - a new letting on given terms, or the settlement of a rent review at a specific rent, ~~has~~had been completed on the *valuation date*
- ~~there is a~~any lease or leases between connected parties has/have been disregarded
- an identified *special purchaser*~~, which may include~~ is interested in buying the ~~borrower~~asset
  - a constraint that could prevent the property being either brought to or adequately exposed to the market is to be ignored
  - a ~~new~~proposed economic or environmental designation ~~has taken~~was already in effect on the *valuation date*.
- ~~the property suffers from natural, non-natural or existing use environmental constraints~~
- ~~any unusual volatility in the market as at the valuation date is to be discounted and~~
- ~~any lease or leases between connected parties has been disregarded.~~

~~5.2~~5.4 ~~The above list is not exhaustive, and the~~The appropriate *special assumptions* will depend on the circumstances under which the *valuation* is requested and the nature of the property to be valued.

~~5.3~~5.5 ~~5.4~~ Any *valuation* for secured lending ~~purposes arrived at by making~~made using a *special assumption* ~~must~~should be accompanied by a comment on any material difference between the reported value with and without that *special assumption*.

6 Reporting and disclosures

6.1 ~~In addition to the matters~~ Reporting requirements are set out in ~~VPS 3 paragraph 2.2, matters that will frequently~~**VPS 6 paragraph 2.2**. Other specific requirements may also be agreed in the *terms of engagement* with the lender. Practices differ globally and by sector, but matters that may also require consideration and comment in a report prepared for secured lending include:

- ~~disclosure of any involvements (see subsection 4 of this VPGA) identified in the original or subsequent amendment to the terms of engagement, or any arrangements agreed for avoiding a conflict of interest. If the valuer has had no involvement, a statement to that effect is to be made~~
- ~~the valuation method adopted, supported (where appropriate or requested) with the calculation used (note that in some jurisdictions, the method or methodology itself will be prescribed in some degree)~~
- ~~where a recent transaction on the property has occurred or a provisionally agreed price has been disclosed, the extent to which that information has been accepted as evidence of value. Where the enquiry does not reveal any information, the valuer will make a statement to that effect in the report, accompanied by a request that if such information comes to light before the loan is finalised, the matter must be referred back to the valuer for further consideration~~
- ~~comment on the suitability of the property as security for mortgage purposes, bearing in mind the length and terms of the loan being contemplated. Where the terms are not known, the comment should be restricted to the general marketability of the property~~
- ~~any circumstances of which the valuer is aware that could affect the price (these must also be drawn to the attention of the lender, and an indication of their effect must be provided)~~
- ~~any other factor that potentially conflicts with the definition of the basis of value or its underlying assumptions must be noted and its effect explained~~
- ~~potential and demand for alternative uses, or any foreseeable changes in the current mode or category of occupation~~
- ~~the potential occupational demand for the property~~
- ~~disrepair, or whether any deleterious or harmful materials have been noted~~
- ~~comment on any environmental or economic designation~~
- ~~comment on environmental issues, such as flood risk potential, historic contamination or non-conforming uses~~
- ~~past, current and future trends, and any volatility in the local market and/or demand for the category of property~~
- ~~the current marketability of the interest and whether it is likely to be sustainable over the life of the loan~~
- ~~details of any significant comparable transactions relied upon and their relevance to the valuation~~
- ~~any other matter revealed during normal enquiries that might have a material effect on the value currently reported and~~
- ~~if the property is, or is intended to be, the subject of development or refurbishment for residential purposes, the impact of giving incentives to purchasers.~~

~~Sustainability and ESG factors (see VPGA 8) can be a significant market influence and valuations for secured lending should always have appropriate regard to their relevance to the particular assignment.~~

a ~~6.2~~ comment on any specific risks and/or market trends that could arise/impact during the duration of the loan (e.g. trends in rent and sales values; lease duration; tenant mix, etc.)

b the current marketability of the interest and commentary about the sustainability of this in the context of the duration of the loan

6.2 The *terms of engagement* and the undertaking of a *valuation* **must** be reconsidered in the following circumstances (this list is not exhaustive):

- it becomes clear that the investigations or limitations included in the scope of work will not result in a credible *valuation*
- information provided by *third parties* that forms a material part of the *valuation* is either unavailable or inadequate

- *inspections* and investigations cannot be carried out to the extent necessary to produce a *valuation*.

~~6.2~~6.3 The following paragraphs indicate matters that it may be appropriate to include when valuing interests in different categories of real property, as listed in ~~paragraph 2.1 of this VPGA~~paragraph 2.1 of this VPGA, in addition to those matters referenced at 6.1.

a) Property that is, or will be, owner-occupied

i Typical *special assumptions* that may arise when valuing this category of property include:

- planning consent has been, or will be, granted for development, including a change of use of the property
- a building or other proposed development has been completed in accordance with a defined plan and specification
- all necessary licences and consents are in place
- the property has been changed in a defined way (for example, removal of equipment or fixtures) and
- the property is vacant when, in reality, at the *valuation date* it is occupied.

b) Property that is, or will be, held as an investment

i Additional report contents should include:

- a summary of occupational leases, indicating whether the leases have been read or not, and the source of any information relied on
- a statement of, and commentary on, current rental income, and comparison with current market rental value. Where the property comprises a number of different units that can be let individually, separate information should be provided on each
- an *assumption* as to covenant strength where there is no information readily available, or comment on the market's view of the quality, suitability and strength of the tenant's covenant
- comment on maintainability of income over the life of the loan (and any risks to the maintainability of income), with particular reference to lease breaks or determinations and anticipated market trends – this may well need to be considered in a broader *sustainability* and *ESG* context, such as potential future cost liabilities related to meeting regulatory and investor requirements, and
- comment on any potential for redevelopment or refurbishment at the end of the occupational lease(s).

ii Typical *special assumptions* that may arise in valuing this category of real property include whether:

- a different rent has been agreed or determined, e.g. after a rent review
- any existing leases have been determined, and the property is vacant and to let, or
- a proposed lease on specified terms has been completed.

c) Property that is fully equipped as a trading entity and valued with regard to trading potential

i The closure of the business could have a significant impact on the *market value*. The valuer should therefore report on this impact, either individually or as a combination of one or more of the following *special assumptions*:

- the business has been closed and the property is vacant
- the trade inventory has been depleted or removed
- the licences, consents, certificates and/or permits have been lost or are in jeopardy and/or
- accounts and records of trade are not available to a prospective purchaser.

ii Typical *special assumptions* that may arise in valuing this category of real property include:

- *assumptions* made on the trading performance and
- projections of trading performance that materially differ from current market expectations.

iii Clients may require a breakdown of the value attributed to FF&E (furniture, fixtures and equipment) in the *valuation*.

d) Property that is, or is intended to be, the subject of development or refurbishment

i Additional report contents should include:

- comment on costs and contract procurement
- comment on the viability of the proposed project
- if the *valuation* is based on a residual method, an illustration of the sensitivity of the valuation to any assumptions made
- the implications on value of any cost overruns or contract delays and
- comment on the anticipated length of time the redevelopment or refurbishment will take, as this may affect the current value due to inconvenience and/or temporary lack of utility.

ii Typical *special assumptions* that may arise in valuing this category of property include whether:

- the works described had been completed in a good and ~~workmanlike~~competent manner, in accordance with all appropriate statutory requirements
- the completed development had been let, or sold, on defined terms or
- a prior agreed sale or letting has failed to complete.

iii Where a *valuation* is required on the *special assumption* that the work had been completed (as complete) as of a current *valuation date*, the value reported should be based on current market conditions. If a *valuation* is required on the *special assumption* that the work has been completed as of a future date and the *valuation date* is as of that future date, the valuer is reminded of the requirements for developing and reporting the opinion of value in accordance with ~~VPS 1 paragraph 3.2(k)~~**VPS 1 paragraph 3.2(k)** and **VPS ~~3~~6 paragraph 2.2(i)**.

6.3 It is good practice to attach any instruction letter and the *terms of engagement* to the report, and refer to these documents in the body of the report.

VPGA 3 ~~-~~Valuation of businesses and business interests

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Scope

1~~.~~.1 The guidance below provides additional commentary on the *valuation* of businesses and business ~~interest~~interests, and the practical application of ~~IVS 200 Businesses and Business Interests. Any cross-references to mandatory requirements are highlighted in bold type.~~IVS 200 Businesses and Business Interests.

2 Introduction

2~~.~~.1 ~~For the purposes of this application, a 'partial interest' means ownership of a right or rights that represent less than all of the rights in a tangible or intangible asset, such as the right to use but not sell an asset or property. 'Fractional interest' means ownership of a percentage of the right or rights in a tangible or intangible asset (whether such rights are in the entirety of the asset, or a partial interest in the asset) such as the ownership of an asset which is vested in more than one party.~~

~~2.2~~ IVS 200 defines a business as '~~a~~an organisation or integrated collection of assets and/or liabilities engaged in commercial, industrial, service or investment activity'. A business interest can be either 100% of the entity or a fractional interest, representing less than 100% of the entity. This VPGA is concerned with the *valuation* of entire businesses – whether companies, sole traders or partnerships (including limited liability partnerships) – together with interests therein, such as company stocks and shares or partnership interests.

2~~.3~~.2 This VPGA does not deal with the *valuation* of *intangible assets* (~~for which see VPGA 6~~please refer to VPGA 6), *plant and equipment* (~~for which see VPGA 5~~see VPGA 5), land~~,~~ or other tangible assets that may sometimes constitute part of a business. For the *valuation* of individual *trade related properties*, please refer to VPGA 4. However, a business valuer may often be required to rely on the *valuation*
of such assets provided by other specialist valuers~~,~~ (for example, of *real estate*~~,~~) and of mineral

rights.

2~~.4~~�3 *Valuation* of equity capital, other financial interests, loan capital, debentures, options, warrants, convertibles and fixed interest securities may form part of a business *valuation* assignment.

2.~~5~~4 To satisfy ~~PS 2 section 2~~**PS 2 section 2**, ~~it is important that~~ the valuer ~~is~~should have experience of and be regularly involved in business *valuation*, as practical knowledge of the factors affecting investment in any particular property, asset, business or share~~,~~ is essential.

3 Scope of work and terms of engagement

3~~.~~.1 The *valuation* knowledge of clients will vary widely. Some will have a thorough understanding of business *valuation*, while others will be unfamiliar with the terms and concepts used by business valuers.

3~~.~~.2 It is important that both the scope of the work to be undertaken and the *terms of engagement* are understood and agreed in writing between the valuer and the client prior to commencement of the assignment. The ~~asset or liability~~business entity, or the specific interest in the ~~asset or liability~~ business entity that is to be valued, or the right (or rights) to~~)~~ use that interest that are to be appraised, should be recorded. Such *record* should specify:

- the legal structure of the business entity
- whether the ~~asset~~ interest in the business entity is to be valued ~~is the interest~~ in its entirety or a fractional interest
- if the ~~asset~~business entity to be valued is confined to, or excludes~~,~~ certain assets or liabilities, and
- the class (or classes) of shares concerned: if the focus is on the equity of the business entity or a fractional interest.

3~~.~~.3 Any *assumptions* that are made **must** be clearly stated in compliance with ~~VPS 4 sections 8 and 9. For example, the valuer should state whether he or she assumes that the owners of shares or partial interests are intending to sell or retain such interests, or whether certain assets or liabilities owned by the business are to be disregarded.~~**VPS 2 sections 9 and 10.**

~~3.4 There may be situations where the interest in the asset to be valued is shared with others, i.e. common use or shared ownership, and in such cases, it should be clearly specified.~~

3.4 ~~3.5 Valuers may wish to develop standard letters of engagement that can be used for any type of valuation instruction. Where a valuation has to comply with the RICS Red Book Global Standards the~~The valuer **must** produce *terms of engagement* that comply with the minimum terms set out in ~~PS 2 section 7 and VPS 1~~**PS 2 section 7** and **VPS 1**, adapted as necessary to refer to business *valuation*.

4 Businesses and business interests

4.1 ~~4.1~~ A business *valuation* may either comprise the whole of the activity of an entity or a part of the activity. It is important to distinguish as necessary between the entirety value, the value of a ~~partial~~fractional interest (see paragraph 2.1 above), the values of specific assets and/or liabilities of the entity, and the intended use of the *valuation* (for example, for tax planning~~,~~ or management's internal purposes~~),~~) prior to commencing the *valuation*.

4.2 ~~4.2~~ The *valuation* report **must** contain the following four essentials and comply with the minimum terms set out in **VPS 6**.

a The *purpose of the valuation*.

b The effective date of the *valuation*.

c The business interest being valued.

d The *valuation* basis.

4.3 It is essential to be clear about the '~~purpose' of the valuation, and its '~~intended use' of the *valuation*. This will determine the *basis of value*. There are five *bases of value* in IVS directly relating to businesses and business interests:

- *market value*
- *synergistic value*
- *equitable value*
- *investment value*~~.~~
- liquidation value.

Purpose may refer to the provision of an opinion in accordance with a specific *basis of value*, for example, *market value* or IFRS 13 *fair value*. Intended use may refer to a type of transaction or activity, for example, financial reporting.

~~4.2~~4.4 ~~4.3~~ Where individual assets, divisions and liabilities are to be valued, and are capable of being independently transferred, they should, where possible, be valued at their respective ~~market values~~*basis of value*, rather than by apportionment of the ~~entirety~~entire value of the business.

~~4.3~~4.5 ~~4.4~~ When valuing a business or interest in a business, the valuer should consider whether a higher value could be arrived at on a liquidation basis and, if so, consider the prospect of realising such value, having regard to the ownership interest.

4.6 ~~4.5~~ Whatever the ownership interest – whether a proprietorship, a partnership~~,~~ or in corporate form – the rights, privileges and conditions attaching to that interest have to be considered in the *valuation*. Ownership interests may be the entire business, or part or shares therein, and it may be important to distinguish between legal and beneficial ownership, rights and obligations inherent to the interest and those rights that may be~~-~~
contained in any agreement between current shareholders. Ownership rights will usually be set out in legally binding documents such as articles of association, articles of incorporation, business memoranda, bye-laws, partnership articles or other agreements, and shareholder agreements.

~~4.4~~4.7 ~~4.6~~ The documents referred to in paragraph 4.~~5~~6 above may contain transfer restrictions and may state the *basis of value* that has to be used on a transfer of the business interest. It is important to distinguish between rights and obligations inherent in the interest to be valued. For example, the ownership documentation may require the *valuation* to be done on a pro- rata proportion of the entity value, regardless of size of interest. The valuer will then have to comply with such requirements and the rights attaching to any other class of interest. ~~IVS 200~~IVS 200 provides further commentary on ownership rights.

~~4.5~~4.8 ~~4.7~~ A non-controlling interest may have a lower value than a controlling one, although a majority interest does not necessarily control the entity. Voting control and other rights will be set out by the legal frameworks mentioned in paragraph 4.~~5~~6 above, and may give control or veto even to minority interests in certain circumstances. There are often different equity classes in a business, each with different rights.

~~4.6~~4.9 ~~4.8~~ The reason why the valuer has been instructed to perform a business *valuation* is important to understand, as the *valuation* may be required for a wide variety of purposes. Examples include financial reporting, taxation, public sector assignments, transactions and flotations, fairness opinions, banking arrangements, insolvency and administration, ~~knowledge~~ management~~,~~ information or portfolio review. The purpose will introduce various *bases of value*, some governed by statute and case law, and others by international and national standards of professional valuation practice.

~~4.7~~4.10 ~~Bases~~IVS *bases of value* directly relevant to business *valuation* are stated above. Other *bases of value* typically encountered for these *valuations* are IFRS *fair value* or a similar definition from other local GAAPs, *fair value* in the articles and any associated definition (fair *market*~~-~~ *value*, unrestricted *market value*, ~~open market value, investment value,~~etc.), owner value and net realisable value. It is important to check the precise terms of any *basis of value* that may be described, for example, in shareholders' agreements, legislation or regulations~~.~~ and the *purpose of the valuation* (commercial, tax or accounting). Valuers should be mindful of the requirements of ~~PS 1 sections 3, 4 and 7~~**PS 1 sections 3, 4** and **7**, relating to the use of a *basis of value* not recognised in ~~the~~ Red Book Global Standards.

~~4.8~~4.11 ~~4.10~~ Depending on the rules and practice followed in respect of the *basis of value*, *valuations* of the same asset may be different. For example, because of the rules concerning tax *valuations*, a tax authority might view a *valuation* differently to a litigant, merger partner or *special purchaser*.

4.12 ~~4.11~~ While the valuer should consider future returns likely to be received from the business, as well as the ~~often theoretical~~other aspects of *valuation* (particularly fiscal factors), ultimately the business that is to be valued is the one that actually exists, or the one that could exist on~~-~~ a commercial basis as at the *valuation date*. The valuer therefore needs to account for the future expectations of operation of the business. These expectations may be based partly on actual historic performance and partly on ~~a notional unachieved one. They will be those~~budgets or forecasts. The valuer needs to understand the perspective of potential buyers or sellers, who are the market participants ~~as identified by the valuer~~, following appropriate research as to the business and outlook for the industry, and discussions with the operators of the business as to their expectations.

4.13 ~~4.12~~ As the underlying concept revolves around the ~~profits~~cash flows that the purchaser might expect to accrue from ownership, these are generally measured after deducting the commercial costs of managing and financing the business entity. Therefore, where a business entity does not bear ~~actual~~realistic management costs, the valuer will need to consider the deduction of notional management costs at a market rate in arriving at profitability for business *valuation purposes*.

~~4.9~~4.14 ~~4.13~~ In many cases the valuer may need to apply more than one *valuation* approach and method, particularly where there is insufficient information or evidence to enable the valuer to rely on just one. In such cases, the valuer may use ~~additional~~other approaches and methods~~,~~ to arrive at the final *valuation*, indicating why preference is given to any one or more methodologies. The valuer should consider all *valuation* approaches, giving reasons why any particular approach has not been ~~completed~~applied.

5 Information

5.1 ~~5.1~~ Business or shares *valuation* often depends on information received from the proprietors and their advisers or representatives. As per **PS 2**, the valuer **must** apply professional scepticism when considering information. The valuer should specify what reliance has been placed on what information, as well as stating the rationale for accepting and using, without verification, information provided by the client or that person's representative. Some information may have to be verified in whole or in part, and this will need to be stated in the *valuation* report. Although the value may largely depend on future expectations, the history may assist in determining what these expectations might reasonably ~~be.~~ be. Projections of future profits and cash flows should be viewed with professional scepticism and, to the extent possible, calibrated and corroborated with external data points.

~~5.1~~5.2 The valuer needs to be aware of any relevant economic developments, industry trends and the context in which the *valuation* is being prepared, for example, political outlook, government policies, inflation and interest rates, and market activity. Such factors may affect businesses in different sectors in distinct ways.

~~5.2~~5.3 ~~5.3~~ The interest being valued will reflect the financial standing of the business at the *valuation date*. The nature of the assets and/or liabilities needs to be understood, and the valuer is expected to consider which ones are employed for income generation, and which ~~ones~~ are redundant to such activities at the *valuation date*. The valuer should also take account of off-balance sheet assets and/or liabilities where necessary. The value of assets and/or liabilities not used in generating the profits or cash flows of the business (usually called surplus assets/liabilities) should normally be added/deducted in the *valuation* if using the *market approach* or the *income approach*.

6 Valuation investigation

6.1 ~~6.1~~ As a minimum requirement, valuers should not ~~contemplate carrying~~carry out a *valuation* in the absence of a detailed knowledge and understanding of the history of, and activities associated with, the business and/or asset(s~~).~~) and/or liabilities. They will also need a comprehensive understanding of, as appropriate, management structures and personnel, state of the subject industry, ~~the~~ general economic outlook and political factors. In addition, consideration

~~must~~needs
to be given to ~~such~~ issues such as the rights of minority shareholders. For these reasons, valuers should have appropriate competency in business *valuation*~~.~~ and conform with the other requirements of **PS 2**.

~~6.1~~6.2 ~~6.2~~ Typical information requirements to assist the valuer in understanding the subject ~~company~~business and/or asset(s~~)~~)/liabilities, or business interests, could include:

- most recent *financial statements*, and details of current and prior projections or forecasts
- description and history of the business or asset, including legal protections
- information about the business or asset and supporting intellectual property and intangibles (for example, marketing and technical know-how, research and development, documentation, design graphics and manuals, including any licences/approvals/consents/ permits to trade, etc.)
- ~~articles of association,~~ company ~~memorandum~~constitution documents, shareholders' agreements, subscription agreements, other collateral agreements
- precise activities of the business, and its associated companies or subsidiaries
- class rights of all share and debenture classes (security over assets)
- previous *valuation* reports
- product(s) dealt in, supported or extended by the business and intangibles
- company's market(s) and competition, barriers to entry in such markets, business and marketing plans, due diligence
- strategic alliances and joint venture details
- whether contractual arrangements can be assigned or transferred in any *intangible asset* or~~-~~ royalty agreement
- major customers and suppliers
- objectives, developments or trends expected in the industry, and how these are likely to affect the company or asset
- accounting policies
- strengths, weaknesses, opportunities and threats (SWOT) analysis
- key market factors (for example, monopoly or dominant market position, market share)
- major capital expenditure in prospect
- competitor positions
- seasonal or cyclical trends
- technological changes affecting the business or asset
- vulnerability of any source of raw materials or supplier arrangement
- whether there have been any recent acquisitions or mergers in the sector around the valuation date, and the criteria that were applied
- whether there have been any significant developments or changes to the business since

the latest accounting date (for example, management information, budgets, forecasts)

- offers to acquire the business, or discussions with banks and other sponsors to go public
- management of research and development (for example, non-disclosure agreements, subcontractors, training and incentives)
- *valuations* of underlying assets~~.~~
- ~~6.3~~ relevant legislation and frameworks in relation to *environmental, social and governance (ESG) factors*. See IVS 104 Data and Inputs: Appendix and **VPS 6 section 2.2(q)**.

~~6.2~~6.3 Much of the information relied on will be derived from the client(s) and it may not be possible to verify it. In such cases, the *valuation* report should make this clear. It may, ~~however, extend to information obtained from other specialist valuers or other comment or informed sources, as set out at paragraph 5.1 above, and it should be made clear if reliance has been placed on such information.~~
~~7~~ however, extend to information obtained from other specialist valuers or other comment or informed sources, as set out at paragraph 5.1 above, and it should be made clear whether reliance has been placed on such information.

7 Valuation approaches and methodology

7.1 ~~7.1~~ In broad terms, *valuation* theory recognises ~~four distinct~~three approaches in the *valuation* of shares and businesses. These are:

- the *market approach* ~~(sometimes known as the direct market comparison approach)~~
- the *income approach*
- the *cost approach* ~~and~~.
- ~~the asset-based approach.~~

~~7.2~~ While the *market* and *income approaches* can be used for the *valuation* of any business or business interest, the *cost approach* will not normally apply except ~~where profits and cash flows cannot reliably be determined, for example, in start-up businesses and early stage companies.~~

7.2 ~~7.3 An alternative that may be used for the valuation of businesses and interests in businesses is the asset-based approach, which is based on the underlying assets being revalued, if necessary. This~~in special circumstances. Theses would include, for example, property holding and investment companies, and investment businesses holding listed company shares.

~~7.4 Involvement of market participants, who are able to provide insights to transactions and market conditions that are critical to proper use of the data in analysis, is advisable wherever possible.~~

Market approach

7.3 ~~7.5~~ The *market approach* ~~measures the~~ provides an indication of value ~~of an asset~~ by comparing ~~recent sales~~ the asset and/or ~~offerings of similar~~liability with identical or ~~substitute property~~comparable asset and ~~related market data to the business being valued~~/or liability for which price information is available.

7.4 ~~7.6~~ The two primary *market approach* methods are the '~~market multiple method~~'guideline public company' method and the ~~'similar'~~guideline transactions method'.

These are based on data derived from three principal sources:

- public stock markets in which ownership interests of similar businesses are traded
- the acquisition market ~~where~~in which entire businesses or controlling interests in businesses are ~~traded~~bought and sold, and
- prior transactions ~~in the shares of the entity being valued,~~ or offers for ~~that~~ the ownership of the subject business.

7.5 ~~7.7~~ ~~The~~ There are other *market* ~~multiple~~*approach* methods, including bona fide offers to purchase shares in the company, acquisitions undertaken by the company and common market practice.

7.6 The guideline public company method focuses on comparing the subject asset to guideline similar, publicly-traded~~,~~ companies and assets. In applying this method, *valuation* multiples are derived from the historic and operating data of comparables. These are selected, where possible, from the same industry~~,~~ or one affected by the same economic factors as that of the subject business, and are evaluated on both a qualitative and quantitative basis. The data is then adjusted, having regard to the strengths and weaknesses of the subject asset relative to the selected companies, and applied to the appropriate operating data of the subject asset to arrive at an indication of value. Appropriate adjustments (as supported by market-derived information presented in the report) to reflect different ~~properties~~qualities or characteristics~~,~~
are usually made to the derived data. Examples of such matters are differences in perceived risk and future expectations, including rates of growth, and differences in ownership interest, including level of control, marketability and size of holding.

~~7.5~~7.7 ~~7.8~~ The ~~similar~~guideline transactions method uses *valuation* multiples based on historical transactions that have occurred in ~~the subject company's shares and/or asset's direct or related industries.~~related sectors. These derived multiples are then adjusted and applied to the appropriate operating data of the subject asset to arrive at an indication of value.

7.8 Recent prior transactions in the shares of the company can provide strong evidence of value, but only if they took place relatively recently and on an arm's-length basis. Bona fide offers to buy the shares in the company can similarly provide evidence of value and can be considered, but should not be solely relied upon as it is not an actual transaction and due diligence may not have been completed. It is important to establish that the offers were genuine, rather than just a possible first stage in negotiations.

7.9 In certain industries, businesses are bought and sold on the basis of ~~established~~common market ~~practices or rules of thumb~~practice, often (though not exclusively) derived from multiples or percentages of turnover, and not linked to profitability. Where such ~~rules of thumb exist~~common market practice exists, and there is evidence that buyers and sellers in the actual market rely on them, the business valuer may ~~need to~~ consider them. However, it would be sensible to cross-check the results arising from such market practices against one or more other methods. Care should be taken that the 'established market practice' has not been superseded by changes in circumstances over time. Common market practice based on turnover is normally based on sectors in which the gross profits to be made from the turnover can be accurately estimated.

~~7.6~~7.10 The *income approach* ~~has a number~~provides an indication of ~~variants, but essentially this approach is based on~~value by converting future cash flow to a single current value. Under the *income* ~~that~~*approach*, the value of an asset is ~~likely to generate over its remaining useful life or a specified period. This estimation is~~ determined by reference to ~~both historic performance and forecasts. Where these are not available, the single period capitalisation method may be appropriate instead~~the value of income, cash flow or cost savings generated by the asset.

~~7.7~~7.11 ~~7.11~~ The single period capitalisation method, as opposed to a detailed projection of future cash flow, commonly estimates the value by capitalising ~~that~~a level of economic income. A thorough understanding of accounting and economic profits~~,~~; their historical record, based usually on ~~historic~~historical *financial statements*~~,~~; and forecasting is necessary in each case. Normalised profits after tax are determined and, if necessary, adjusted to reflect differences between actual ~~historic~~historical profits and cash flows and those that could be expected to be received by a purchaser of the business at the *valuation date*.

~~7.8~~7.12 ~~7.12~~ Further adjustments may include restating non-arm's~~-~~-length transactions and costs incurred with related parties to commercial terms, and reflecting the effect of non-recurring events whether of income or cost. Examples of this include one-off redundancies, and exceptional profits or losses. Comparison of depreciation and inventory accounting should be on a like-for-like basis.

7.13 ~~7.13 Profits are then capitalised by the price to earnings (P/E) ratio. A similar exercise can be carried out by applying a suitable~~The single period capitalisation ~~multiple to normalised~~method implicitly assumes that the economic income will increase at a constant growth rate in perpetuity, if only by reference to inflation. Normalised profits ~~before tax. A suitable~~ or cash flows are then capitalised. This approach is addressed by the following methods:

- capitalisation ~~multiple will often be applied to~~ of a single period metric (earnings before interest ~~and tax (EBIT), or earnings before interest, tax~~, taxes, depreciation and amortisation (EBITDA~~).~~), EBIT, etc.), which is accomplished through a capitalisation rate
- capitalisation of a single period metric (EBITDA, EBIT, etc.), which is accomplished through a market multiple.

Care ~~must be~~should taken in these cases to distinguish between:

- enterprise value (which also considers the debt of the business and any liquid assets owned by the entity that might mitigate the acquirer's purchase price) and
- equity value (i.e. the value of the shares).

7.14 ~~7.14~~ If the economic income is sales, EBITDA, EBIT or net operating profit after tax, the resulting value is enterprise value. This is the value of all the operating capital employed in the company. The debt then has to be deducted, and cash and non-operating assets added, in order to derive the equity value. If the economic income is profit before tax, profit after tax or dividends, the resulting value is the equity value. It may then be appropriate to add on surplus cash and non-operating assets. The multiple relating to profits after tax is known as the price-earnings (p/e) ratio.

~~7.9~~7.15 Business value is often derived by capitalising profits or cash flows before costs of servicing debt, using a capitalisation or discount rate ~~that is~~such as the weighted average cost of capital (WACC~~) of a comparable mix of debt and equity.~~). The equity value is the enterprise value less the *market value* of the net debt, but can be established by measuring the equity cash flow itself. The single period capitalisation method is identical to the use of present value techniques if the subject
~~7.15~~ company is expected to grow at a constant rate. This is not commonly observed in practice.

~~7.10~~7.16 Present value techniques measure the value of an asset by the present value of its future economic cash flow, which is cash that is generated over a period of time by an asset, group of assets~~,~~ or business enterprise. ~~These~~Cash flow can include earnings, cost savings, tax deductions~~,~~ and proceeds from its disposition. When applied to business *valuation*, value indications are developed by discounting expected cash flows, estimated, where appropriate, to include growth and price inflation, to their net present value at a suitable rate of return. The rate of return incorporates the risk-free rate for the use of funds~~, the expected rate of inflation~~ and risks associated with the particular investment and the market. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as at the *valuation date*. Expressions such as 'rate of return' may mean different things to different individuals, so valuers should consider defining what is meant by such terms. Rate of return, discount rate and cost of capital are all referring to essentially the same concept.

7.17 ~~7.16~~ At the end of the discrete period of projections, it is necessary to add a terminal value. This is the expected value of the business at the end of the discrete period. That value is then discounted back to net present value using the discount rate. There are three techniques for estimating the terminal value:

a applying a capitalisation rate (that is the discount rate less growth)

b applying a suitable market multiple

c calculating the asset realisation proceeds, less costs of disposal and less remediation costs. This is used for businesses or projects that have a finite life, followed by closure.

Care should be taken if using the market multiple to calculate the terminal value. The valuer should ensure that the multiple does not conflict with the discount rate less growth.

~~7.11~~7.18 The values of redundant or surplus assets, namely those owned but not used in the business operations, need to be taken into account in enterprise or equity values.

~~7.12~~7.19 ~~7.17~~ The *income approach*, as applied using the maintainable dividend ~~basis of value~~as the economic income, is ~~common~~an approach that can also be considered in company *valuation*, principally in relation to ~~minority~~fractional shareholdings. For business *valuations*, value indicators are developed by determining a share's future dividends and prospect of dividends, and a rate of return, using dividend discount and initial yield models.

Cost approach

~~7.13~~7.20 ~~7.18~~ The *cost approach* ~~indicates the~~ provides an indication of value ~~of an asset by the cost to create or replace the asset with another similar one, on the premise~~using the economic principle that a ~~purchaser would not~~buyer will pay no more for an asset than the cost to obtain ~~one of equal usefulness. This method is frequently used in valuing investment companies or capital intensive firms. However, it would normally not be used except when the other two approaches have been considered but deemed not applicable,~~ an asset of equal utility, whether by purchase or construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset, and ~~the report would contain an explanation as to why this was so~~making deductions for physical deterioration and all other relevant forms of obsolescence.

~~7.19~~ When applied to business *valuation*, ~~obsolescence, maintenance and~~ the method most commonly used is the summation method: the aggregation of the values of the ~~time value of money are considerations. If the asset being valued is less attractive than a modern equivalent, by reason of age or obsolescence, the valuer may need to adjust the cost of the perceived modern equivalent, thus arriving at the depreciated replacement cost.~~

~~Asset-based approach~~

7.21 ~~7.20 The asset-based approach measures the value of a business and asset by reference to the value of~~ individual assets and liabilities~~.~~ in the business. The individual assets may be valued using the *market, income* or *cost approaches*.

~~7.14~~7.22 This approach is commonly adopted in ~~the area of~~ property investment, farming companies and share investment portfolio ~~situations (investment trusts). This approach~~companies. It is not normally the preferred one for trading businesses, ~~except~~as it does not include the value of most *intangible assets*. It can be appropriate where they are failing to achieve an adequate return on the tangible net assets used in the business, or where a trading business also has substantial investment activity or surplus cash. The net asset value per share can be discounted ~~or enhanced by~~when considering the ~~addition~~value of ~~a premium~~non- control holdings.

7.23 The *cost approach* can produce a *market value* basis of *valuation* or a liquidation basis of *valuation*. The liquidation basis is after making provision for making assets ready for resale, and for costs of closure.

Complex capital structures

7.24 Limited companies sometimes have different share classes with varying rights. These may include preferred or deferred shares, growth shares or shares with capped rights. Such *valuations* should only be undertaken by those with appropriate experience and by reference to the specific guidance in IVS 200.

Summary~~7.21~~

7.25 The *valuation assumptions* and inputs may be based either on actual data or on ~~assumed information.~~budgets, projections or forecasts. The *market approach* is likely to be based on actual inputs, such as prices in the stock markets or prices achieved on sales of similar assets or businesses, and actual income or profits generated. ~~Assumed~~ For the *income approach*, assumed inputs might include cash flow forecasts or projections. For *valuations* adopting the *cost approach*, actual inputs ~~might include the actual cost of an asset, whereas assumed inputs may have regard to an estimated cost of an asset and other factors, such as the perceived attitude to risk of other players in the market~~will include the *market value* of the various assets on the balance sheet.

~~7.22 As a general rule, valuation by summation, sometimes known as valuation by assembly, should be avoided. Accordingly, when valuing the totality of various assets or component parts of an entity, the valuer must avoid arriving at the value of the whole merely by adding together the values indicated for the various separate assets or component parts.~~

~~8 Reports~~

7.26 ~~8.1~~ Where the *valuation* has to comply with ~~the RICS~~ Red Book Global Standards, the valuer **must** produce a report that complies with the minimum terms set out in ~~VPS 3.~~**VPS 6.** Generally, the report has a brief introductory section or executive summary that defines the assignment, summarises the conclusion and ~~sets the stage for~~ leads into the details of the report. The structure should move from the general to the specific, providing a logical flow of data and analysis within which all the necessary considerations can be incorporated, leading to the *valuation* conclusions.
~~The structure should move from the general to the specific, providing a logical flow of data and analysis within which all the necessary considerations can be incorporated, leading to the valuation conclusions.~~

~~7.15~~7.27 ~~8.2~~ Most reports will have the following major sections, although not necessarily in this order:

- introduction
- purpose and *basis of value*
- *assumptions* and *special assumptions*
- subject of *valuation* and *date of valuation*
- description and history of the business
- accounting ~~and accounting policies~~policies
- *financial statement* analysis
- business and marketing plan analysis, and prospects
- search results for ~~comparables and comparative~~comparable public companies and

comparable transactions

- industry in which the business operates, economic environment, yields and risk assessment
- environmental constraints
- *valuation* approaches, methods and conclusion
- caveats, disclaimers and limitations~~.~~
- confirmation of compliance with RICS Red Book Global Standards, IVS and other relevant industry guidelines, and
- copies of all relevant information to reach the value outcome.

7.28 Some reports will have a separate section containing a general discussion of *valuation* methodology, which will often follow the introduction. If national, regional and economic data are important to the company and asset, each may have its own section.

~~**1.1** 8.3 Some reports will have a separate section containing a general discussion of *valuation* methodology, which will often follow the introduction. If national, regional and economic data are important to the company and asset, each may have its own section.~~

~~7.16~~7.29 Where appropriate, factual information, or sources thereof, should be identified either in the body of the report or in the appendices. Where the opinion of an expert is required~~-~~ for litigation purposes, the report must adhere to the requirements imposed by the local jurisdiction and **must** therefore contain all relevant disclosures, including the statement of the expert's qualifications and the statement of truth~~.~~ **(VPS 6)**.

8 Confidentiality

8.1 ~~9.1~~ Information in respect of many business assets will be confidential. Valuers should use their best endeavours to preserve such confidentiality, particularly in relation to information obtained in respect of comparable assets. Where required by the client, business valuers will comply with any requests to enter into non-disclosure or similar agreements.

VPGA 4 – Valuation of ~~individual~~ trade related properties

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Background

1~~.~~.1 Certain ~~trade related properties are~~ real property is valued principally with reference to its trading potential. This is commonly undertaken using the profits method ~~(also known as~~ of *valuation* (within the *income approach*~~) of valuation.~~), although other methods are also applied depending on the circumstances as an alternative or cross-check. The way assets are assessed for purchase, sale and as investments may help with the selection of the approach and method to use. The guidance below sets out the principles of valuing this ~~method~~type of ~~valuation~~property but does not ~~concern itself with the detailed approach to a~~cover specific *valuation models, assumptions* or inputs, which may vary according to the property to be valued.

1~~.~~.2 ~~This VPGA relates only to the valuation~~ Examples of ~~an individual~~ property ~~that is valued on the basis of~~types where (subject to the jurisdiction and market) reference to trading potential~~.~~

~~1.3 Some properties are normally bought and sold on the basis of their trading potential. Examples~~ may be a consideration in purchase and sale include but are not limited to hotels, pubs and bars, restaurants, nightclubs, fuel stations, care homes, casinos, cinemas ~~and~~, theatres, ~~and~~ various other forms of leisure property~~.~~, car parks, garden centres, caravan parks and crematoria.

1.3 The essential characteristic of ~~this type of~~a *trade related property* is that it has been designed or adapted for a specific use, and ~~the resulting lack of flexibility usually means that~~ the value of the property interest is intrinsically linked to the returns that an owner can generate from that use. The value therefore reflects the trading potential of the property. It can be contrasted with generic property that can be occupied by a range of different business types~~, such as standard office, industrial or retail property~~ without significant restrictions.

1.4 ~~1.4 Other types of properties such as car parks, garden centres, caravan parks and crematoria, fulfil the requirements at 1.3 and are valued in some jurisdictions with reference to trading potential using a profits approach. This list is not intended to be exhaustive.~~ A further subset of properties includes those where the adaptation in use or restraint on flexibility is less marked, but a *valuation* based on an *income approach* and a

profits method, including many aspects of this VPGA, may still be regarded as the best indicator~~-~~
of value. A non-exhaustive list of examples includes self-storage, flexible workspace and purpose-built investment student housing. The choice of method will be a matter for valuer judgement, having regard to the specific type, form and use of the property and market circumstances prevailing, and evolving, at the time.

1.5 ~~1.5~~ *Trade related property* can, by its nature, be distinctly different from the wider real property covered in VPGA 8, although parts of that guidance, where not different from that below, are also relevant. This is an evolving asset type, and it is emphasised that **PS 2** states that *valuation* services **must** be provided by competent individuals who have the necessary expertise. The *valuation* process, approach, method and models need to be contemporary and appropriate.

1.6 The profits method, or related methods, should generally be used only in those cases where the fair maintainable operating profit (FMOP) can be accurately estimated to arrive at a substantiated *valuation* conclusion. In many cases *trade related properties* are subject to profitability fluctuations as a consequence of intrinsic and extrinsic factors, such as property improvements or change in demand habits.

1.7 The use of explicit methods of *valuation* such as discounted cash flow (DCF) analysis may be more appropriate for complex *trade related properties*, where the future foreseeable change in profitability can be more explicitly reflected in the present value. RICS' Discounted cash flow valuations may be of relevance (note it does not have specific provisions for *trade related property*).

~~1.4~~1.8 Valuers who prepare *valuations* of *trade related property* ~~usually~~often specialise in this particular market~~.~~ as reliable, often granular data needs to be correctly applied, with appropriate professional judgement and experience. Knowledge of the operational aspects of the property *valuation*, and of the industry as a whole, is fundamental to the understanding of trading performance, market transactions and the analysis required.

~~1.5~~1.9 ~~1.6~~ Comparable information may be derived from a wide variety of sources, ~~not just~~including transactional evidence. This can take the form of, for example, key performance indicators (KPIs), metrics and benchmarking from data providers, indices and relevant market participants (subject to the application of appropriate professional scepticism and judgement). Also, information may be drawn from different operational entities with regard to the component parts of ~~the~~a profits *valuation*. The valuer should emphasise ~~within~~in the report that the *valuation* is assessed having regard to trading potential~~ and~~; it should refer to the actual profits achieved and possible profitability shifts triggered by changes to the property, locality and market. If the trading potential and/or the actual profits vary, there could be a change in the reported value (see ~~VPS 3 paragraphs 2.2(h)(4) and 2.2(o)~~**VPS 6 paragraphs 2.2(h)(4)** and **2.2(o)**).

~~1.6~~1.10 ~~1.7~~ ~~This VPGA assumes~~Where it is reasonable to do so based on market and other relevant factors, the valuer may assume that the current trade related use of the property will continue. However, where it is ~~clear that the property may have an~~reasonable to take account of a possible alternative use~~ that may have a higher value, an appropriate comment~~ ~~.~~, this should be ~~made~~appropriately reflected in the report. ~~Where such an alternative~~Appropriate use ~~value is provided, it should~~of *special assumptions* may also be ~~accompanied by a statement that the valuation takes no account of the costs of business~~

~~closure, disruption or any other costs associated with realising this value~~considered.

2 Terms used in this VPGA

2.~~.~~1 The terms used in this VPGA may have different meanings when used by other professional disciplines.

Adjusted net profit

2.~~.~~2 This is the valuer's assessment of the actual net profit of a currently trading operational entity. It is the net profit that is shown from the accounts once adjustments for abnormal and non-recurring expenditure, finance costs and depreciation relating to the property itself, as well as rent where appropriate, have been made. It relates to the existing operational entity and gives the valuer guidance when assessing the fair maintainable operating profit (FMOP).

2.3 It is also possible to assess this, especially for small-sized or relatively simple *trade related properties*, in other ways. For example, it can refer to the adjusted EBITDA (when assessing either direct operation or operation through management agreement) or to the adjusted net rental income (when assessing leased properties).

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

2.4 ~~2.3~~ This term relates to the actual operating entity and may be different from the valuer's estimated FMOP.

Fair maintainable operating profit (FMOP)

2.5 ~~2.4~~ This is the level of profit, stated prior to depreciation and finance costs relating to the asset itself (and rent if leasehold), that the reasonably efficient operator (REO) would expect to derive from the fair maintainable turnover (FMT) based on an assessment of the market's perception of the potential earnings of the property. It should reflect all costs and outgoings of the REO, as well as an appropriate annual allowance for periodic expenditure, such as decoration, refurbishment and renewal of the trade inventory.

2.6 Some markets and asset types have specific standards related to assessment of FMOP. For example, some hotel *valuation* is undertaken with reference to the *Uniform System of Accounts for the Lodging Industry* (USALI), to reflect all appropriate deductions to assess the FMOP in the case of direct operation or properties under management. USALI may also be relevant when assessing the divisible balance, to verify rent sustainability in the case of leased properties.

Fair maintainable turnover (FMT)

2.7 This is the level of trade that an REO would expect to achieve on the *assumption* that the property is properly equipped, repaired, maintained and decorated.

~~Fair maintainable turnover (FMT)~~

~~2.61.4~~ 2.5 ~~This is the level of trade that an REO would expect to achieve on the *assumption* that the property is properly equipped, repaired, maintained and decorated.~~

Market rent

~~2.7~~2.8 ~~2.6~~ This is the estimated amount for which an interest in real property should be leased on the *valuation date* between a willing lessor and a willing lessee on appropriate lease terms in an arm's~~-~~-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. Whenever *market rent* is provided, the 'appropriate lease terms' that it reflects should also be stated.

2.9 In the case of *trade related properties*, it is important to assess the sustainability of the rent in relation to the productivity of the subject property. Therefore both an analysis of trading performance and comparable market evidence, including transaction evidence, may be necessary.

Market value

~~2.8~~2.10 ~~2.7~~ This is the estimated amount for which an asset or liability should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's~~-~~-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Operational entity

2.~~8~~.11 An operational entity usually includes:

- the legal interest in the land and buildings
- the trade inventory, usually comprising all trade fixtures, fittings, furnishings and equipment and
- the market's perception of the trading potential, together with an assumed ability to obtain/renew existing licences, consents, certificates and permits.

Consumables and stock in trade are normally excluded.

Personal goodwill (of the current operator)

2.~~9~~.12 This is the value of profit generated over and above market expectations that would be extinguished upon sale of the *trade related property*, together with financial factors related specifically to the current operator of the business, such as taxation, depreciation policy, borrowing costs and the capital invested in the business.

Reasonably efficient operator (REO)

2.~~10~~.13 This is a concept where the valuer assumes that the market participants are competent operators, acting in an efficient manner, of a business conducted on the premises. It involves analysing and estimating the trading potential rather than just adopting the actual level of trade under the existing ownership~~, and it~~ (although this may form part of the evidence). It is an important concept as market evidence might demonstrate that a different level of performance could be achieved at the property compared to the actual performance. It excludes personal *goodwill*.

Tenant's/operator's capital

2.14 ~~2.11~~ This may include, for example, all consumables, purchase of the inventory, stock~~,~~ and working capital.

Trade related property

2.15 ~~2.12~~ This is any type of real property designed or adapted for a specific type of business where the property value reflects the trading potential for that business.

Trading potential

2.16 ~~2.13~~ This is the ~~future~~stabilised profit estimate, in the context of a *valuation* of the property that an REO would expect to be able to realise from occupation of the property. This could be above or below the recent trading history of the property. It reflects a range of factors (such as the location, design and character, level of adaptation and trading history of the property within the market conditions prevailing) that are inherent to the property asset.

3 Profits method of valuation

3~~.~~.1 The profits method of *valuation* involves the following steps~~:~~ (see section 2 for terms used):

Step 1: An assessment is made of the FMT that could be generated at the property by an REO.

Step 2: Where appropriate, an assessment is made of the potential gross profit~~,~~ resulting from the FMT.

Step 3: An assessment is made of the FMOP. The costs and allowances to be shown in the assessment should reflect those to be expected of the REO – which will be the most likely purchaser or operator of the property if offered in the market.

Step 4:

a To assess the *market value* of the property, the FMOP is capitalised at an appropriate rate of return reflecting the risk and rewards of the property and its trading potential. Evidence of relevant comparable market transactions should be analysed and applied. Note the *market value* could be of, for example, a freehold, leasehold or other interest.

b In assessing *market value*, the valuer may decide that an incoming new operator would expect to improve the trading potential by undertaking alterations or improvements. This will be implicit within the valuer's estimate of FMT at step 1. In such instances, an appropriate allowance should be made from the figure resulting from step 4 to reflect the costs of completing the alterations or improvements and the delay in achieving FMT. Similarly, if the property ~~is in need of~~needs repair and/or decoration to enable the REO to achieve the FMT, then an appropriate allowance should be made from the figure resulting from step 4(a) to reflect the cost of such repairs and decorations.

c To assess the *market rent* for a new letting, the rent payable on a rent review or the reasonableness of the actual rent passing ~~(particularly when preparing an investment valuation), an allowance should be made from the FMOP to reflect a return on the tenant's capital invested in the operational entity – for example, the cost of trade inventory, stock and working capital. The resultant sum is referred to as the divisible balance. This is apportioned between the landlord and tenant having~~

~~regard to the respective risks and rewards, with the landlord's proportion representing the annual rent~~the correct apportionment of the divisible balance (i.e. EBITDAR) between landlord and tenant needs to be assessed.

~~3.2 Certain extended or more detailed approaches to a profits method of valuation may be appropriate, particularly for some larger or more complex trade related properties. Consideration of discounted cash flow assessments and different income streams may be adopted. Such knowledge will aid in the analysis and review of historic and current trading performance, as well as with forecasts that may show increases or decreases on actual trade. This can assist in forming an opinion of the FMT and FMOP considered achievable by a likely purchaser or REO.~~

~~3.3~~3.2 It is important that the valuer is regularly involved in the relevant market for the class of property, ~~as practical knowledge of the factors affecting the particular market is required.~~with the requisite *valuation* competence and experience. Practical knowledge of the factors affecting the particular market is required, as well as the ability to access and analyse relevant and comprehensive comparable performance data.

3.~~4~~.3 When preparing a *trade related property valuation* it is essential that the valuer reviews the cumulative result of the different steps of the *valuation* process. The *valuation* should be considered, having regard to the valuer's general experience and knowledge of the market and their professional judgement.

4 Valuation special assumptions

4.1 ~~4.1 A trade related property will usually be valued to market value or market rent, but valuers~~Valuers are commonly asked for a *valuation* subject to *special assumptions*~~.~~, which **must** be in accordance with the mandatory requirements at **VPS 2 section 10**.

4.2 Typical *special assumptions* are:

a ~~a~~ on the basis that trade has ceased ~~and~~(sometimes with the additional *special assumption* that no trading records are available to prospective purchasers or tenants)

b ~~b~~ on the same basis as (a) but also assuming the trade inventory has been removed

c ~~c~~ as a fully equipped operational entity that has yet to trade ~~(also~~, known by a number of terms such as but not limited to 'day one' ~~valuation)~~ and 'turn key'

d ~~d~~ subject to ~~stated~~adopted trade projections~~, assuming they are proven.~~. This ~~is~~may be appropriate when considering development of the property. In using adopted projections, all *special assumptions* **must** be realistic, relevant and valid for the particular circumstances of the *valuation* (**VPS 2**).

5 Valuation approach for a fully equipped operational entity

5.1 The *valuation* of a *trade related property* as a fully equipped operational entity necessarily assumes that the transaction will be either the letting or the sale of the property, together with the trade inventory, licences, etc~~.,~~. required to continue trading.

5.2 However, ~~care must be taken because~~ this *assumption* does not necessarily mean that the entire trade inventory is to be included in the *valuation* of the property. For

example, some equipment may be owned by *third parties* and therefore would not form part of the interest being valued. Any~~-~~
assumption made about the trade inventory included in the *valuation* should be clearly set out in the report.

5.3 ~~5.3~~ There may be tangible assets that are essential to the running of the operational entity but are either owned separately from the land and buildings~~,~~ or are subject to separate finance leases or charges. In such cases, an *assumption* may need to be made that the owners or beneficiaries of any charge would consent to the transfer of the assets as part of a sale~~-~~
of the operational entity. If it is not certain that such an *assumption* can be made, the valuer ~~must~~should consider carefully the potential impact on the *valuation* that the lack of availability of those assets would have to anyone purchasing or leasing the operational entity, and comment accordingly in the report.

~~5.2~~5.4 ~~5.4~~ When *trade related properties* are sold or let as fully equipped operational entities, the purchaser or operator normally needs to renew licences or other statutory consents and take over the benefit of existing certificates and permits. If the valuer is making any different *assumption*, it should be clearly stated as a *special assumption*.

~~5.3~~5.5 ~~5.5~~ Where it is not possible to inspect the licences, consents, certificates and permits relating to the property, or other information cannot be verified, the *assumptions* made should be identified in the report, together with a recommendation that their existence should be verified by the client's legal advisers.

6 Assessing the trading potential

6.1 There is a distinction between the *market value* of a *trade related property* and the *investment value* – or its *worth* – to the particular operator. The operator will derive *worth* from the current and potential net profits from the operational entity operating in the chosen format. While the present operator may be one potential bidder in the market, the valuer will need to understand the requirements and achievable profits of other potential bidders, along with the dynamics of the open market, to come to an opinion of value for that particular property.

6.2 A *trade related property* is considered to be an individual trading entity and is typically valued on the *assumption* that there will be a continuation of trading.

6.3 When assessing future trading potential, the valuer should exclude any turnover and costs that are attributable solely to the personal circumstances, or skill, expertise, reputation and/or brand name of the existing operator. However, the valuer should reflect additional trading potential that might be realised by an REO taking over the property at the *valuation date*.

6.4 The actual trading performance should be compared with similar types of *trade related property* and styles of operation. To do so the valuer needs a proper understanding of the profit potential of those property types and how they compare with one another. A *trade related property* valuer should test, by reference to market transactions and similar *trade related properties*, whether the present trade represents the FMT in current market conditions. When available, the actual trading accounts of the subject property and similar properties may need adjusting to reflect the circumstances of the REO.

6.5 For many trading entities, the vehicle for a transfer of the business will be the sale of a freehold or leasehold interest in the property. Such transactional evidence can be used as comparable evidence in the *valuation* of *trade related properties*, so long as the valuer is in a position to exclude the value of the component parts of the transaction that are not relevant. Examples include stock, consumables, cash, liabilities and *intangible assets* (such as brand names or contracts, to the extent they would not be available to the REO).

6.6 Changes in competition can have a dramatic effect on profitability, and hence value. The valuer should be aware of the impact of current and expected future levels of competition. If a significant change from existing levels is anticipated, the valuer should clearly identify this in the report and comment on the general impact it might have on profitability and value.

6.7 Outside influences, such as the construction of a new road or changes in relevant legislation, can also affect the trading potential and hence the value of the *trade related property*.

~~6.8 Where it is intended to reflect purchaser's costs in the valuation (usually in the case of investment valuations), the normal market approach is to be adopted and an appropriate comment should be made in the report.~~

~~6.9~~

6.8 Where the property is trading and the trade is expected to continue, the *valuation* should be reported as follows:

> 'Market value *[or market rent]* as a fully equipped operational entity having regard to trading potential subject to any agreed or special assumptions … *[which must be clearly set out]*.'

7 Valuation approach for a non-trading property

7.1 The *valuation* process for a non-trading property is the same as outlined in section 5 above, but where the property is empty either through cessation of trade, or because it is a new property with no established trading history, different *assumptions* are to be made. For example, an empty property may have been stripped of all or much of its trade inventory, or a new property may not have the trade inventory installed, but either could still be valued having regard to its trading potential.

7.2 The cessation of an operational entity and the removal of some or all the trade inventory are likely to ~~have an effect on~~affect the value of the property. It would therefore be appropriate to express the value on both the basis of one or more *special assumptions*, and a basis reflecting the status quo. This is often a requirement when advising a lender on the value of *trade related property* for loan security purposes. For example, the differences could reflect the cost and time involved in purchasing and installing the trade inventory, obtaining new licences, appointing staff and achieving FMT.

7.3 Where the property is empty, the *valuation* ~~should~~can be reported as follows:

> 'Market value *[or market rent]* of the empty property having regard to trading

potential subject to the following special assumptions … *[which must be clearly set out].'*

8 Apportionment ~~(~~

Apportionment is also referred to as ~~Allocation~~allocation of ~~Value~~value in ~~IVS 104 Bases of Value)~~

8.1 IVS 102 Bases of Value, paragraph 80. The valuer may need, or may be requested, to provide an indicative apportionment of a *valuation* or a transaction price for:

- analysis as a comparable
- inclusion in *financial statements* to comply with the applicable accounting standards
- secured lending or
- tax purposes.

8.2 Any such apportionment of *market value* would usually relate to:

- the land and buildings reflecting the trading potential and
- the trade inventory.

8.3 When considering the apportionment of a transaction price, particularly where the sale is through share transfer in a limited company, the valuer should proceed with caution as the transaction may, in addition to that listed in paragraph 8.2, reflect the following:

- the *trading stock*, consumables and cash
- *intangible assets* and
- liabilities, such as salaries, taxes, debts, etc.

8.4 Apportionments for tax purposes have to be in accordance with specific legislation and are outside the scope of this VPGA.

~~8~~9 Valuation for investment purposes

9.1 The basic approach to an investment *valuation* of *trade related property* is the same as for any other category of property. Where the investment is a portfolio or group of properties ~~VPGA 9 will be~~, VPGA 9 is relevant.

9.2 When valuing a *trade related property* investment, the valuer will need to carry out the assessment of the FMT and FMOP as set out in paragraph 3.1. It is also necessary to assess the *market rent* of the property ~~so as~~ to determine the security of the income stream and~~-~~
growth potential. The rent payable and the rent review will be determined by the terms of the subsisting or proposed lease.

9.3 The capitalisation rate adopted for investment *valuations* differs from that for vacant possession *valuations*. The investment rate of return will generally be determined by market transactions of similar *trade related property* investments. Clearly, due to the differing characteristics of *trade related property* and the wide variety of lease terms, careful analysis of comparable transactions is essential.

9.4 ~~The~~ Depending on the circumstances of the *valuation*, the valuer will ~~include~~consider the landlord's fixtures and fittings ~~with the land~~ and ~~buildings, but probably not the~~ trade inventory, ~~which~~noting the latter is ~~usually~~often owned by the occupational tenant. ~~However~~Where relevant, the valuer should ~~highlight~~consider, record and report the importance of the trade inventory to the trading potential and value of the property, and any *assumptions* made around this. Valuers may need to consider the underlying vacant possession *valuation* background as evidence for their *valuation* conclusions, but if assuming in the calculations that vacant possession is obtained at any future point, for example at lease end, they should bear in mind the trade inventory.

10 Legal and regulatory matters including ESG

10.1 Many *trade related properties* require licensing, permissions and other certified proof of meeting legal and regulatory requirements for their operation. Where such requirements are missing, this can impact trading potential. Some of this can relate to the particular business in operation, and some are an expected market requirement for the type of property and/or market. Valuers should assess and record their *assumptions* and any relevant *special assumptions* related to this, and properly consider personal and business requirements as distinct from those that would be expected in the market.

10.2 There are increasing legal, regulatory and market requirements globally around the need for the sustainable operation of *real estate* by users. This is coupled with related *ESG* requirements. In addition to the *sustainability* and *ESG valuation* requirements in **VPS 1**, **VPS 4**, and **VPS 6**, and advice in VPGA 8, additional consideration may need to be given to *trade related properties* to reflect that they are often valued more explicitly with reference to operational and capital income and costs. However, valuers should also be careful to properly separate the *sustainability* and *ESG* commitments and requirements of a particular operator or business from those attached to the real property asset for the relevant market.

VPGA 5 —Valuation of plant and equipment (including infrastructure)

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Scope

1~~.~~.1 The guidance below provides additional commentary on the *valuation* of *plant and equipment* and the practical application of ~~IVS 300 Plant and Equipment. Any cross-references to mandatory requirements are highlighted in bold type.~~IVS 300 Plant, Equipment and Infrastructure.

2 Background

~~2.1 Plant and equipment forms a significant part of the global asset class known as tangible fixed assets, but with particular characteristics that distinguish them from most types of real property. This fact influences the approach to the classification, measurement and reporting of value in respect of plant and equipment. Plant and equipment may also be physically affixed to real property in whole or in part, and also capable of being moved or relocated. Some plant and equipment asset classes may also depreciate at a quicker or less linear rate than real property due to rapid technological change in particular market sectors. Plant and equipment is frequently valued as an operational unit in combination with other assets, and also in connection with a wider business valuation of a commercial entity. It follows that while the nature of plant and equipment assets varies from other asset classes, valuers have a duty to provide consistency in reporting across asset classes insofar as is possible. Plant and equipment may also be valued for leasing or collateral purposes, which require additional market value considerations, including the concept of asset sales in situ and for removal from their working place (in whole or in part).~~

2.1 *Plant and equipment* is referred to in various terms globally, including plant or machinery or *personal property*. *Plant and equipment* has certain characteristics that influence the approach to its classification, measurement and *valuation*.

2~~.~~.2 *Plant and equipment* may be broadly divided into ~~three~~four categories~~:~~.

a Plant~~:~~
~~Assets that are combined with others and that~~/machinery

- This may include ~~items that form~~ individual/separable machinery as part of ~~industrial infrastructure, utilities, building services installations, specialised buildings, and machinery and~~ a process/ production line, trade or business (e.g. machine tools, packaging and storage equipment ~~forming a dedicated assemblage.~~

~~Machinery:~~
~~Individual, or a collection or a fleet or system of, configured machines/technology (including mobile~~), and assets ~~such as~~ that are operated individually (i.e. vehicles, rail, shipping and aircraft~~) that may be employed, installed or remotely operated in connection with a user's industrial or commercial processes, trade or business sector (a machine is an apparatus used for~~).

b Production process plant

Assets that may be configured to operate as part of a dedicated production process. A significant amount of the total construction cost of process plant may be attributed to design, commission and civil works/installation.

c Infrastructure

A collection of assets, systems and facilities dedicated to a specific ~~process).~~ production process; this may include a significant quantity of different equipment, civil works, land improvements and structures.

d Equipment~~:~~

An all-encompassing term for other assets such as sundry/ancillary machinery, tooling~~,~~ (including moulds, jigs and dies), fixtures, furniture and furnishings, trade fixtures and fittings~~, sundry equipment and technology and loose tools that are used to assist the operation of the enterprise or entity.~~ and spare parts (which also may be recognised separately as inventory).

2~~.~~.3 The boundaries between these categories are not always easy to define, and the criteria used may vary according to the particular market sector the assets serve, the *purpose of the valuation* and relevant national and international accounting conventions. ~~In particular the term 'personal property' is used to describe plant and equipment (and other assets not forming part of real property) in certain jurisdictions, and the term is additionally used to describe arts and antiques in other jurisdictions.~~

2.4 *Plant and equipment* may be physically affixed to real property in whole or in part, or may be removable/relocated. The extent and complexity of installation and annexation will vary, depending on the nature of the *plant and equipment* – this may have a significant impact on the *valuation* outcome. The valuer should also have regard to any associated landlord/lessor requirements that may impact value. *Plant and equipment* annexed to a real property may include fixtures and fittings; however, clarification around what constitutes potential 'tenant's improvements' should be established. The valuer should also clarify the physical location of the *plant and equipment* to be valued; assets held at *third-party* premises or remote locations, or mobile assets, may require further consideration/adjustments in the *valuation*.

Although *intangible assets* (please refer to VPGA 6) fall outside the definition of *plant and equipment*, the two asset classes often operate together, which may have an impact on their discrete and/or composite values. In such cases the valuer should establish appropriate *assumptions* in this regard (preferably at the engagement stage) and prior to reporting a *valuation*. ~~2.4 The general principle is that assets installed primarily to provide services to the buildings or personnel should be valued as part of the property interest if they would normally be included in the sale of the property and or balance sheet classification. However, exceptions to this general principle will almost certainly occur where the valuation is required for inclusion in a balance sheet or for tax purposes. In these cases the client may require a separate valuation for certain items of building service plant or allied equipment.~~

~~2.5 In a valuation for financial statements the treatment of fixed assets in the accounts of the entity will normally provide some guidance regarding the particular items of plant and equipment that may be separately valued. However, in many cases, the valuer will need to clarify with the client and advisers the items that should be included in a valuation of the plant and equipment. Additional consideration may be required in respect of adjustments for issues such as market sector metrics, asset utilisation, income-based valuations and adjustments for obsolescence. Consultation in this regard is strongly encouraged at the time of engagement.~~

~~2.6 When different valuers are employed to carry out business, property and plant valuations, careful liaison will be needed to avoid either omissions or double counting. Similarly, careful liaison may be required by and with business valuers when plant and equipment is to be valued on an income approach, or as part of a wider commercial entity.~~

~~3 Plant and equipment usually included in valuations of the property interest~~

~~3.1 This will include:~~

- ~~items associated with the provision of services (gas, electricity, water, drainage, fire protection and security) to the property~~
- ~~equipment for space heating, hot water and air conditioning not integral to any process and~~
- ~~structures and fixtures that are not an integral part of process equipment, for instance, chimneys, plant housings and railway tracks.~~

2.5 ~~3.2~~ Valuers should also be aware that the definition of *intangible assets* may vary relative to statute, local practices and accounting convention. Particular attention may be required when *plant and equipment* assets form part of (or are connected with) intangibles, trading concerns, licences, software, consents, income streams, royalties and other intellectual property.

2.6 The ownership status of the real property where the *plant and equipment* is located may impact the *valuation*. The valuer should obtain clarification where possible regarding the ownership status of the property to identify any specific lease terms/requirements that may impact the *valuation*.

~~2.4~~2.7 Occasionally, items ~~normally valued with the land and buildings~~ will be subject to a *third-party* interest, for example, a finance arrangement or finance lease (see ~~section 5~~section 6 below). The valuer should be particularly cautious in such cases and seek advice from the client and its ~~advisers~~advisors regarding the treatment of such assets, which may vary according to statute and jurisdiction. The *valuation* and report ~~in such instances~~ may require *special assumptions*, which should be agreed, in writing, at the time of engagement.

~~4~~

3 Plant and equipment ~~separately valued~~included in real property valuations

~~4.~~3.1 *Plant and equipment* ~~valued separately from the~~ providing services to a building(s) will normally be reflected in the value of the real property interest ~~can be divided into broad categories~~. If a joint *plant and equipment* and real property *valuation* is being performed, both valuers should discuss this to avoid duplication or omission of assets. ~~'Fixed assets' are often defined by the accounting standards applicable in the relevant country or state. The different categories may need to be identified and valued separately, depending on the purpose of the valuation.~~

~~4.2~~ Examples ~~of 'fixed assets'~~ include:

- ~~process and production plant and machinery~~
- ~~transport~~equipment for the supply of gas, electricity, water, drainage, fire protection, security, space heating, hot water and air conditioning equipment
- structures or fixtures such as mezzanine floors, chimneys, plant housings and railway tracks
- land improvements and site infrastructure – for example roadways, car parking.
- ~~exploration, mining and metals~~
- ~~vehicle, rail, shipping and aviation~~
- ~~computing, technology and office furniture classification~~
- ~~mobile plant~~
- ~~health, education and defence~~

3�2 Exceptions to this general ~~manufacturing~~principle are:

- ~~utilities.~~

~~4.3 Many borderline assets that may not qualify as fixed assets are valued by plant and equipment valuers, including:~~

- ~~computer and technology software, licences and consents~~
- ~~spare parts and consumables~~
- ~~inventory (stock)~~
- ~~product-dedicated items (for example, moulds, jigs and dies)~~
- ~~work in progress.~~

~~4.4 Although intangible assets fall outside the definition of plant and equipment, the two asset classes often operate in concert, which may have an impact on their discrete and/or composite values. In such cases the valuer should establish appropriate *assumptions* in this regard (preferably at the engagement stage) and prior to reporting a *valuation*. Valuers should also be aware of the fact that the definition of intangible assets may vary relative to statute, local practices and accounting convention. Particular attention may be required when plant and equipment assets being valued form part of (or are connected with) intangibles, trading concerns, licences, software, consents, income streams, royalties and other intellectual property, when a combination of the cost, income and market approaches may be required.~~

- ~~5~~ where the services or any structures are specific to a process in the building, for example clean rooms, specialised climate controls, stand-by generators or structures that only support or provide access to specific process *plant and equipment*

- where the *valuation* is required for tax purposes or accounting depreciation (see VPGA 1), in which case the client may require a separate *valuation* for certain building service plant or associated equipment.

4 Inspections, investigations and records

4.1 Due to the varying nature of *plant and equipment*, physical *inspections* form an essential part of the information-gathering phase of a *valuation*.

4.2 Physical *inspections* enable the valuer to identify certain factors that may impact the *valuation* of the *plant and equipment*. This may include confirmation of the physical existence of the assets, operational status, condition, utilisation and operational environment. While *third-party* data such as technical condition reports, verification reports and financial records may be referred to for valuation purposes, an independent physical *inspection* of all assets, or a representative sample, provides increased support for the *plant and equipment valuation*. The valuer should be careful they do not provide commentary regarding aspects of the assets that they are not qualified for (e.g. technical condition, etc.), and should clearly state the extent of the *inspection* performed and any associated limitations.

4.3 Many of the *inspection* requirements set out in **VPS 4** can be readily adapted to *plant and equipment* assets. If it is not practical to inspect all of the assets, a suitable sample should be agreed with the client and any limitations should be expressly stated in the engagement agreement and deliverables.

4.4 Any *valuation* provided without a physical *inspection* would be limited relative to the quantity and accuracy of the available data, and may not be appropriate for all *valuation purposes*. The valuer should ensure the client is aware of these limitations.

5 Plant and equipment and other asset types

5.1 It is important to understand the potential interplay between *plant and equipment* and other asset types, particularly when the *plant and equipment valuation* forms part of a wider exercise including other *valuation* specialisms. The valuer should maintain open communication with other valuers to avoid omission or duplication, and ensure key *valuation* inputs and *assumptions* are aligned.

5.2 In some instances, *plant and equipment valuations* may require inputs from other *valuation* specialists, for example:

- property valuers: property lease terms (termination dates, clearance requirements, etc.) should be obtained as they may impact asset value (if being valued for removal). Tax valuations may require close interplay with property valuers to ensure the correct identification/allocation of value to each asset category
- business valuers: business *valuations* would typically indicate the maximum potential value that could be attributed to *plant and equipment* if valued as part of a business.

5.3 The *valuation* of infrastructure may be valued by *plant and equipment*, property or business valuers using a combination of approaches. The valuer should obtain an understanding of the wider *purpose of the valuation* and identify whether any other valuers have been instructed by the client to avoid duplication or omission of the assets.

~~4~~6 Plant and equipment subject to finance, lease and collateral agreements

~~4.1~~6.1 ~~5.1~~ It is common for *plant and equipment* to be subject to lease or financing arrangements~~. Such asset backed or based arrangements vary~~ varying from ~~a~~ simple hire/lease purchase ~~agreement~~agreements through to complex, cross-border financing agreements. ~~Hence~~Therefore, valuers will need to establish the reporting basis and any *special assumptions* at the time of engagement, or agree and document the *assumptions* as the engagement progresses. In particular, the lease/finance agreement terms, stakeholders and wider commercial circumstances will need to be taken into account, and the valuer may need to liaise with other advisers in this regard.

~~4.2~~6.2 ~~5.2~~ National and *International Financial Reporting Standards* and lending regulators' rules regarding the treatment of leased/financed assets are subject to regular review and change. Valuers should clearly set out the basis and extent of their proposed work relative to such rules and standards, to ensure that the resulting *valuation* advice is appropriate ~~to the particular reporting circumstances~~/relevant.

~~4.3~~6.3 ~~5.3~~ ~~Some recent accounting changes require~~ In some instances, *plant and equipment* ~~to~~valuers may be ~~valued as a component of a wider financial instrument, including opinions~~requested to provide guidance regarding ~~allocation of~~ potential asset values at a future date: this should be performed in accordance with **VPS 2**, and is referred to as a 'projected value' or 'residual ~~values. Similarly, accounting provisions for future lending losses will require forward looking estimates of plant and equipment~~value'. When considering projected value advice, current and historical market ~~values as a component of wider financial provisions. It follows that close liaison with clients, auditors and other valuation skill sets will be required,~~data and ~~at the very least, valuers should be explicit~~trends, macroeconomic factors, obsolescence and usage/maintenance may be considered. However, any advice would be necessarily limited to data available at the *valuation date*. It is therefore not possible to provide projected *valuation* advice with any accuracy. Valuers should state this explicitly in preparing their *terms of engagement*.

~~5~~7 Key considerations

~~6.1~~ Basis of value

7.1 When valuing *plant and equipment* on the basis of *market value*, ~~VPS 4 section 4~~**VPS 2 section 4** requires ~~an indication of whether the valuation assumes~~the valuer to confirm the premise of value. This may be that the assets will remain in their working place~~,~~ (in-situ) or are valued for removal (~~as a whole or as individual items).~~ ex-situ).

7.2 The *valuation* may be subject to certain *special assumptions* (as defined in **VPS 2 section 10**); these **must** be agreed with the client and clearly stated in any engagement *documentation* and deliverables.

Valuation assumptions

~~5.1~~7.3 Further *assumptions* may also be required, depending on the *purpose of the valuation*. These should be clearly stated in the *valuation* report and may include the following.

~~Examples include:~~

- ~~how~~ In-situ *valuations* may assume the *plant and equipment* ~~are to be offered~~is being valued for ~~sale (for example,~~continued use as ~~a whole or as individual items)~~
- ~~the~~ part of an ongoing business (with assumed ~~method of sale~~profitability).
- Ex-situ *valuations* may assume the method of sale, for example public auction, public tender or by private treaty.
- *Plant and equipment* may be valued on a different *basis of value* (refer to IVS 300). The valuer needs to understand and outline the conceptual link between *market value* as defined in Red Book Global Standards and other *bases of value*.
- *Valuations* may exclude reference to environmental issues and constraints.
- ~~any~~In the absence of a formal technical condition assessment, the valuer may assume asset condition to be commensurate with age and usage.
- The *plant and equipment* is fully owned/free from encumbrance or *third-party* lien.
- Any restriction on sale method (for example, lease conditions preclude sale by auction~~)~~, access).
- ~~whether the purchaser or vendor is to bear the~~Estimated costs of ~~decommissioning or~~ sale/removal ~~and~~
- ~~whether allowance is made for any cost of~~ /reinstatement ~~of the property following removal~~and associated regulatory and~~, if so, who will bear the cost.~~

~~6.2 If a valuation is being undertaken with a view to disposing of plant and equipment separately from the property in which it is situated, there may be constraints on the time available for marketing and disposal – for example, if a lease on the property is due to expire, or determined by an earlier event (such as insolvency). If the valuer considers that this time limit is inadequate for proper marketing, as defined in the conceptual framework for market value, it may require the use of a special assumption in the reporting framework. However, the valuer should always report the benchmark market value in the first instance, followed by the commercial advice regarding the likely sale price and wider circumstances. The valuer should not describe this as a 'forced sale' value (see VPS 4 section 10, paragraphs 5 to 9), unless such a term is required in accordance with the jurisdiction in which the valuer is reporting. While valuers will often be asked to prepare forced sale or liquidation (IVS-defined basis of value – IVS 104 paragraph 80.1) valuations these terms are subject to wide interpretation and will also vary by jurisdiction. Hence, adoption of market value based on regular market assumptions (which must be reasonable) should be the core approach, followed by agreed special assumptions and their related effect on value.~~

~~6.3 If, in the opinion of the valuer, no constraint exists at the valuation date, but a client requires advice on the impact that such a constraint on the marketing period may have, a market value can be provided subject to a special assumption in the report that clarifies the time limit assumed and the reasons for it, provided that the report also advises the unrestricted market value in the first instance. This is especially important in respect of asset-based lending, foreclosure or insolvency-related instructions.~~

~~6.4 Many of the inspection~~ contractual requirements ~~set out in VPS 2, can be readily adapted to plant and equipment assets. In order to prepare a valuation, the valuer first needs to establish matters such as the type, specification, capacity and purpose of the items, then consider matters such as age, efficiency, condition, functional and economic obsolescence, and estimated total and remaining useful economic working life. When providing opinions of market value in situ, the valuer needs to be quite specific about the reasoning and methodology used, i.e. is the value based in whole or part on the subject plant and equipment's future earnings potential? When providing opinions of market value whereby the plant and equipment are to remain at the property, the valuer needs to be quite specific about the reasoning and~~

~~method(s) used. Is the market value, in these circumstances, based on a premium over the value of the same plant and equipment for removal, or an adjustment for economic obsolescence?~~

- ~~6.5 As when valuing other asset classes and taking into account the often very wide and complex range of plant and equipment (and the corresponding market sectors it serves), it will normally be impractical (and sometimes impossible) for the valuer to establish each and every material fact that could have an impact on the valuation. Therefore the extent of the valuer's investigations, and any assumptions~~ may be reflected in the *valuation*~~, will have to be agreed with the client at the time of engagement (in so far as can be reasonably foreseen) and included in the later report. This is especially important when market values are being used in connection with secured lending or other financing or where there is a contemplated transaction involving the subject plant and equipment~~ in some instances.

~~6.6 Similarly, there will~~Marketing period

7.4 All *valuations* are provided on the *assumption* that the asset is sold following a reasonable marketing period, unless specifically stated otherwise. In some instances, certain restrictions may be in place such that the *valuation* should reflect a limited or restricted marketing period. This can arise where a complementary asset, such as a building housing the subject assets or services essential to their normal operation, would not be available for the length of time required for proper marketing. The valuer should state this *special assumption* in any engagement *documentation* and deliverables (refer to **VPS 2 section 10**).

Information gathering

7.5 In order to provide a *valuation*, the valuer will require certain asset information, including asset type, specification, location, capacity, operational status/performance, usage/utilisation, age, condition and estimated remaining useful life. When considering an asset as part of an ongoing business, additional information may also be required regarding the wider business operation and other market sector participants.

7.6 Typical information requirements to assist the valuer in understanding the *plant and equipment* assets and/or liabilities may include:

- technical specifications
- recent *valuations*
- condition surveys
- finance arrangements and rental agreements
- fixed asset register
- capital expenditure plans (recent and projected cap-ex plans)
- maintenance, refurbishment and retirement policies
- site plans, production schematics and process flow diagrams
- operational data, including production capacity and utilisation.

7.7 The quantity and accuracy of available information will vary for each *valuation*; this should be agreed with the client as part of the engagement process and clearly stated in the *valuation* report.

Other valuation considerations

~~5.2~~7.8 There may be occasions when factors affecting other asset classes (such as land and buildings) will impact the *valuation of plant and equipment*. Examples include where the property is held on a short lease, if there are proposals for redevelopment or if there is contamination of the land and plant that would require ~~plant to be decontaminated~~decontaminating prior to removal. These factors should be discussed with the client and included in any deliverables.

~~6~~8 Regulatory measures

~~6.1~~8.1 ~~7.1 Industrial activities are frequently subject to specific legislation and regulations. Non-compliance with these legal requirements may result in the suspension of the right to use the~~ All *plant and equipment* ~~in question. Many of these are specific to the plant and process being considered and~~*valuations* should consider wider ~~national and local statute and regulations.~~macroeconomic factors, including relevant *sustainability* and *ESG* factors. Examples of *ESG* factors are included in IVS 104 Data and Inputs: Appendix. Certain industries are subject to specific legislation and regulations; non-compliance with these requirements may impact asset values. While valuers are not expected to be regulatory experts, they should have an ~~overall~~ appreciation of any regulatory ~~matters surrounding the subject asset class, and should offer to discuss and agree how such matters may affect the valuation~~factors relating to the asset being valued.

8.2 ~~7.2 Where there is doubt about compliance with any regulations affecting the value of plant and equipment, the~~ The valuer should discuss ~~the matter~~this with the client ~~and any~~ /related advisers ~~and refer to the outcome~~to understand the potential impact on values and include details in the deliverable.

9 Valuation approaches and methodology

~~6.2~~9.1 In broad terms, *valuation* theory recognises three approaches in the ~~report. This should be done either by agreeing to make assumptions in the report, or to compliance undertakings as advised by the client and any related advisers.~~*valuation* of *plant and equipment*. These are:

- the *market approach*
- the *income approach*
- the *cost approach*.

9.2 The *valuation* approach(es) adopted may vary, depending on the nature of the asset being valued. The *market approach* is the principal approach to apply; however, where market data is not readily available (i.e. for the *valuation* of specialised or bespoke assets), the *income* or *cost approach* may be considered. The *income approach* is typically applied for the *valuation* of assets that generate a specific income/revenue stream and may be valued via this approach, e.g. vessels, aircraft and process plant/facility. The valuer should consider all *valuation* approaches; in some instances, the valuer may apply a combination of the *market*, *income* and *cost approaches* in order to reach a conclusion.

Market approach

9.3 The *market approach* provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

9.4 There are three recognised methods of comparison used in the *market approach*:

a direct match

b comparable match with adjustment, e.g. capacity, model, etc.

c market data analysis, e.g. regression and value profile derivation.

9.5 Other considerations include the following.

a What is the market for the assets, i.e. global or domestic? Is there an open and transparent market? Are assets regularly traded?

b Does the selling price reflect the final, agreed selling price, or is it subject to negotiation?

c What is the background to the sales evidence; were both parties willing, or under some duress?

d How does the market data compare? Consider average and median values, and exercise caution with extreme high and low values.

e How does the market data compare to the asset being valued? What characteristics vary and how can you adjust the sales price to more closely reflect the asset?

f Are a large quantity of assets being valued? If so, consider potential 'flooding' of the market and the potential impact on values.

Members may find it useful to refer to the current edition of RICS' Comparable evidence in real estate valuation.

Income approach

9.6 The *income approach* provides an indication of value by converting future cash flow to a present value equivalent, through the application of an appropriate rate of return an investor would require, when considering the purchase of the asset. Under the *income approach*, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset. It is usually difficult to identify and/or allocate an *income approach* to individual assets. Adoption of this approach is usually the exception for *plant and equipment* assets, and any application may need to align with inputs used by other *valuation* specialisms (refer to VPGA 3).

Cost approach

9.7 The *cost approach* provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current gross replacement cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

9.8 This approach is typically applied where there is no active market for the asset being valued, i.e. there is no useful or relevant evidence of recent sales transactions to refer to for *valuation* purposes.

9.9 The *cost approach* may also align with *depreciated replacement cost* (DRC) (refer to RICS' Depreciated replacement cost method of valuation for financial reporting). In the DRC methodology, 'depreciation' refers to the reduction, or writing down, of the cost of a modern equivalent asset to reflect the subject asset's physical condition and utility, together with obsolescence and relative impairments affecting the actual asset. Depreciation in this context is not the same as that applied in the accounting stage of financial reporting.

9.10 The following points should be considered when valuing *plant and equipment*.

- Determining the current gross replacement cost based on market data is preferred, where possible, although historical cost information adjusted to reflect changing costs since acquisition (referred to as the reproduction cost) may also be considered. It should be noted that market data would typically reflect the modern equivalent asset; this may not be accurately reflected in the reproduction cost.
- When calculating the reproduction cost, the valuer should ensure they are confident regarding the accuracy of the historical cost data provided. In some instances, historical costs may reflect second-hand or transfer costs, discounts or previous *valuations*, all of which may impact the *valuation* outcome. Older assets (where significant cost inflation has occurred) do not typically lend themselves to *valuation* on this basis.
- The asset information provided should include sufficient data to identify assets to obtain confirmation regarding their physical existence.
- A comparison is required between the asset being valued and a modern equivalent.
- *Plant and equipment* may include assets under construction (also referred to as construction in progress), which may be any category of *plant and equipment* where construction is not yet complete. *Valuation* consideration should reflect whether there will be a continued requirement for the asset and hence retention at its stated current cost.
- The valuer should perform market benchmarking and evaluation of each *valuation* input and *assumption* wherever possible, in order to ensure they provide an independent *valuation*.
- In some instances, the valuer may refer to other *valuation* workstreams to identify any macroeconomic factors that may not otherwise be reflected in the *cost approach* – this is particularly relevant when valuing assets as part of a business. If the overall business value does not support the *plant and equipment valuation*, this may be an indicator that an economic obsolescence adjustment is required.

VPGA 6 Valuation of intangible assets

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

~~2~~1 Scope

1~~.~~.1 The guidance below provides additional commentary on the *valuation* of *intangible assets* and the practical application of ~~IVS 210 Intangible Assets. Any mandatory requirements are highlighted in bold type.~~IVS 210 Intangible Assets.

1.2 It covers the *valuation* of *intangible assets* in respect of ~~acquisitions, mergers and~~business combinations and the acquisition of a collection of assets, sale of businesses or parts of businesses, and purchases and sales of *intangible assets*.

~~3~~2 Introduction

2~~.~~.1 An *intangible asset* is defined as a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner.

2.2 It is therefore an asset that is capable of being separated or divided from a business entity and sold, transferred, licensed, rented or exchanged individually or with a related asset, liability or contract. Non-identifiable *intangible assets* arising from contractual or legal rights that may or may not be separable from the entity, or other rights and obligations, are generally termed '*goodwill*'.

2.~~2~~.3 Identified *intangible assets* include:

- marketing related assets: typically associated with, and primarily used in, the marketing or promotion of a company's products or services (trademarks, brands, trade names, trade dress, internet domain names, newspaper mastheads~~, non-compete agreements~~)
- customer or supplier related assets: arise from relationships with, or knowledge of, customers and suppliers, and are used in the development, procurement, management and maintenance of a company's customers (customer lists, order or production backlog,

customer contracts and related relationships, non-contractual customer relationships)

- artistic related assets: arise from artistic products or services that are protected by a contractual or legal right (copyright and design), and give rise to benefits, including royalties from artistic works (plays, operas, ballet, books, magazines, newspapers, musical works, pictures, photographs, videos, films, television programmes)
- technology related assets: these represent the value of technological innovation or advancements, and can arise from non-contractual rights to use technology, or be protected through legal or contractual rights (patented technology, ~~computer~~ software, unpatented technology, databases, trade secrets, in-process research and development, manufacturing processes and know-how~~).~~.)
- ~~2.3 Intangible assets may be either contractual or non-contractual. Contract~~contract-based assets: represent the value of rights that arise from contractual arrangements (non-compete contracts, licensing, royalty~~,~~ and standstill agreements; contracts for advertising, construction, management, service or supply lease agreements; construction permits; franchise agreements; operating and broadcasting rights; contractual use rights other than those expressly classified or properly regarded as tangible assets; servicing contracts; and employment contracts).

2.4 A major *intangible asset* is *goodwill*, which is defined as any future economic benefit arising from a business, an interest in a business or the use of a group of assets that is not separable. The benefits that may form part of *goodwill* include synergies that follow a business combination~~ and are company specific.~~. Examples of this include:

- economies of scale not otherwise reflected in the values of other assets
- growth opportunities, such as expansion into other markets and
- organisational capital, for instance the benefits obtained from an assembled ~~network~~workforce.

Goodwill is ~~sometimes defined~~typically measured as the residual amount remaining after the value of all separable and identifiable assets have been deducted from the overall value of the business. This definition is commonly used for accounting purposes.

2.5 ~~2.5~~ *Intangible assets* are differentiated from one another by characteristics such as ownership, function, market position and image. ~~For example, ladies' fashion shoe brands may be characterised by use of particular colours and styles, as well as price.~~Businesses with strong brands generally trade at a premium as compared to unbranded and less recognised peers, reflecting the value of the *intangible asset*. In addition, while *intangible assets* within the same class will inevitably have similar characteristics, there will also be aspects that differentiate them from other similar ones.

2.6 ~~2.6~~ It is important that the valuer is regularly involved in *intangible asset valuation*, as practical knowledge of the factors affecting ~~investing~~investment in any particular asset is essential (see PS 2 section 2).

43 Terms of engagement

3~~.~~.1 The *valuation* knowledge of clients will vary widely. Some will have a thorough understanding of intangible property rights and *intangible asset valuation*, while others will be unfamiliar with the terms and concepts used by valuers of *intangible assets*.

3~~.~~.2 ~~It is imperative that the~~The *terms of engagement* ~~are~~**must** be understood and agreed between the valuer and the client prior to commencement of the assignment~~.~~ (**VPS 1**). Any supplementary or contributory assets should be identified and ~~agreement reached on whether they are to be included or not~~factored into the *valuation* analysis. Contributory assets are those used in conjunction with the subject asset to generate cash flows. Where contributory assets are not to be valued, it is important to clarify whether the intention is therefore for the principal asset to be valued on a ~~stand-alone~~standalone basis.

3~~.~~.3 There may be situations where the interest in the asset to be valued is shared with others, and in such cases, it should be clearly specified.

3.4 ~~Valuers may wish to develop standard letters of engagement that can be used for any type of valuation instruction. Where a valuation has to comply with the RICS Red Book Global Standards, the~~The valuer **must** produce *terms of engagement* that comply with the minimum terms set out in ~~PS 2 section 7 and VPS 1~~**VPS 1**.

~~5~~4 Valuation concepts

~~5.1~~4.1 The reason why the valuer has been instructed to perform a *valuation* is important to understand, as the *intangible asset valuation* may be required for a wide variety of purposes. Examples include financial reporting, tax, public sector assignments, transactions and flotations, fairness opinions, banking arrangements, insolvency and administration~~, knowledge management,~~ or portfolio review. The answer will introduce various concepts of value, some governed by statute and case law, and others by international and national standards of professional *valuation* practice.

~~5.2~~4.2 *Valuation* bases typically encountered for these types of *valuations* (not all of which are recognised by ~~the~~ IVS or ~~the~~ Red Book Global Standards) are definitions such as IFRS *fair value*, fair *market value*~~,~~ and *market value*~~, and open market value. Valuers~~ (refer to **VPS 2**). In addition, valuers should also be mindful of the requirements of ~~PS 1 section 1,~~**PS 1 section 1**, where a written *valuation* is provided.

~~5.3~~4.3 Depending on the rules and practice followed in respect of the concept, the *valuation* conclusion in respect of the same asset may be different. For example, because of the rules concerning capital tax *valuations*, a tax authority could view *valuation* differently to how a litigant, merger partner or *special purchaser* would.

~~5.4~~4.4 Except in the case where there are strong indications to the contrary, the presumption of the *valuation* is that of a 'going concern' ~~and that the asset will continue to~~, but in most cases *intangible assets* do not have a ~~useful~~remaining economic life ~~for the foreseeable future.~~that goes into perpetuity. In some cases, ~~this period~~the remaining economic life will be based on what is specified either by law, or under the terms of any relevant agreements or protocols that govern the asset. ~~However, for financial reporting purposes the value of an intangible asset that is to be disposed of, or abandoned, might have to be considered.~~

~~5.5~~4.5 In many cases it may be necessary to apply more than one *valuation* method, if possible, particularly where there is insufficient information or evidence to enable the valuer to rely on just one. In such cases, the valuer may use additional methods to arrive at the final *valuation*, indicating why preference is given to any one or more methodologies. The valuer should also consider all *valuation* approaches, giving reasons why any particular approach has not been completed.

~~6~~5 Valuation due diligence

~~6.1~~5.1 In line with ~~PS 2 section 2,~~**PS 2 section 2**, valuers ~~should~~**must** have appropriate competency in *intangible asset valuation*. As a minimum requirement, a valuer should not contemplate carrying out a *valuation* in the absence of a detailed knowledge and understanding of such issues as:

- the rights of the owners of the asset(s)
- the history of, and activities associated~~,~~ with, the asset(s)
- as appropriate, the state of the subject industry, the general economic outlook and political factors.

~~6.2~~5.2 Typical information requirements to assist the valuer in understanding the subject asset(s) could include:

- most recent income statements associated with the subject asset, and details of current and prior projections or forecasts
- description and history of the subject asset, including legal protections and rights associated with it (the extent to which such legal rights have been assessed should be disclosed)
- information about the asset and supporting *documentation* (for example, registrations, territorial applications, marketing, technical research and development, documentation, design graphics and manuals)
- other collateral agreements
- details of the precise activities exploiting the *intangible asset*
- previous *valuation* reports
- details of recent transactions involving the company/asset
- product(s) dealt in, supported or extended by the business and intangibles
- whether anyone else is permitted to use the *intangible asset(s)*, and whether there are plans to do so
- the company's market(s) and competition, barriers to entry in such markets, business and marketing plans, due diligence
- licensing, strategic alliances and joint venture detail
- whether contractual arrangements can be assigned or transferred in any *intangible asset* or~~-~~ royalty agreement
- major customers and suppliers
- objectives, developments or trends expected in the industry, and how these are likely to affect the company or asset
- accounting policies

- strengths, weaknesses, opportunities and threats (SWOT) analysis
- key market factors (for example, monopoly or dominant market position, market share)
- major capital expenditure in prospect
- competitor positions
- ~~seasonable~~seasonal or cyclical trends
- technological changes affecting the asset
- vulnerability of any source of raw materials or supplier arrangement
- whether there have been any recent acquisitions or mergers in this sector around the *valuation date*, and the criteria that were applied
- management of research and development (non-disclosure agreements, subcontractors, training and incentives)
- whether there is an intellectual property asset schedule setting out the extent of intellectual property right (IPR) ownership~~,~~ and the interests of *third parties* (if any)
- examination of existing licences for the asset or comparable licensing of similar assets.

~~6.3~~5.3 The valuer ~~should~~**must**, as far as it is possible, verify facts and information used in arriving at the *valuation* and benchmark, where possible, inputs to the *valuation*~~.~~ **(VPS 4).**

~~6.4~~5.4 Much of the information relied on by the valuer will be provided by the client(s), and it may not be possible to verify it. In such cases, the *valuation* report should make this clear.

~~7~~6 Valuation approaches

6.1 In broad terms, *valuation* theory recognises three distinct approaches in *valuation*, including for intangibles. These are the:

- *market approach* ~~(sometimes known as the direct market comparison approach), the~~
- *income approach*~~,~~ and ~~the~~
- *cost approach*.

~~7.2~~6.2 Each approach requires the valuer to adopt an estimate of the asset's remaining useful life. This could be a finite period set by the length of a contract or normal life expectancy in the sector, or it could be indefinite. ~~A number of~~Several factors will have to be considered in determining life expectancy, including legal, technical, economic and functional aspects. The presumed life expectancy of an asset that has been licensed for a particular period may be shorter if a superior competitor product is likely to reach the market before the licence expiration. In such a case, the valuer would need to ~~take a view on this~~use the most realistic estimate of the asset life, not the contractual life.

Market approach

6.3 Under the *market approach*, the value of an *intangible asset* is determined by reference to market activity (for example transactions involving identical or similar assets).

~~7.3~~6.4 The *market approach* measures the value of an asset by comparing recent sales or offerings of similar or substitute property and related market data. However, it is rarely possible to find such evidence relating to identical assets.

~~6.4~~ The ~~two primary~~ *market approach* ~~methods are the 'market multiple method' and the 'similar transactions method'.~~

~~6.5 The market multiple method focuses on comparing the subject asset with guideline data such as industry royalty rates. In applying this method, matters such as royalty rates are evaluated and adjusted based on the strengths and weaknesses of the subject asset relative to similar assets. They are then applied to the appropriate operating data of the subject asset to arrive at an indication of value. Appropriate adjustments to reflect different properties or characteristics are usually made to the derived data.~~

~~7.4~~6.5 ~~6.6 The similar transactions method~~ uses ~~valuation~~ data based on historical transactions that have occurred in the subject asset's direct or related industries. ~~The derived data are then adjusted and applied to the appropriate operating data of the subject asset to arrive at an indication of value.~~

~~7.5~~6.6 In certain industries, assets are bought and sold on the basis of established market practices ~~or rules of thumb~~, often (though not exclusively) derived from data or percentages of turnover, and not directly linked to profit generation. Care should be taken that the 'established market practice' has not been superseded by changes in circumstances over time. Where such ~~rules of thumb~~market practices exist, they ~~may~~ need to be ~~considered by the valuer~~related to other measures of value.

Income approach

~~7.6~~6.7 The *income approach* has a number of ~~variants.~~methods that may be applicable to *intangible assets*. When applied (using, for example, the discounted cash flow (DCF) method), it measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions~~,~~ and proceeds from its disposal.

~~7.7~~6.8 When applied to an *intangible asset valuation*, value indications are developed by discounting expected cash flows to their present value at a rate of return that ~~incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as at the valuation date~~considers the risks associated with the underlying business and the corresponding asset.

~~7.8~~6.9 The *income approach* also embraces methods such as the relief-from-royalty method~~,~~. This is defined in ~~IVS 210 Intangible Assets~~IVS 210 Intangible Assets as ~~one that estimates 'the value of an intangible asset …~~ being 'determined by reference to the value of the hypothetical royalty payments that would be saved through owning the asset~~, as~~ compared with licensing the intangible asset from a third party'.

~~7.9~~6.10 There is also the 'multi~~-~~period excess earnings' method. This is a method of estimating the economic benefits of an *intangible asset* over multiple time periods by identifying the cash flows associated with the use of the asset and deducting a periodic charge reflecting ~~a fair return for the use of contributory assets.~~
~~6.12~~ a fair return on contributory assets. A charge for the return of many contributory assets (depreciation or attrition) should also be included. This method is reserved for the

primary *intangible asset* within any business enterprise.

6.11 There are other *income approach* methods that are explained in IVS 210 Intangible Assets.

~~7.10~~~~6~~6.12 The *income approach*~~, as applied using the capitalised earnings basis of value,~~ is common in *intangible asset valuation*. A thorough understanding of accounting and economic profits, their historical record and forecasting is necessary in each case.

~~7.11~~~~6~~6.13 Appraisal of *intangible assets*~~ and IPR includes~~, including Intellectual Property Rights, involves techniques to identify the earnings specifically associated with the subject asset, such as gross profit differential, excess profits and relief from royalty. A thorough understanding of the historic and forecast earnings is necessary.

6.14 Care should be taken when several *income approach* methods are used simultaneously to value different *intangible assets*. Specific cross-check would be required to ensure robustness of each analysis (see contributory asset charges definition in IVS 210 Intangible Assets).

Cost approach

6.15 ~~6.14~~ The *cost approach* indicates the value of an asset by the cost to create or replace it with another similar asset. When applied to *intangible asset valuation*, obsolescence,~~-~~
maintenance and the time value of money are considerations. When the *basis of value* in the *valuation* is *market value*, the indications of obsolescence ~~must be supported by market data~~should be supported by market data. This approach is used for certain secondary assets or where there is anabsence of forecasts associated with the asset. In practice, the *cost approach* is used for purchased software, internally developed software and assembled workforce.

~~8~~7 ~~Present value~~Discounted cash flow techniques

~~8.1~~7.1 ~~7.1~~ ~~Present value~~DCF techniques ~~(PVT)~~ measure the value of an asset by the present value of its future economic cash flow, which is cash that is generated over a period of time by an asset, group of assets~~,~~ or business enterprise. All the *income approach* methods presented above are examples of DCF techniques.

~~8.2~~7.2 ~~7.2~~ Issues to consider in relation to this technique include:

- the number of years over which the cash flow is applied
- the capitalisation rate or discount rate applied at the end of the term
- the discount rate(s) adopted
- whether inflation is built into the cash flow
- what other variables need to be considered in respect of the cash flow in the future
- the trading profile of the asset
- ~~initial and running yields,~~ the internal rate of return (IRR) and ~~the~~ terminal value.

7.3 If the *valuation* is for a specific *intangible asset*, before undertaking the detailed cash flow modelling, the valuer is required to quantify the remaining useful life and deterioration rate associated specifically with the use of the asset. Typically, this remaining useful life analysis will quantify the shortest of the following:

- physical life (for example, of an underlying tangible asset)
- functional life (for example, of an underlying tangible asset)
- technological life
- economic life
- legal life.

~~7.3 Where a PVT approach is applied, it is important that market transactions (i.e. comparables) reflecting the same approach to valuation are taken into consideration. The details of market transactions may be more difficult to obtain where a PVT approach is adopted. However, such transactions will assist in assessing the discount rate to be adopted, the IRR sought and the general approach taken by the market.~~

~~8.3~~1.1 ~~7.4~~ ~~If the *valuation* is for a specific *intangible asset*, before undertaking the detailed cash flow modelling, the valuer is required to quantify the remaining useful life and deterioration rate associated specifically with the use of the asset. Typically this remaining useful life analysis will quantify the shortest of the following:~~

- ~~physical life (for example, of an underlying tangible asset)~~
- ~~functional life (for example, of an underlying tangible asset)~~
- ~~technological life~~
- ~~economic life~~
- ~~legal life.~~

~~7.5~~ ~~PVT~~DCF *valuation* will ~~thus~~ involve these key components: a financial forecast identifying the specific ~~intellectual capital~~*intangible assets* and associated earnings, and the appropriate discount rate (cost of capital). ~~Unsystematic and systematic risk will be considered, and the discount rate determination in its basic application will require identification and application of the cost of capital to known and projected cash flows.~~

~~8.4~~7.4 ~~7.6~~ ~~Discounting appropriately at~~ Relevant discount rates for *intangible assets* are usually estimated by reference to the weighted average cost of capital (WACC) ~~will be adopted. The two basic elements of the cost of capital are the cost of debt and the~~ or its components (cost of equity~~. To aid the calculation of an appropriate rate of return and discount rates, the valuer uses a number of different methodologies, including capital asset pricing model (CAPM), arbitrage pricing theory and hybrids, depending~~ and cost of debt). The selection of the appropriate discount rate will depend on the ~~particular circumstances~~nature and riskiness of the underlying asset.

~~8.5~~7.5 Valuers may be required to consider *intangible assets* in a licensing context, for example, the licensing in or out of technology or patents. Much of what has been covered in this VPGA is relevant in the calculation of an appropriate ~~7.7 Valuers may be required to consider *intangible assets* in a licensing context, for example, the licensing in or out of technology or patents. Much of what has been covered in this VPGA is relevant in the calculation of an appropriate rate of return in~~ royalty rate ~~calculations.~~or similar financial metrics. In practice, the rate is estimated by reference to some or all of the following:

- existing licences for the intangibles (~~the comparables approach~~internal/external data)
- industry norms for licences for similar assets ~~(the market approach)~~
- allocation ~~of~~technique to derive the relevant economic benefits ~~derived from~~for the use of the asset, for example~~,~~ the patented invention (sometimes referred to as the available profits ~~or analytical approach~~)
- licensing practice ~~(rule of thumb approaches).~~.

~~8.6~~7.6 ~~7.8~~ Licensing appraisal examines specifics such as~~:~~ (but not restricted to):

- how other relevant licences were negotiated
- *intangible asset* and support
- length of the licence agreement
- exclusivity
- special terms for special deals
- geography
- sector in which the *intangible asset* is licensed
- any special relationships.

~~•~~ Even if previous licensing practice is comparable, it can only provide a benchmark. ~~how other relevant licences were negotiated~~

- ~~*intangible asset* and support~~
- ~~length of the licence agreement~~
- ~~exclusivity~~
- ~~special terms for special deals~~
- ~~geography~~
- ~~sector in which the *intangible asset* is licensed~~
- ~~any special relationships.~~

~~Even if previous licensing practice is comparable, it can only provide a benchmark.~~ Intangibles, by their nature, are unique ~~and may involve carrying out numerous required adjustments to make a fair comparison.~~

~~8.7~~7.7 ~~7.9 PVT models the approaches such as the relief-from-~~. The use of similar or comparable royalty ~~method (see paragraph 6.10 above, under~~ rates may require some adjustment to reflect the uniqueness or specific nature of the *intangible asset* valued.~~Income approach).~~

7.8 ~~8~~ Consideration may need to be given to the tax amortisation benefit, and this is explained in IVS 210 Intangible Assets.

~~9~~8 Reports

8.1 ~~8.1 Where the valuation has to comply with the Red Book Global Standards, the~~The valuer **must** produce a report that complies with the minimum terms set out in ~~VPS 3.~~**VPS 6.** Generally, the report has a brief introductory section or executive summary that defines the assignment, summarises the conclusion and ~~sets the stage for the~~outlines details of the report. The structure should move from the general to the specific, providing a logical flow of data and analysis within which all the necessary considerations can be incorporated, leading to *valuation* conclusions.

8.2 Most situations will easily form into major sections as follows, although not necessarily in this order:

- introduction
- purpose and *basis of value*
- *date of valuation*
- *assumptions* and *special assumptions*
- subject of *valuation*
- description and history of the asset(s), and the business entity in which it has (they have) been used

~~8.2~~1.1 accounting and accounting ~~The structure should move from the general to the specific, providing a logical flow of data and analysis within which all the necessary considerations can be incorporated, leading to the *valuation* conclusions.~~
~~9.1~~1.1 ~~8.2 Most situations will easily form into major sections as follows, although not necessarily in this order:~~

- ~~introduction~~
- ~~purpose and *basis of value*~~
- ~~*assumptions* and *special assumptions*~~
- ~~subject of *valuation*~~
- ~~description and history of the asset(s), and the business entity in which it has (they have) been used~~
- ~~accounting and accounting~~ polices

- policies
- *financial statement* analysis, if appropriate
- business and marketing plan analysis, and prospects
- search results for comparative transactions if using the *market approach*

- industry in which the asset is used
- economic context and environment, yields and risk assessment
- *valuation* methods and conclusion
- caveats, disclaimer~~industry in which the asset is used~~
- ~~economic context and environment, yields and risk assessment~~
- ~~*valuation* methods and conclusion~~
- ~~caveats, disclaimer,~~ and limitations.

8.3 Some reports will have a separate section containing a general discussion of *valuation* methodology, which will often follow the introduction. If national, regional and economic data are important to the company and asset, each may have its own section.

~~**8.3**~~**1.1** ~~8.3~~ ~~Some reports will have a separate section containing a general discussion of *valuation* methodology, which will often follow the introduction. If national, regional and economic data are important to the company and asset, each may have its own section.~~

~~9.2~~8.4 ~~8.4~~ Where appropriate, ~~factual~~ information, or sources thereof, should be identified either in the body of the report or in the appendices. Where the report is that of an expert required for litigation purposes, it must adhere to the requirements imposed by the local jurisdiction and **must** therefore contain all relevant disclosures, including the statement of the expert's qualifications and the ~~'~~statement of ~~truth'.~~truth (**VPS 6**).

~~10~~9 Confidentiality

~~10.1~~9.1 ~~9.1~~ Information in respect of many *intangible assets* will be confidential. Valuers should use their best endeavours to preserve such confidentiality, including information obtained in respect of comparable assets. Where required by the client, valuers of *intangible assets* will comply with any requests to enter into non-disclosure or similar agreements.

VPGA 7 ~~-~~Valuation of ~~personal property, including~~ arts and antiques

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgements~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Introduction and scope

1.1 It is essential to be clear about the *purpose of the valuation*, which will dictate the *basis of value* to be used. See **VPS 1**.

1.2~~1.1~~ This guidance provides additional commentary on the application of ~~the International Valuation Standards~~IVS and ~~VPS~~**VPSs** **1–**~~5~~ **6** to ~~'personal property'~~art and antiques, being those assets ~~(~~and/or liabilities~~)~~ specified in 1.~~2~~3 below.

1~~.2~~.3 For the purpose of this VPGA, art and antiques (the term '*personal property*' is additionally used to describe arts and antiques in some jurisdictions) means assets ~~(~~and/or liabilities~~)~~ not permanently attached to land or buildings, with the exception of public art and murals. Further:

- including, but not limited to, fine and decorative arts, antiques, paintings, gems and jewellery, collectables, fixtures and furnishings, non-fungible tokens (NFT) and other general contents
- excluding trade fixtures and fittings, *plant and equipment*~~,~~ (covered separately in VPGA 5) and businesses or business interests~~, or intangible assets.~~ (covered separately in VPGA 3).

1.4 *Valuations* of ~~personal property~~art and antiques may arise in many different contexts and for a variety of purposes ~~which~~that may include, but are not restricted to~~, the following~~:

- insurance coverage
- damage or loss due to fire, water or other reason
- taxation (charitable contribution, gift tax, estate tax, casualty loss)
- financial reporting
- business transactions

- litigation, including claims of fraud
- estate planning, equitable distribution~~,~~ and probate
- ~~pre-nuptial~~prenuptial agreements
- dissolution of marriage
- dissolution of business
- advice on the acquisition or disposition of property for investment or personal consumption
- loan collateral
- bankruptcy
- inventory *valuation*.

1.5 ~~1.3~~ This list is not definitive~~, as~~ and allows for national or regional variations ~~may exist~~. Statutory requirements within a given jurisdiction will take precedence. This may especially be the case where *valuations* are prepared for the assessment of tax liabilities, including probate or for accounting purposes.

~~1.4 It is essential to be clear about the purpose of the valuation, which will often dictate the particular basis of value to be used. See VPS 1.~~

~~2~~

2 Terms of engagement

~~2.1 To properly define the valuation assignment and, as well, the valuer's responsibilities, the valuer should identify the client and any others who might rely on the valuation (i.e. the intended users) to ensure that the valuation is both meaningful to them and not misleading.~~

~~2.2 The terms of engagement, including the minimum terms set out in VPS 1, will generally be agreed between the valuer and the client prior to the commencement of the valuation engagement. When it is necessary to commence work prior to the terms of engagement being fully documented, all matters concerning those terms must be brought to the client's attention and documented before the report is issued (see VPS 1).~~

~~2.3~~**2�1** When agreeing to the *terms of engagement*, the valuer should advise the client of the possible effect on value of any other relevant matters ~~(for example,~~such as the asset's provenance ~~of the object, or~~, legal restrictions, authenticity and the impact of a group of ~~objects~~assets being valued as a collection, rather than individually~~). Not to do so could be misleading, in breach of VPS 3.~~. The language **must** be clear, accurate and not ambiguous, as per **VPS 1**.

3 Identifying the market

3~~.~~�1 *Valuations* are based on an understanding of the market in which the *valuation* takes place. Valuers should assess the nature and state of the market that provides the context for their investigations and value conclusions. Considerations that the valuer should take into account include the level of activity, confidence and trends. Valuers should also consider the legal and regulatory position pertaining to the subject property, and any proposals or implications that could influence the behaviour of market participants.

3~~.~~�2 ~~Personal property~~Art and antiques valuers should recognise that ~~there are~~

different ~~markets within which~~market segments exist for a particular asset ~~may be traded and that,~~ each ~~may generate~~potentially generating its ~~own sales data~~specific price levels. In particular, an asset may have a different value at the wholesale level of trade, the retail level of trade~~, or when~~ or when~~trading at auction. The valuer should identify and analyse the relevant market consistent with the asset being valued and the purpose of the valuation undertaken. It should be recognised that valuations undertaken for the purpose of advising on a sale between businesses that trade in a particular form of asset may differ from that between a business and an individual.~~

trading at auction. The valuer **must** identify the relevant market segment for the asset being valued, the *purpose of the valuation* and the identity of the intended user(s). While *market value* is typically defined as the best price achievable in the open market, the valuer should consider whether the owner's access to this market is restricted. Any limitations on market access should be clearly explained in both the *valuation* report and *terms of engagement*. This information will influence the *valuation* approach and the *basis of value* adopted. For example, in respect of *valuations* for insurance purposes, the *basis of value* to be determined will typically be defined in the policy, whereas in the case of *valuations* for court purposes, Red Book Global Standards may not be applicable (see **PS 1 section 5**).

3~~.~~.3 In identifying the market, ~~personal property~~art and antiques valuers should be aware that the method of sale could affect the resultant sale price. ~~For example, online auctions and other forms of e-commerce have loosened many transactional constraints, expanding the pool of potential purchasers for some types of items.~~ However, valuers should be aware that the quality of information and matters such as commissions and costs of sale associated with ~~some online platforms, where these are not associated with offline sales, can render the sales data unreliable as a source of comparable evidence~~the purchase should be considered.

3.4 In ~~personal property~~art and antiques, groups of assets are often held as collections ~~which~~that, if divided, may be worth significantly more or less per item than when held collectively. The valuer will need to assess whether holding assets collectively has any impact on their *valuation*~~,~~ and advise accordingly.

4 Inspection, research and analysis

4.1 ~~4.1~~ Valuers of ~~personal property~~art and antiques should:

- collect, verify and analyse pertinent sales data~~; analyse~~
- investigate and assess pertinent economic and market conditions~~;~~ and
- consider any additional related information necessary to generate realistic and credible value conclusions. ~~VPS 2~~

VPS 4 sets out the requirements for conducting investigations.

~~4.1~~4.2 ~~4.2~~ ~~Personal property~~Art and antiques valuers should ~~always~~ be aware that the degree of reliability of previous sales data may be limited, and should ~~always~~ assess the reliability of data used to support the analysis. They should document the sources of information used in the analysis~~. As noted in paragraph 3.3 above, valuers should take particular care when using information obtained from online platforms and internet~~

~~sources~~.

4.3 ~~4.3~~ Any limitations or conditions that impede the *inspection*, research~~,~~ and/or analysis should be taken into account by the valuer. If there are such limitations, the valuer may need to make *assumptions/special assumptions*. ~~VPS 4~~**VPS 2** sets out the requirements relating to *assumptions* and *special assumptions*. Any *assumptions* **must** be discussed and agreed with the client prior to the conclusion of the *valuation*, and clearly documented in both the *terms of engagement* and the report.

~~4.2~~4.4 ~~4.4~~ The valuer should consider economic and market data, such as supply and demand in the marketplace and market movements. When there is a degree of uncertainty with respect to the information used~~,~~ or the state of the market, the valuer should refer to ~~VPS 3.~~VPS 6.

~~4.3~~4.5 ~~4.5~~ ~~It is the responsibility of the valuer to ensure that they have undertaken~~The valuer should undertake an appropriate level of due diligence in relation to establishing the provenance of the item to be valued, as this may have a ~~very~~ significant impact on value. Establishing provenance, in addition to expert knowledge in the field, may involve archival research and/or forensic examination. ~~Where provenance is in doubt, the~~Provenance is necessary for due diligence. The valuer should consult with the client to establish the level of investigation that should be undertaken, and any implication this may have in respect of fees or *third-party* work to be undertaken before a *valuation* can be provided.

~~4.4~~4.6 ~~4.6~~ When the valuer is required to consult with specialists/professionals ~~the valuer should (~~to the extent necessary for the *purpose of the valuation*~~), ensure~~, they have an inherent duty to verify that the specialist or professional is appropriately qualified to provide advice and that the services are carried out competently.

5 Valuation approaches and applications

5.1 ~~5.1~~ The three approaches to arriving at *market value* (as defined ~~at IVS 104 paragraph 30.1)~~in IVS 103 paragraph 10.01) for ~~personal property~~arts and antiques are:

a the ~~sales~~market comparison approach

b the *cost approach* and

c the *income approach*.

~~5.1.1~~

The ~~sales~~market comparison approach

5.2 This provides an indication of value by comparing the subject asset to similar assets for which sales data ~~are~~is available. This approach is the most commonly used in the *valuation* of ~~personal property~~arts and antiques. When applying this approach, the valuer should be careful in the analysis of the appropriate comparable sales data, in accordance with section 4 above. ~~Where it~~ Where it~~is possible to assess the value by reference to comparables, it is normally the preferred approach.~~
is possible to assess the value by reference to comparables, it is normally the preferred approach.~~5.1.2~~

The cost approach

5.3 This provides an indication of value based on the estimated current costs to reproduce or create a property of equal quality, service potential/capacity, utility~~,~~ and marketability. This approach includes replacement with a copy or replacement produced by other means, such as a facsimile. A copy is a generic term used when the original item is reproduced as near as possible to the original in terms of nature, quality, use and age of materials and production technique. Where the copy is produced by the original artist, it is termed a replica. A facsimile is an exact copy of the original item, created with materials of a closely similar nature, quality and age, using techniques or fabrication methods of the original period. All of these approaches (i.e. copy, replica ~~or~~and facsimile) are usually only adopted for insurance purposes where it is not practicable to establish a value using another method.

~~5.3~~5.4 When applying the *cost approach*, the valuer should analyse pertinent and appropriate cost data to estimate the cost of replacement. The valuer should be aware that the nature of reproduction (copy, replica or facsimile) will have a significant bearing on the resultant value and adjust their *valuation* accordingly.

~~5.1.3~~ The income approach

~~5.4~~5.5 This provides an indication of value by calculating the anticipated monetary benefits (such as a stream of income) for the subject asset. When applying this approach, the valuer should analyse pertinent and appropriate data to reliably estimate the income in the relevant marketplace of the property. Valuers should base projections of anticipated monetary benefits on an analysis of past and current data, trends and competitive factors. ~~Although instances do arise where assets are leased by the owner to another party, nevertheless in most cases artwork, antiques and personal property assets are not 'income producing' and so are unlikely to be valued using the investment~~This method~~. However, in some cases, especially~~ is also relevant when ~~they are placed within the context of an 'income-producing asset', such as an~~a historic *real estate*~~, their presence may add to~~ property with embedded works of art, such as frescoes, is involved, where the value of the overall holding and each component should ~~be considered.~~
~~5.1.4~~ be considered. In such cases, valuers should determine whether to integrate or separate the values based on the interdependence of the art and the property, legal protections and market conditions.

~~5.5~~5.6 In all approaches, the valuer should use prudent and well-informed judgement to ~~synthesise~~consolidate the data collected and the analysis thereof into a logical value conclusion.

~~5.6~~5.7 ~~5.1.5~~ All *valuation* conclusions should be reasonably based and clearly supported by appropriate evidence, including that relating to provenance. If more than one *valuation* approach has been used in the analysis, the valuer should include both and then reconcile the results.

~~5.1.6~~

~~5.7~~5.8 RICS does not prescribe the method(s) that a valuer should use. However, the valuer should be prepared to justify the rationale for the approach and method adopted.

Other valuation considerations

~~5.8~~5.9 ~~5.2~~ In addition to the requirements of ~~VPS 3,~~**VPS 6**, the valuer's research and analysis should consider:

- the ~~extent~~comprehensibility of ~~the information that should be communicated to~~communication with the client and other intended users. The valuer should take account of the fact that the *valuation* knowledge of clients will vary, and should communicate information that can be understood by all intended users of the report
- the interest to be valued (there may be situations in which the interest in ~~personal property~~arts and antiques to be valued is shared with others, and in such cases~~,~~ it should be clearly specified)
- the characteristics required to establish the identity of the property (including, but not limited to, artist or maker, material or medium, size, title, origin, style, age, provenance or history, condition, forensic examination, exhibition history~~,~~ and citations in the literature)
- the *basis of value* to be adopted (for example, *market value*, replacement value, etc.) and the source of the definition for that value
- any special assignment conditions, and~~/or~~ legal, regulatory~~/statuatory~~ or statutory requirements
- restrictions, encumbrances, leases, covenants, contracts~~,~~ or any other such considerations that may affect the *valuation* or ownership of the ~~personal property~~arts and antiques to be valued
- the degree to which *third-party* information can be verified and relied on
- the relationship of the object to any real property or *intangible assets* that may affect the ~~valuation of the property~~ *valuation* of the property
- the importance of individual assets in an instruction that includes multiple objects with a wide range of values
- analysis of prior sales of the property or similar comparable properties being valued, if relevant
- the degree to which the current market conditions and the economy affect the level of certainty of the *valuation* conclusion.

6 Reports

~~6.1 It is the responsibility of the valuer to ensure that the valuation report is clear and accurate, and that no element of it is ambiguous or misleading. It should be prepared with independence, integrity and objectivity (see PS 2).~~

6.1 ~~6.2~~ When arriving at a *valuation* based on any *assumptions* or *special assumptions* (such as when an aggregated value is being determined – see **VPS 2 section 9 and section 10**) the effect on value, if any, should be specifically stated.

~~6.1~~6.2 The valuer ~~should~~**must** comply with the minimum requirements listed in ~~VPS 3,~~**VPS 6** and incorporate all the *valuation* considerations listed in paragraph 5.~~2 above (Other valuation considerations).~~9. Additionally, when the valuer has consulted a specialist or professional individual or *firm* in the process of preparing the *valuation*, the sources and credentials should in each instance be identified and the nature of the input acknowledged (see ~~paragraph 4.6~~paragraph 4.6 above).

~~6.3~~

~~6.2~~6.3 The level of detail provided in the *valuation* report should ~~adequately~~properly address the needs of the client and the intended user(s), the nature of the property~~,~~ and the intended use of the *valuation*. The terminology used in the report should be capable of being understood by all intended users.

~~6.3~~6.4 The valuer should state any limitations or conditions regarding *inspection*, research or analysis, and explain any effect on the valuer's conclusions.

~~6.4~~6.5 The *purpose of the valuation* (for example, equitable distribution), the *basis of value* (for example, *market value*~~),~~) and the market in which the (notional or actual) transaction is presumed to take place (for example, auction) should be set out clearly within the report.

~~6.5~~6.6 The valuer should report, if necessary, that the conclusion complies with any special requirements of the client, regulatory rules or pertinent laws.

~~6.6~~6.7 The valuer should summarise the research conducted and the data used in the analysis. The valuer should state the *valuation* approach(es) used (i.e. comparison, cost or income~~)~~), as well as the rationale for choosing it (them). The valuer should also state why other approaches were considered but rejected. If multiple approaches were used in the analysis, these should be detailed in the report and a reconciliation of the results should be included.

~~6.7~~6.8 When arriving at a *valuation* based on any ~~assumption~~*assumptions* or *special assumptions* (such as when an aggregated value is being determined~~)~~ – see ~~VPS 4 section 8 and section 9 – these~~**VPS 2 section 9 and section 10**), it should ~~be~~ specifically ~~stated together with~~state the effect on value, if any~~, of the assumption(s)/special assumption(s).~~. In particular, where the valuer has been unable to fully establish provenance with full certainty, this should be reported, together with any *assumptions* that have been made.

~~6.8~~6.9 ~~6.9~~ The valuer should comment on any issues affecting the certainty of the *valuation*. The extent of the commentary will vary, depending on the *purpose of the valuation* and the knowledge of the user.

~~6.9~~6.10 ~~6.10~~ Photographs should be appropriate and used as required by the assignment. If any alterations were made to the photographs, these should be noted.

VPGA 8 -Valuation of real property interests

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

~~This guidance provides additional commentary on certain specific topics and issues that arise in relation to the valuation of real estate, and is supplemental to IVS 400 Real Property Interests, IVS 410 Development Property and VPS 2. It expressly covers inspections and investigations, and includes important material on sustainability and ESG issues, which can be a market influence in relation to real estate.~~

1 Inspection

1~~.~~.1 ~~This~~Sections 1 and~~ the following section~~ 2 relate to *inspections* and investigations involving *real estate*, more specifically where the asset to be valued is a right of ownership, control, use or occupation of land and buildings~~ (see IVS 400 paragraph 20.2).~~.

1~~.~~.2 Many matters may or will have an impact on the market's perception of the value of the relevant interest, aspects of which may only become fully apparent during an *inspection* of the property. These can include:

a characteristics of the locality and surrounding area, and the availability of communications, services and facilities that affect value

b characteristics of the property and its use, including:

- **i** dimensions, areas and use(s) of constituent elements
- **ii** age, construction and nature of buildings or structures~~-~~, including construction materials
- **iii** accessibility both for occupiers and for visitors
- **iv** installations, amenities and services
- **v** fixtures, fittings and improvements
- **vi** *plant and equipment* that would normally form an integral part of the building (see

also ~~VPGA 5~~VPGA 5)

vii apparent state of repair and condition

viii hazardous materials kept on the property, such as (but not limited to) regulated items including chemicals, radioactive substances, explosive materials, asbestos, ozone depleting substances, oils, etc. or regulated activities being conducted, such as waste management activity.

c characteristics of the site, including ground condition, soil conditions and productivity generating attributes where applicable. Also including:

i natural hazards such as ground instability, mining or mineral extraction, and risk of flooding from all mechanisms, including pluvial and fluvial sources

ii non-natural hazards such as ground contamination where there are substances in, on or under the ground resulting from historic or current uses (see also (b) above~~)~~)).

d potential for development or redevelopment, and any physical restrictions on further development, if appropriate.

1~~.~~.3 Other matters on which relevant information may be acquired during, or further enquiries made prompted by, an *inspection*~~,~~ may include:

a improvements to leasehold properties: when valuing leases and reversions, where the property included in the original letting may subsequently have been altered or- improved, care needs to be taken to ascertain what is to be valued as it may not exactly equate with what is seen and (as appropriate) measured on the ground. If the valuer is unable to inspect the lease, or due to the absence of documented licences the extent of alterations or improvements cannot be confirmed, the valuer should proceed on the basis of stated *assumptions*

~~a~~b planning (zoning) controls: controls and the need for licences or permissions for increased or altered use, including development, will vary between countries or states, and the extent of the particular enquiries that are appropriate and need to be made in individual cases will be informed by the valuer's knowledge of the relevant market, by the nature and extent of the property, and by the *purpose of the valuation*

~~b~~c where relevant, information on any substantial outgoings and running costs, and the level of recovery from the occupier~~ – energy~~. Energy efficiency and carbon emissions may be among a number of relevant factors when considering *sustainability* and *ESG* issues (see ~~2.6~~section 3 below).

1.4 The extent to which a valuer considers and provides *valuation* advice in relation to the above matters is subject to them being competent and expert to do so. Any relevant limitations **must** be recorded in the *terms of engagement*, *valuation records* and report. Reference should also be made to 2.3 below.

2 Investigations and assumptions

2.1 Introduction

2~~.~~.1.1 The following aspects are common to many *valuations* involving *real estate*, and often raise issues about the extent of investigation that is appropriate or about the nature of the *assumptions* that might validly be made. The guidance below cannot cover all circumstances – a valuer's knowledge, experience and ~~judgment~~judgement will always need to be brought to bear on individual assignments, and in some cases appropriate limitations will have been specified by, or discussed and agreed with, the client as part of the *terms of engagement*. Similarly, the relevance and appropriateness of *assumptions* can only be judged on a 'case~~-~~-by~~-~~-case' basis – what follows is not in any way prescriptive.

~~2.2~~

~~1.1~~2.2 Title

2.2.1 The valuer **must** have information on the essential details of the interest being valued. This may take one of a number of forms, such as but not limited to a synopsis obtained from the client or a *third party*~~;~~, copies of the relevant documents~~;~~ or a current detailed report on title by the client's lawyers~~ – this list is not exhaustive~~.

2.2.2 The valuer **must** state what information has been relied on and~~ –~~, where appropriate~~ –~~, what *assumptions* have been made. For example, if a lease document ~~were~~is not available, the valuer might need to make an *assumption* that the terms advised and stated ~~were~~are those in the actual lease. However, if an assurance of good title ~~had~~has been provided, the valuer might reasonably rely on the correctness of this information – but this would ultimately be a matter for lawyers, and where appropriate the valuer might specifically note that the position must be checked by the client's legal advisers. A valuer would not expect to take responsibility or liability for the true interpretation of the client's legal title in the property or asset.

~~1.2~~2.3 ~~2.3~~ Condition and construction of buildings

2.3.1 Even if competent to do so, a valuer would not normally undertake a building survey to establish the details of any building defects~~ or~~, disrepair~~.~~ or information related to construction materials. However, it would also be wrong for the valuer to ignore obvious~~-~~
defects that would have an impact on the value, unless a *special assumption* to that effect has been agreed. The valuer should therefore clearly state that the *inspection* will not amount~~-~~
to a full building survey. In addition, the limits that will apply to the valuer's responsibility to investigate and comment on the structure, construction materials or any defects **must** be defined. It should also be stated~~ –~~, wherever appropriate~~ –~~, that an *assumption* will be made that the building(s) is~~(are)~~ in good repair, except for any (minor) defects specifically noted.

~~1.3~~2.4 ~~2.4~~ Services

~~1.3.1~~2.4.1 The presence and efficiency of building services and any associated *plant and equipment* will often have a significant impact on value~~:~~; however, detailed investigation will normally be outside the scope of the *valuation*. The valuer will need to establish what sources of information are available, and the extent to which these can be relied on, in undertaking the *valuation*. It is usual to agree on an *assumption* that the services and any associated controls or software are in working order or free from defect.

~~1.4~~2.5 ~~2.5~~ Planning (zoning)

~~1.4.1~~2.5.1 Where there is an element of doubt, the valuer may need to establish whether the property has the necessary statutory consents for the current buildings and use, or advise that verification should be sought, and whether there are any policies or proposals by statutory authorities that could impact the value positively or adversely. This information will often be readily available, but delays or expenses may be incurred in obtaining definitive information. The valuer should, among other things, state what investigations are proposed, or what *assumptions* will be made, where verification of the information is impractical within the context of the *valuation*.

~~2~~3 Sustainability~~,~~ and environmental, social and governance (ESG) matters

3.1 Introduction

3.1.1 Potential or actual constraints on the enjoyment and use of property caused by *sustainability* and ~~ESG~~environmental factors may result from natural causes (such as flooding, severe storms and wildfires), from non-natural causes (such as contamination) or sometimes from a combination of the two (such as subsidence resulting from the historic extraction of minerals). There may also be *sustainability* and ~~ESG~~environmental factors beyond the directly physical, such as carbon emissions. Environmental factors represent only one of the pillars of *ESG*; guidance on social and governance elements are included in section 3.6 below. When considering each of the three pillars, other stakeholders such as, but not limited to, the client, occupiers and managing agents may need to be consulted.

3.1.2 Despite the considerable diversity of circumstances, the key question is always the extent to which the factors identified affect value. Particular care should be taken when assessing or commenting on *ESG* factors, as valuers may not have the specialist knowledge and experience required. An increasingly prevalent example of this globally is the assessment of capital expenditure required to meet market and regulatory energy efficiency and decarbonisation requirements by a specific target date. In appropriate cases, the valuer may recommend making further enquiries and/or obtaining further specialist or expert advice in respect of these matters.~~ The following paragraphs consider the matter in more detail.~~

~~2.1~~3.2 Natural environmental constraints

~~i~~3.2.1 Some property will be affected by environmental factors that are an inherent feature either of the property itself or of the surrounding area, and which have an impact on the value of the property interest. Examples include ground instability issues (such as swelling and shrinking clay, subsidence ~~consequent on~~resulting from historic or current mineral extraction, etc.) and the risk of flooding from any mechanism. Resilience protection measures may alleviate the impact of the factor.

~~ii~~3.2.2 Although detailed commentary on both the risks and the effects may be outside the realm of the valuer's direct knowledge and expertise, the presence, or potential presence, of these factors is something that can often be established in the course of a *valuation inspection* through normal enquiries or by local knowledge. ~~Use of the relevant Property Observation Checklist from appendices A to C of the RICS guidance note Environmental risks and global real estate, 1st edition (2018), may be of assistance when undertaking inspections.~~ It is not just the risk of a particular event occurring that needs to be considered, but also the various consequences. For example, if the property has suffered a recent event, such as flooding, this may affect the availability of insurance cover, which, if material, should be reflected in the *valuation*.

~~iii~~3.2.3 The valuer should be careful to state the limits that will apply to the extent of the investigations and the *assumptions* that will be made in relation to environmental matters, and should state any sources of information relied upon.

~~2.2~~3.3 Non-natural constraints (contamination and hazardous substances)

~~i~~3.3.1 A valuer may not be competent to advise on the nature or risks of contamination or hazardous substances, or on any costs involved with their removal. However, a valuer who has prior knowledge of the locality and experience of the type of property being valued ~~can reasonably~~ may be ~~expected~~able to comment on the potential that ~~may exist~~exists for contamination, and the impact that this could have on value and marketability.

~~ii~~3.3.2 The nature and risks may of course be directly attributable to the use of the property itself. For example, a number of businesses depend on activities that involve the use of hazardous substances, or operate waste management activities that may be regarded as a nuisance by *third parties*. Although detailed commentary on such effects may be outside the realm of the valuer's expertise, their presence, or potential presence, is something that can often be established in the course of a *valuation inspection* through normal enquiries or by local knowledge.

~~iii~~3.3.3 The valuer should state the limits on the investigations that will be undertaken and state any sources of information or *assumptions* that will be relied on. ~~Any historic or existing use matters observed can again be recorded on the relevant Property Observation Checklist from appendices A to C of the RICS guidance note Environmental risks and global real estate, 1st edition (2018).~~

3.4 Transition and stranding risk

3.4.1 The Paris Agreement is a legally binding international treaty on climate change adopted by 196 parties globally. Its goal is to limit global warming to well below 2, preferably to 1.5, degrees Celsius compared to pre-industrial levels. Many countries globally have adopted additional regulation and legislation to achieve this transition, and it is subsequently a factor in many market decisions and in lending, investment and financial reporting.

3.4.2 The importance of transition risk to market stakeholders means that they are increasingly asking for it to be modelled explicitly. This may be in terms of the planned capital expenditure and operational costs and income needed to meet regulatory and/or market objectives. Valuers have a role to play in this process, including explicit *ESG* requirements in **VPS 1**, **VPS 4** and **VPS 6**. However, valuers may not have the expertise to provide, evaluate or comment on the reliance of transition risk modelling within *valuation* and **must not** do so if they lack the requisite competence or experience.

3.4.3 Stranding risk refers to potential write-downs due to direct climate change impacts and devaluations related to the transition to a 'low-carbon economy' (CRREM definition). An analysis of stranding risk highlights the point at which an asset becomes obsolete without intervention to support decarbonisation. Understanding this allows a suitable decarbonisation pathway to be chosen, and market participants are often interested in the short-, medium- and longer-term impacts of this on value. Valuers **must** again be careful of their role in supporting any analysis of stranding risk or commenting on value impacts within this context, which is a specialist area.

3.4.4 Transition risk can also be considered through the appropriate use of *special assumptions*. For example, it may be appropriate to consider the real asset both in its actual state and with a *special assumption* assuming full compliance with regulatory requirements related to energy efficiency. *Special assumptions* may only be made if they can reasonably be regarded as realistic, relevant and valid for the particular circumstances of the *valuation* (**VPS 2**), and **must** be expressly agreed and confirmed in writing to the client before the report is issued (see **VPS 1**).

3.4.5 The transition plans of a particular owner or occupier may not be reflective of the market, and any consideration of transition should be appropriate for the *basis(es) of value* adopted.

3.5 Circularity

3.5.1 Circularity is a process that considers the potential for recovery, reuse and recycling of items following circular economy principles. A circular economy is one that is restorative and regenerative by design, and that aims to keep products, components and materials at their highest utility and value at all times, distinguishing between technical and biological cycles (these definitions are taken from RICS' Whole life carbon assessment for the built environment).

3.5.2 In many cases circularity may not explicitly form part of *valuation* considerations. However, some specialist *valuations*, particularly those undertaken in respect of development, may include the explicit consideration of circularity, which **must** only be considered in accordance with **VPS 1**, including **paragraph 3.2(s)**, and only by suitably experienced and competent professionals. This is a highly specialist area and often requires data and expertise (such as building survey and cost consultancy) that may go beyond the expertise of the valuer.

3.5.3 Circularity in the context of *valuation* can (where relevant, appropriate and part of the *terms of engagement*) include the consideration of the residual value of a building's component materials and products by (and/or with the support of) a specialist or specialists of the required level of experience and competence. It may necessitate the consideration of a number of matters such as, but not limited to, ongoing maintenance, deconstruction, remediation, recalibration and recertification after initial usage. Those valuers instructed to undertake *valuations* that consider circularity should appropriately investigate, record and consider data related to construction materials.

3.6 Social and governance considerations

3.6.1 The environmental aspect of *ESG* is generally the factor most explicitly considered in the *valuation* of real property interests as it is often the most visible, measurable and transparent in terms of physical and market impact. Environmental regulation also tends to be the most development in terms of the *ESG* factors.

3.6.2 For the first time, IVS 104 includes a data and inputs appendix that explicitly sets out examples of social and governance factors, as well as environmental. This is a helpful starting point, but it should be noted that this IVS section covers all asset types (including businesses and financial instruments) and *bases of value* (including calculations of worth), and therefore some factors may not be relevant to, for example, a market *valuation* of real property.

3.6.3 Paragraph 3.7.4 below refers to several non-environmental *ESG* factors such as location, mobility and connectivity. These typically reflect the overall quality and useability of an asset, which are also factors capable of being captured within a *valuation* of real property. This is distinct from the general value of wider benefits to the community or society (sometimes referred to as social value), which would not necessarily be observable within a market *valuation* of a particular asset or liability. Social value considerations are often a specialist area within the planning, development and repurposing of real property interests and may require additional expertise.

3.6.4 Work undertaken by RICS members and *RICS-regulated firms* is done so within a mandatory governance framework that aligns with *ESG* considerations. Governance and ethical considerations form the core part of these standards (**PS 1** and **PS 2**) and the RICS Rules of Conduct. Application of RICS standards supports better governance by enhancing transparency, accountability and appropriate objectivity. RICS produces other specific mandatory professional standards that support the monitoring and application of good governance, such as RICS' Countering bribery and corruption, money laundering and terrorist financing and RICS' Conflicts of interest. Explicit reference to the application of these documents within *valuation terms of engagement* and reports can support the transparent consideration of the governance within *ESG*.

3.6.5 RICS aligns with and sits within a global framework of standards that enhance and support better governance (e.g. IVS, IFRS). Similar to environmental and social considerations, the specific role of the valuer in terms of wider governance reporting is a consideration within the *terms of engagement* (**VPS 1**).

~~2.3~~3.7 Sustainability and ESG – assessing the implications for value

~~i While not a term that has a universally recognised definition yet (see the RICS glossary in Part 2), in a valuation context sustainability encompasses a wide range of physical, social, environmental and economic factors that can affect value and of which valuers should be aware.~~

3.7.1 ~~ii The range of issues~~*Sustainability* and *ESG* are defined terms in these standards (see the Glossary).

~~2.3.1~~3.7.2 The range of *sustainability* issues and concerns includes, but is not limited to, key physical risks, such as flooding, heat, wildfires and severe storms~~,~~; and transitional risks such as energy efficiency, carbon emissions and climate impact. There are also relevant social and governance risks highlighted in 3.6 above. The impact of all these *ESG* risks can be influenced by current and historic land use, as well as matters of design, configuration, accessibility, legislation, management and fiscal considerations. *Sustainability* matters can impact occupier preferences and purchaser behaviour, and may also be a consideration for investors, secured lenders, insurers and public bodies.

~~2.3.2~~3.7.3 ~~iii~~ The pace at which *sustainability* and *ESG* is ~~feeding~~impacting *valuation* judgements directly or indirectly ~~into value~~ has jurisdictional variations. In order to respond appropriately as markets change, valuers should continuously seek to enhance their knowledge. The role of valuers is to assess value in the light of obtainable evidence ~~normally obtained through analysis of comparable transactions.~~. While valuers should reflect markets, not lead them, they should be aware of *sustainability* and *ESG* features and wider trends related to them, and the implications these could have on property values in the short, medium and longer term. ~~The issues may extend to:~~

- ~~sustainability and ESG matters (see above) including, where applicable, climate change and resilience to climate change~~
- ~~configuration and design including use of materials and concepts increasingly associated with 'wellness'~~

~~accessibility and adaptability, including~~

3.7.4 The following factors may be of relevance in *inspection* and investigation, and *valuation* reporting and *documentation*, in relation to real property interests, and should be considered where relevant and appropriate for the individual *valuation* instruction. This list is not intended to be exhaustive and may differ depending on the jurisdiction and/or market in question. Some items may be more or less relevant to, for example, residential property and commercial property, property that is open to the public and property that is private. The *basis of value* may be important when considering the below, as some items may reflect individual rather than market matters. The following should not be read as a checklist, as the relevance of each item is subject to the *valuation* being undertaken. The items on the list have been broadly categorised, but note some items intersect with multiple *ESG* pillars.

Environmental

a Details of regulatory or legally imposed energy rating schemes and related proposed and/or required improvements, including income and capital costs relevant to enhancement.

b Energy consumption (with reference to heating, cooling and lighting). This may include energy use intensity measures benchmarked against the relevant *real estate* sector/class.

c Type(s) of energy used (for example electricity, oil, natural gas).

d Details of any onsite energy generation (including renewable energy).

e Quantity and specification of renewable energy systems (e.g. solar panels, heat pumps, biomass, wind turbines).

f Labels and certificates (for example BREEAM, LEED, WELL).

g Greenhouse gas emissions.

h Emissions pathway analysis (for example, in Europe, CRREM pathway analysis).

i Physical climate risk factors (such as flood, heat, drought, sea level).

j Water usage (for example, is the property adapted to reduce water consumption? Potential measures include whether there is a water management system in place and the levels of water consumption).

k Biodiversity (relevant data may include, for example, the share of non-vegetated surface area compared to total surface area, activities negatively affecting biodiversity-sensitive areas, use of pesticides, the existence of a biodiversity action plan and the approximate area of planting or any roof coverings).

l Materials used in construction and/or renovation.

Social

m Location characteristics (connectivity and infrastructure).

n Mobility (for example, number of electric vehicle charging points, bicycle parking spaces for residents/occupiers).

o Building access ~~and use by those~~ for people with disabilities and associated requirements.

p ~~carbon emissions, energy efficiency,~~Indoor air quality (relevant measures include the ventilation rate, details of filtration, CO_2 level and temperature).

q Community impact (for example zoning and occupier mix, provision of recreational space, green space and community facilities, interactivity with local businesses, light, air or noise pollution, traffic congestion, etc.). Note, with reference to 3.6 above, these are community impacts on the value of the real property interest being valued, not general value to the community.

r Adaptability (the ease with which the building ~~'intelligence'~~is adaptable for different needs).

Governance

s Safety (whether the property meets safety regulations and market expectations of safety).

t Risks around ownership, occupation and the source of any relevant transaction funds in relation to criminal activity, including but not limited to money laundering, terrorist finance, modern slavery, and breach of national and international sanctions.

u The impact of ownership and/or occupation where there is a negative public and/or market perception of their *ESG* credentials and application.

v Diversity, equity and inclusion (DEI) (for example, does the design of the building encourage inclusive use, e.g. for neurodivergent individuals, different generations, etc.).

~~p~~w Consideration of leases and other ~~'costs in use'~~relevant contracts with specific *sustainability/ESG*

- ~~fiscal considerations.~~

~~iv Valuers should identify and collect sustainability and ESG-related data. Where available, this might include details of rating schemes related to the asset.~~

~~v~~ provisions.

x Planning (zoning), registration, licensing, heritage and related legal matters.

3.7.5 The above list is specific to real property interests. Attention may also need to be given to IVS 104 [ESG] Data and Inputs: Appendix paragraph A10, which is relevant to all asset and liability types. This refers to additional factors (including additional social and governance considerations).

3.7.6 *ESG* and *sustainability inspection* and investigation may require the additional expertise of specialists.

3.7.7 When considering the effects of *ESG* factors influencing the value of real property interests, additional stakeholders might need to be taken into consideration, such as property users, occupiers and property management. The valuer may need to consider a range of market information that might be influenced by *ESG* factors, such as but not limited to void periods, capital incentives, rent-free periods, lease length, capital and operational expenditure, operational income and the market's perception of property management and service quality.

3.7.8 Where assessing *market value*, the valuer will need to be careful to distinguish *ESG* attributes and circumstances specific to individuals and those reflective of the market. The (positive or negative) impact of market conditions on demand for *ESG*-relevant characteristics should also be considered.

~~2.3.3~~**3.7.9** Only where existing market evidence would support this, or where in the valuer's judgement market participants would expressly reflect such matters in their bids, should *sustainability* ~~characteristics directly influence value(s) reported~~and *ESG* characteristics directly influence the value(s) reported. Unless otherwise agreed, the valuer's role is limited to reporting on *ESG* matters that impact value for the purpose and on the basis the *valuation* is being undertaken. The valuer does not have a general duty to undertake *ESG* risk assessment or assess the property's *ESG* credentials beyond this.

~~2.3.4~~**3.7.10** ~~vi~~ Valuers are often asked to provide additional comment and strategic advice~~. In these cases, the valuer should, subject to their competence~~ or property risk advice about *ESG* and ~~expertise, consult with the client on the use and applicability of~~ *sustainability* ~~and ESG metrics and benchmarks that are applicable in each case. For example, when preparing valuations on the basis of~~ ~~*investment value* or worth, sustainability and ESG factors that could influence investment decision-making may properly be incorporated, even though they are not directly evidenced through transactions.~~ Such ~~valuations may also be the principal place to consider the 'social' and 'governance' aspects of ESG~~advice should be reported separately or clearly demarcated within the report.

~~2.3.5~~**3.7.11** ~~vii~~ ~~Where appropriate, in order to~~To comply with ~~best practice in~~ the reporting~~,~~ requirements included in **VPS 6**, valuers should, where appropriate:

a provide a description of the *sustainability* and *ESG*-related property characteristics and attributes that have been collected

b assess the extent to which the subject property currently meets the *sustainability* and *ESG* criteria typically expected within the context of its market standing (there may be no expectation)

c provide an opinion of the relationship between *sustainability/ESG* factors and *valuation* within the subject market (if any), including a comment on the current benefits/risks that are associated with these characteristics, or the lack of benefits/risks

~~a~~**d** arrive at an informed view on the likelihood of these impacting on value~~,~~ (if at all), e.g. how a well-informed purchaser would take account of them in making a decision as to offer price

- ~~provide a description of the sustainability-related property characteristics and attributes that have been collected~~
- ~~provide a statement of their opinion on the relationship between sustainability factors and the resultant valuation, including a comment on the current benefits/risks that are associated with these characteristics, or the lack of risks and~~

~~b~~e provide an opinion on the potential impact of ~~these~~identified *sustainability/ESG* benefits and/or risks (if any) to relative property values over time.

~~2.3.6~~3.7.12 ~~viii~~ The ~~latest~~current edition of ~~Sustainability and ESG in commercial property valuation and strategic advice, RICS guidance note~~RICS' Sustainability and ESG in commercial property valuation and strategic advice provides guidance on the identification, assessment and impact of *sustainability* and *ESG* issues for commercial ~~real estate~~property *valuations*.

VPGA 9 ~~Identification of~~ Valuing portfolios~~, collections~~ and groups of ~~properties~~assets

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Scope

1.1~~.1~~ This guidance provides additional commentary on the identification of portfolios~~,~~ and groups of assets (also sometimes referred to as collections and ~~groups of properties~~lots) for reporting in accordance with ~~VPS 3.~~**VPS 6.**

1.2 ~~Examples where~~ A number of key principles should be applied, such as, but not limited to:

- the need to agree whether to value individually, as a whole or in specific groups
- subject to the *purpose of valuation*, identifying whether a discount or premium exists if the portfolio is sold as a whole or in a specific ~~clarification of the lotting~~ lot/group
- valuing on an *assumption* that groups assets in an artificial manner should normally be declined.

1.3 The IVS 102 Appendix refers to *synergistic value* as 'the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values'. Of particular relevance for the *valuation* of portfolios and groups of properties is:

> 'If the synergies are only available to one specific buyer then synergistic value will differ from market value, as the synergistic value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as "marriage value" in some jurisdictions.'

2 Purpose of the valuation

2.1 The *purpose of the valuation* can impact the way portfolios and groups of properties are considered, for example, there may be a requirement for the value of the assets to be reported individually. The extent of what comprises an individual property or other asset **must** be appropriately reflected in the *terms of engagement* (**VPS 1**) and subsequent reporting and *documentation* (**VPS 6**).

2.2 Requests to value properties on an *assumption* that lots them in an artificial manner should normally be declined. However, in certain circumstances, unusual lotting may be dealt with using a *special assumption* (see **VPS 2 section 10**).

2.3 Once the valuer has identified the lots in a portfolio that are to be valued separately, consideration needs to be given to any particular *assumptions* or *special assumptions* that may be necessary. These **must** be documented in the *terms of engagement* (see **VPS 1**) and in the report (see **VPS 6**). Examples of situations where different *assumptions* can have a material effect on the *valuation* of a portfolio are discussed in the following paragraphs.

2.4 If a whole portfolio, or a substantial number of properties within it, were to be placed on the market at the same time, it could effectively flood the market, which could lead to a reduction in values. Conversely, the opportunity to purchase a particular group of properties might produce a premium. In other words, the value of the whole could exceed the sum of the individual parts, and vice versa.

~~1.4~~2.5 If valuing for a purpose that assumes that the portfolio will continue to remain in existing ownership or occupation, for example, for inclusion in *financial statements*, it would be inappropriate to make any reduction or allowance in the *valuation* to reflect the possible effect of flooding the market. A statement to this effect should be made in the report.

2.6 If the same portfolio were to be valued as security for secured lending, the possible adverse effect on individual properties if the whole portfolio were placed on the market at the same time should not be ignored. In such a case, it would normally be appropriate to state that the *assumption* has been made that the properties would be marketed in an orderly way and would not all be placed on the market at the same time. However, if circumstances existed that such an *assumption* would not be made by the market, for example, if it were known that the current owner was in financial difficulty, this would become a *special assumption* and its effect on the *valuation* should be clearly stated (see **VPS 2 section 10**).

2.7 Likewise, where the valuer ascribes a single value to a group of separate properties, any *assumptions* necessary to support that approach should be stated. If the valuer considers that the treatment of the portfolio on this basis is not one that the market would necessarily make, such an *assumption* would become a *special assumption* (see **VPS 2 section 10**).

2.8 In any case where the total value of the properties within a portfolio would differ significantly depending on whether they were disposed of individually, in groups or as a single lot, this should be stated clearly in the report. ~~2.1~~ The lotting and grouping *assumptions* made should also be included in any published reference.

2.9 Where a portfolio or group of properties or assets has been valued on the *assumption* that it would be sold as a single entity, the reported *value* will relate to the whole of the group. Any breakdown of the *value* of the individual properties or assets should be clearly expressed as such, with a statement that this apportionment does not necessarily equate to the *value* of the interest in any individual property or asset.

2.10 Conversely, if the total of the *values* for each individual property or asset in a portfolio as an aggregated figure is provided, care should be taken not to present this as the *value* of the entire portfolio.

2.11 Where a portfolio premium or discount is applied, valuers should expressly state the primary reason(s) for the difference and provide a rationale for such adjustments.

3 Examples

3.1 Examples of situations where portfolio and grouping considerations may need to be made include~~:~~ (this list is not exhaustive):

a ~~a~~ physically adjoining properties that have been acquired separately by the current owner (for example, where a developer has assembled a site with a view to future redevelopment, or where an investor is building a strategic stake in the locality)

b ~~b~~ physically separate properties that are occupied by the same entity and where there is a functional dependence between the properties (for example, a car park that is separate from, but exclusively used by, the occupier of a building)

c ~~c~~ where ownership of a number of separate properties or assets would be of particular advantage to a single owner or occupier because of economies that may result from either increased market share or savings in administration or distribution, as with a block of flats or hotels, and

d ~~d~~ where each individual property is an essential component of an operation covering a large geographical area (for example, as part of a national or regional utility network, such as telecommunication masts).

~~3 Purpose of the valuation and identification of the lots within the portfolio~~

~~3.1 The purpose of the valuation may dictate the approach taken. For example, there may be a requirement for the value of the assets to be reported individually. The extent of what comprises an individual property or other asset will need to be clarified with the client.~~

~~3.2 Requests to value properties on an assumption that lots them in an artificial manner should normally be declined. However in certain circumstances, unusual lotting may be dealt with using a special assumption (see VPS 4 section 9).~~

~~3.3 Once the valuer has identified the lots within a portfolio that are to be valued separately, consideration needs to be given to any particular assumptions or special assumptions that may be necessary. These need to be recorded in the terms of engagement (see VPS 1) and in the report (see VPS 3). Examples of situations where different *assumptions* can have a material effect on the *valuation* of a portfolio are discussed in the following paragraphs.~~

~~1.51.4 3.4 If a whole portfolio, or a substantial number of properties within it, were to be placed on the market at the same time, it could effectively flood the market, leading to a reduction in values. Conversely, the opportunity to purchase a particular group of properties might produce a premium. In other words, the value of the whole could exceed the sum of the individual parts, and vice versa.~~

~~3.5 If valuing for a purpose that assumes that the portfolio will continue to remain in the existing ownership or occupation, for example, for inclusion in financial statements, it would be inappropriate to make any reduction or allowance in the valuation to reflect the possible effect of flooding the market. A statement to this effect should be made in the report.~~

~~3.6 If the same portfolio were to be valued as security for secured lending, the possible adverse effect on individual properties if the whole portfolio were placed on the market at the same time should not be ignored. In such case it would normally be appropriate to state that the assumption has been made that the properties would be marketed in an orderly way and would not all be placed on the market at the same time. However, if circumstances existed that such an assumption would not be made by the market, for example, if it were known that the current owner was in financial difficulty, this would become a special assumption and its effect on the valuation should be clearly stated (see VPS 4 section 9).~~

~~3.7 Likewise, where the valuer ascribes a single value to a group of separate properties, any *assumptions* necessary to support that approach should be stated. If the valuer considers that the treatment of the portfolio on this basis is not one that the market would necessarily make, such an assumption would become a special assumption (see VPS 4 section 9).~~

~~3.8 In any case where the total value of the properties within a portfolio would differ significantly depending on whether they were disposed of individually, in groups or as a single lot, this should be stated clearly in the report. The lotting assumptions made should also be included in any published reference.~~

~~3.9 Where a portfolio or group of properties or assets has been valued on the assumption that it would be sold as a single entity, the reported market value will relate to the whole of the group. Any breakdown of the market value of the individual properties or assets should be clearly expressed as such, with a statement that this apportionment does not necessarily equate to the market value of the interest in any individual property or asset.~~

~~3.10 Conversely, if the total of the market values for each individual property or asset in a portfolio as an aggregated figure is provided, care should be taken not to present this as the market value of the entire portfolio.~~

VPGA 10 ~~Matters that may give rise to material~~Material valuation uncertainty (MVU)

~~This guidance is advisory and not mandatory in content. Where appropriate, however, it alerts members to relevant mandatory material contained elsewhere in these global standards, including the International Valuation Standards, using cross-references in bold type. These cross-references are for the assistance of members and do not alter the status of the material that follows below. Members are reminded that:~~

~~this guidance cannot cover every circumstance, and they must always have regard to the facts and circumstances of individual assignments when forming valuation judgments~~

~~they should remain alert to the fact that individual jurisdictions may have specific requirements that are not covered by this guidance.~~

1 Scope

1~~.~~.1 This guidance provides additional commentary on matters that may give rise to material valuation uncertainty ~~in accordance with VPS 3 paragraph 2.1(o).~~(MVU) with specific requirements set out in **VPS 6 paragraph 2.2(o)**, commonly referred to as an MVU declaration or clause.

1.2 All *valuations* are estimates and therefore always subject to a degree of uncertainty. However, this ordinary uncertainty should not be confused with MVU. **VPS 6 paragraph 2.2(o)** explains ‘material’ as where the degree of uncertainty in a *valuation* falls outside any parameters that might normally be expected and accepted. Some examples are provided in paragraph 2.1 below.

1.3 In some jurisdictions, the reporting of MVU can lead to market and regulatory impacts, and due care must therefore always be taken. Financial reporting, collective investment scheme and banking standards set by an authority such as a regulator or government can, and often do, have specific disclosure requirements in relation to MVU, although that particular term may not be expressly used. Compliance with those requirements is **mandatory** in cases to which they apply.

~~2 Examples~~

~~2.~~1.4 Valuers should also note that similar terminology around materiality may be used in the context of, for example, accountancy, and therefore the valuer should be clear that what they are reporting is MVU as set out in these standards.

2 Examples

2.1 It is not possible to provide an exhaustive list of circumstances in which ~~material uncertainty~~MVU may arise ~~–~~; however, the examples ~~in 2.2, 2.3 and 2.4~~below represent ~~the~~ three ~~most~~ common circumstances.

a ~~2.2 The asset or liability itself may have very particular~~Particular characteristics that make it difficult for the valuer to form an opinion of the likely value, regardless of the approach or method used. For example, ~~it~~the asset or liability may be~~ a~~ very unusual, or even unique~~, type~~. Similarly, the quantification of how purchasers would reflect a potential significant change, such as a potential planning~~ permission, may be highly dependent on the special assumptions made.~~
~~2.3 Where~~permission, may be highly dependent on the ~~information~~*special assumptions* made. For some assets or liabilities, the market may be so limited that there are few, if any, relevant transactions that can be analysed to provide reliable inputs into the *valuation*.

b Information available to the valuer is highly limited or restricted, either by the client or the circumstances of the *valuation*, and the matter cannot be sufficiently addressed by adopting one or more reasonable *assumptions*. In such a situation, less certainty can be attached to the *valuation* than would otherwise be the case.

c ~~2.4 Markets can be disrupted by relatively unique factors. Such~~Significant market disruption ~~can arise~~arising due to unforeseen financial, ~~macro-economic~~macroeconomic, legal, political or even natural events. If the *valuation date* coincides with, or is in the immediate aftermath of, such an event, there may be a reduced level of certainty that can be attached to a *valuation*~~,~~ due to:

i inconsistent, or an absence of, ~~empirical~~ data~~, or to~~

ii the valuer being faced with ~~an unprecedented~~a highly abnormal or unexpected set of circumstances on which to base a ~~judgment.~~ judgement.

In such situations, demands placed on valuers can be unusually testing. Although valuers should still be able to make a ~~judgment~~judgement, it is important that the context of that ~~judgment~~judgement is clearly expressed.

~~2~~3 Reporting

3~~.~~.1 The overriding requirement is that a *valuation* report **must not** be misleading or create a false impression~~.~~ **(VPS 6 section 1).** The valuer should expressly draw attention to, and comment on, any issues resulting in ~~material uncertainty in the valuation~~MVU as at the specified *valuation date*. Such comment should not be about the general risk of future market movements or the inherent risk involved in forecasting future cash flows – both of which can and should be considered and reflected as part of the *valuation* process (for example, the *valuation* of an *investment property* that is subject to a very uncertain future cash flow could nevertheless be underpinned by a depth of consistent comparable transaction information) – but should be related to the risk surrounding the *valuation* of that asset.

3~~.~~.2 Where ~~material uncertainty~~MVU exists, it will normally be expressed in qualitative and narrative terms, indicating the valuer's confidence in the *valuation* opinion offered by use of a suitable form of words. Indeed, this may be the only realistic way in which to do so, given that the very conditions that create ~~valuation uncertainty~~MVU will frequently mean there is an absence of empirical data to inform or support a quantitative estimate.

3~~.~~.3 In most cases it is either inappropriate or impractical to reflect ~~material uncertainty~~MVU in the *valuation* figure quantitatively, and indeed any attempt to do so might well seem contradictory. If a mathematical measure of uncertainty is included in any report, it is essential that the method or model used is adequately explained, with any limitations appropriately highlighted. In some limited circumstances, a sensitivity analysis may be judged appropriate ~~in order~~ to illustrate the effect that clearly stated changes to specified variables could have on the reported *valuation*, which should be accompanied by suitable explanatory comment. It will be appreciated that the inherent risk with quantification of any sort is that it might convey an impression of precision that could be misleading.

3.4 In other cases, where the valuer can reasonably foresee that different values may arise under different but well-defined circumstances, an alternative approach ~~would be~~is for the valuer to enter into a dialogue with the client to consider alternative *valuations* using *special assumptions* that reflect those different circumstances. However, *special assumptions* may only be used if they can be regarded as realistic, relevant and valid in connection with the circumstances of the *valuation*. Where different values arise under different circumstances, they can be reported separately on the stated *special assumptions*.

3.5 ~~3.5 It would not normally be acceptable for a~~A *valuation* report ~~to~~should not just have a standard general caveat to deal with ~~material valuation uncertainty.~~MVU, but should also include further specific commentary about the circumstances in question. The degree to which an opinion is uncertain will normally be unique to the specific *valuation,* ~~and the~~ although it is accepted that common references to unforeseen events may be made. The use of standard clauses without any other relevant considerations and commentary can devalue or bring into question the authority of the advice given. ~~The task is to produce authoritative~~

3.6 During major global and ~~considered professional advice within~~national events, RICS has provided additional industry support outside Red Book Global Standards on MVU reporting. This does not replace the ~~report. Issues that affect the degree~~ requirements of ~~certainty should be reported in this context.3.6 Unless specifically requested, the expression~~these standards, judgement of valuers or conclusions of a *valuation* report.

~~3.5~~**3.7** Stating a range of values ~~within a stated range~~ is not ~~good practice and would not normally be regarded as~~ an acceptable ~~form~~way of ~~disclosure~~disclosing MVU. In most cases the valuer has to provide a single figure in order to comply with the client's requirements and *terms of engagement*. Similarly, the use of qualifying words such as 'in the region of' would not normally be appropriate or adequate to convey ~~material uncertainty~~MVU without further explicit comment, and ~~is again actively discouraged.~~such wording should not be used for this purpose. Where different values may arise under different circumstances, it is preferable to provide them on stated *special assumptions* (see paragraph 3.4 above).

4 Removal of MVU declarations

4.1 MVU should only be reported in circumstances where the condition(s) set out in the examples at paragraph 2.1 or something equivalent continue(s) to be in existence. It is not appropriate to wait until a 'normal' market resumes before 'removing' MVU declarations from reports. However, it is accepted that while market disruption can occur suddenly, market correction and adjustment will generally occur more gradually. It is particularly important that generalisation is avoided – it is theoretically possible, but in practice unlikely, that a single moment in time will be recognisable as the point at which all, or even most, MVU declarations can be removed. It is more likely that an approach to removing declarations reflecting, for example, different sectors, markets and jurisdictions will be justifiable, probably supported by an emerging consensus of opinion and market sentiment, even if data remains limited.

4.2 When making judgements about whether to continue to report MVU declarations in respect of a factor referenced in the examples above, some or all of the following criteria may be informative (the list is not exhaustive).

- Price discovery indicates a sufficient number of completed market transactions have been instigated since the circumstances that led to MVU. Note that relevant evidence may also be gleaned from other forms of market activity in addition to completed transactions, such as aborted transactions.
- There is contemporary evidence of a sufficient number of willing sellers, buyers and where relevant occupiers of a reasonable covenant for a normal functioning market.
- There is evidence from economic indicators relevant to the particular market to support *valuation*. This might include, for assets principally rented, rent and service charge collection levels.
- Government, institutional, private, fund or lender finance is available for the relevant sector, sub-sector, asset type or typical occupier to facilitate liquidity, transactions and the immediate financial security of occupiers.
- There is no sector- or sub-sector-specific statute, government advice or other relevant regulation that materially prevents the operational use of the asset(s) being valued.
- There is no government, regulatory or other imposition on the appropriate *inspection* of the asset(s) (where relevant).
- The asset(s) being valued have greater certainty around security of occupational income due to, for example, being long-dated annuity income with a secure covenant, such as government or very strong investment grade annuities.

VPGA 11 Relationship with auditors

1 Scope

~~3.7 Attention is drawn to the fact that financial reporting standards may, and often do, have specific disclosure requirements in relation to valuation uncertainty, though that particular term may not be expressly used.~~1.1 In many jurisdictions, auditors have a statutory obligation to express an opinion on whether an entity's financial reports:

- have been properly prepared in accordance with the relevant legislation (particularly in accordance with disclosure requirements)
- have been prepared in accordance with applicable accounting standards and
- give a true and fair view.

1.2 In order to express this opinion, auditors may need to obtain reasonable assurance from valuers that *valuations* prepared for *financial statements* under IFRS or local accounting standards (see VPGA 1) are correct at the *date of valuation* and further information may be requested.

1.3 The International Auditing and Assurance Standards Board (IAASB) produces International Standards on Auditing (ISA) and a Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements. The latest editions can be accessed via the IAASB's website. It is important that valuers acting as experts as described here have a working knowledge and understanding of their content so far as it applies to them. As they are revised and updated from time to time, they are not reproduced here.

1.4 An independent auditor may look to an expert valuer for information or assistance in determining whether the values of assets or liabilities included in *financial statements* are reasonable and well supported. Where this is so, it is important for the valuer to be clear about the exact nature of their role and the responsibilities involved.

1.5 The valuer may be engaged by either:

a the reporting entity to supply a *valuation* figure for management's inclusion in the relevant *financial statement* (management's expert) or

b the auditor to assist with independent review of the relevant entity's report (auditor's expert).

1.6 In respect of the former, a valuer provides a *valuation* figure as an input to the *financial statement* preparation process. While their expertise is crucial, the valuer does not assume responsibility for the final *fair values* reported in the *financial statements*. Management is responsible for considering the valuer's input alongside other relevant information and exercising judgement to determine the appropriate *fair value*. Ultimately, management bears full responsibility for the accuracy and completeness of the *financial statements*.

2 The role of the independent auditor

2.1 The responsibility of the auditor is to design and perform audit procedures to obtain sufficient appropriate evidence to be able to draw reasonable conclusions on which to base their audit opinion and report. Procedures to obtain audit evidence can include *inspection*, observation, confirmation, recalculation, re-performance and analytical procedures, often in some combination, in addition to inquiry.

2.2 The auditor must obtain 'reasonable assurance' that the *financial statements* as a whole are free from material misstatement and therefore present a 'true and fair' view of the reporting entity's position. Reasonable assurance is a high but not absolute level of assurance, due to the inherent limitations of an audit – much of the evidence on which auditors draw their conclusions and base their opinions is persuasive rather than conclusive. In evaluating evidence, auditors are required to apply professional scepticism in reaching a judgement as to whether that evidence is relevant, reliable, sufficient and appropriate.

2.3 Consistent with the 'reasonable assurance' objective, auditors also apply the concept of materiality in performing their work. Under most financial reporting frameworks, misstatements (including omissions) are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions taken based on the *financial statements*.

2.4 Auditors remain solely responsible for the audit opinion at all times, regardless of the degree of use of an expert's work as audit evidence.

3 The valuer as management's expert

3.1 Under ISA, the management's expert may be either an individual or an organisation, and may be either employed (in the case of an individual) or engaged by the reporting entity.

3.2 If information to be used as audit evidence has been prepared using the work of the management's expert, the auditor will need to consider and evaluate the significance of the expert's work, having regard to:

- the competence, capabilities and objectivity of the expert
- an understanding of the work of the expert and
- the appropriateness of the expert's work as evidence for the 'relevant assertion' (in this particular context, the *valuation* opinion).

3.3 When accepting an instruction to provide a *valuation(s)* for financial reporting, valuers should establish whether they may be required to discuss the *valuation(s)* with the client's auditors and, if so, include this in their *terms of engagement*.

3.4 It is self-evident that, seen from the auditor's viewpoint, there could potentially be a greater threat to a valuer's objectivity through being an employee of the entity rather than being independently engaged by it. This is something that both entity and expert will need to bear in mind.

3.5 Other considerations the auditor will need to take into account include:

- the relevance and reasonableness of the expert's findings or conclusions, their consistency with other evidence, and whether they have been appropriately reflected in the *financial statements*
- the relevance and reasonableness of any significant *assumptions* or methods
- the relevance, completeness and accuracy of significant source data used and
- whether the valuer has exercised appropriate professional scepticism in assessing information provided to them and on which they have relied; see **PS 2 paragraph 1.5**.

3.6 The nature, timing and extent of audit procedures to assess these various criteria will depend on several factors. In essence they relate to:

- the nature of the valuer's employment/engagement relationship with the entity
- the valuer's scope of work and how much control over that work is exercised by the entity
- the valuer's professional standards and how they are regulated
- the risk of error affecting value and
- what alternative evidence is available (to the auditor).

4 The valuer as auditor's expert

4.1 An auditor's expert can again be either internal or external. The expert could be a partner or a staff member of the auditor's *firm* or a network *firm*, including a temporary staff member. Where the audit *firm* does not have in-house capability, or chooses to supplement its resource, then an external appointment might be made.

4.2 In all cases, the auditor will need to check the valuer's competence, capabilities and objectivity for the relevant purpose, which will include checking for any potential or actual conflict of interest.

4.3 It is essential that the *terms of engagement* are clear, particularly regarding:

- the roles and responsibilities of both auditor and expert
- the nature, scope and objectives of the work itself and
- the communication arrangements between the two.

4.4 In general, similar criteria apply as in paragraph 3.6, in relation to the auditor's reliance on the work of the expert.

4.5 In most cases, an auditor's expert will not be requested to provide an independent opinion of value, assuming they can satisfy the criteria necessary to do so, but instead will be asked to focus on matters such as the *valuation* approach, the evidence relied on and the *assumptions* made. Attention is drawn to the requirements of **PS 2 section 6** regarding *assumptions*.

5 The auditor's requests and the valuer's response

5.1 It is clearly in a reporting entity's interest overall to facilitate the audit process and deal properly with requests for information or clarification. Where acting as the management's expert, a valuer is expected to support the entity in this aim (while maintaining their objectivity), but there are some points that such an expert will need to bear in mind. For obvious reasons, where acting as the auditor's expert, such provisos do not arise as there is a direct (contractual) relationship between valuer and auditor.

5.2 Legal advice obtained by RICS (applicable in the UK only) confirms there is no legal relationship between the auditor and a valuer external to the company acting as the management's expert. If the *terms of engagement* do not provide for discussion with an auditor, the valuer should first obtain the permission of the client before divulging confidential information, and adjust the *terms of engagement* to reflect any additional scope as necessary. This does not apply to a valuer internal to the company, who is an officer of the company, and so must cooperate.

5.3 However, if a valuer external to the company refuses to cooperate, this could constitute a limitation on the scope of the auditor's work. It may therefore lead the auditor to qualify any report on the accounts and make some comment that it was not possible to obtain all the information and explanations necessary to achieve the reasonable assurance sought.

5.4 Where cooperation with the client's auditor is within the scope of a valuer's instructions, the valuer should cooperate reasonably and responsibly with them, for example by providing details of the key inputs and *assumptions* adopted, and the rationale for the reported *valuation*.

5.5 In order to avoid any breach of a duty of confidentiality, the client's written instructions should be obtained before cooperating with any request from the auditors. It should be noted that an auditor cannot unilaterally force a valuer to disclose confidential information. Where necessary, the directors' permission to override any confidentiality obligations in the valuer's engagement contract with the company should be obtained. Valuers **must** also have regard to **PS 2 paragraphs 3.5–3.8** and section 4.5 of RICS' Comparable evidence in real estate valuation when confidential data has been used to support the *valuation*.

5.6 As the role of the auditor is to understand the valuer's approach, methodology and any evidence used in forming an opinion of value, the valuer needs to be able to provide enough information to support their opinion. Any evidence and methodology will often be stated in the *valuation* report. In the case of large portfolios however, detailed commentary of the evidence and approach for each property may not be feasible within the *valuation* report. In such cases, valuers should consider the inclusion of a summary schedule of *valuation*, which lists tenancy data and key *valuation* inputs, for example, *market rent*, voids and yield profile.

5.7 Commentary on the reason for any change in value since the last reporting period is helpful (this may simply be market movement or a new tenancy, for example).

5.8 Prior to issuing the report, the valuer should also be prepared to bring to the auditor's attention, and discuss as appropriate, matters relating to the *valuation* that may have an impact on the audit and the auditor's responsibilities. This is important because, in most jurisdictions, it is illegal to make a statement to an auditor that is knowingly or recklessly misleading, false or deceptive. Additionally, there will be occasions when the valuer will welcome the opportunity to verify information and *assumptions* relevant to *valuations*. In some cases, a discussion between the auditor and the valuer before the latter starts to fulfil the audited entity's instructions can be helpful to both parties, and will assist the smooth completion of the audit. A valuer acting as the management's expert should maintain good liaison with their client to ensure that there are no misunderstandings regarding compliance with the law and maintenance of confidentiality.

5.9 Some properties will be selected by auditors for detailed review, and the following information will typically be required.

a A short description of each property including commentary on quality, location and other important *valuation* characteristics that impact value. Sometimes this can be found in one-page proforma reports provided to the client already, which could be shared with the auditors to avoid additional work.

Key evidence per property/sector that is used to inform the *valuation* inputs used, such as the estimated *market rent*, other income, discount rates, yields, etc. ~~Compliance with those requirements is **mandatory** in cases to which they apply.~~