



RICS

the mark of
property
professionalism
worldwide

Regulation



RICS Valuer Registration Scheme & RICS Valuation – Professional Standards



RICS

the mark of
property
professionalism
worldwide

Regulation

Programme

- Why have professional Standards ?
- What are the standards ?
- VRS – The scheme background & processes.
- Review case results to date – On a Global Standard basis.
- VRS Review overall results.
- Potential disciplinary issues.
- Continuing aspirations.
- Next steps.
- Questions.



RICS

the mark of
property
professionalism
worldwide

Regulation

Why have professional valuation standards?

What does a valuer do?

- Provides an opinion of value by:
 - Agreeing the terms on which the valuation will be provided
 - Investigates and comes to a conclusion
 - Reports the opinion

What does the Red Book do?

- Provides the valuer with guidance on:
 - A basic consistent procedure that applies to any type of valuation and any type of asset
 - How to meet International Valuation Standards



RICS

the mark of
property
professionalism
worldwide

Regulation

Why have professional valuation standards?

What do valuation users want?

- Assurance that the valuer is competent
- Confirmation that the valuer is appropriately qualified
- No conflicts of interest
- Use of terminology they understand
- Reports in a form they find useful
- Compliance with professional standards
- International consistency



RICS

the mark of
property
professionalism
worldwide

Regulation

Why have professional valuation standards?

Trust and public confidence

- Public confidence in valuation is essential
- Increased scrutiny on financial matters
- Finance is underpinned by valuation
- Huge amounts of public and private equity reliant on valuation
- Robust standards and regulation must form the basis of public confidence

VRS is a form of regulation providing assurance to users that our valuers are appropriately qualified and are acting in accordance with Internationally approved Valuation Standards.



RICS

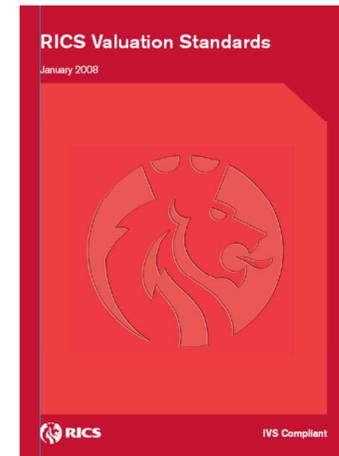
the mark of
property
professionalism
worldwide

Regulation

Background to valuation standards

What is the Red Book?

- RICS setting valuation standards since 1970's
- Current Red Book since March 2012
- Set by independent valuation standards board
- Most globally recognised set of valuation standards
- Relevant to all RICS members undertaking valuation
- Contains global and national material
- Ensuring external stakeholders have confidence in our valuations
- Recognised by financial institutions and regulators globally
- Flagship of RICS professionalism
- Compliant with IVS



Risk management tool designed to mitigate risk to members !



RICS

the mark of
property
professionalism
worldwide

Regulation

Background to valuation standards

Red Book aims:

- To provide up to date professional Standards (constantly reviewed and evolving)
- Validation of RICS policy to raise standards worldwide
- Maintain RICS World class reputation and maintain 'Gold Standard' in valuation.
- Be at the forefront of developing International Valuation Standards
- Provides an assessment framework for Valuer Registration Scheme
- Ever increasing litigious landscape (risk mitigation and self preservation)



RICS

the mark of
property
professionalism
worldwide

Regulation

What does it contain?

Global and UK Edition contains:

1) Valuation Standards

- VS 1. Compliance and Ethical Standards
- VS 2. Agreement of terms of engagement.
- VS 3. Basis of Value
- VS 4. Applications
- VS 5. Investigations
- VS 6. Valuation Reports

2) Appendices 1 – 9 (all grouped together)

3) Guidance Notes 1 -6 (best practice material)



RICS

the mark of
property
professionalism
worldwide

Regulation

What does it contain?

4) UK Valuation Standards

- UKVS 1. Valuations for financial statements
- UKVS 2. Valuations for financial statements – specific applications
- UKVS 3. Valuation of residential property
- UKVS 4. Regulated purpose valuations

5) UK Appendices 1 – 14 (all grouped together)

6) UKGN 1 – 7 (best practice material)

7) International Valuation Standards



RICS

the mark of
property
professionalism
worldwide

Regulation

VRS Introduction/Background

What is the RICS Valuer Registration Scheme?

- A regulatory review scheme for members carrying out “Red Book” valuations

How did the scheme come into being?

- The scheme was initiated by the members serving on the Valuation Professional Group Board as a result of recommendations made by an independent review and by a stakeholder consultation process. Finally ratified by RICS International Governing Council





RICS

the mark of
property
professionalism
worldwide

Regulation

Facts and figures

- 150,000+ RICS members worldwide
- 10,000+ RICS regulated firms in the UK, with a small number overseas
- 13,500 VRS registered valuers worldwide



RICS

the mark of
property
professionalism
worldwide

Regulation

VRS aims & benefits

- **VRS members:** the badge of integrity & competence
enforcement of a global standard
- **The Public:** consumer protection & trust
- **Lenders & Investors:** confidence, consistent report
format and definitions
- **Insurers:** confidence, greater access for members
- **Government:** confidence in professional self-regulation
and in their own public sector professionals

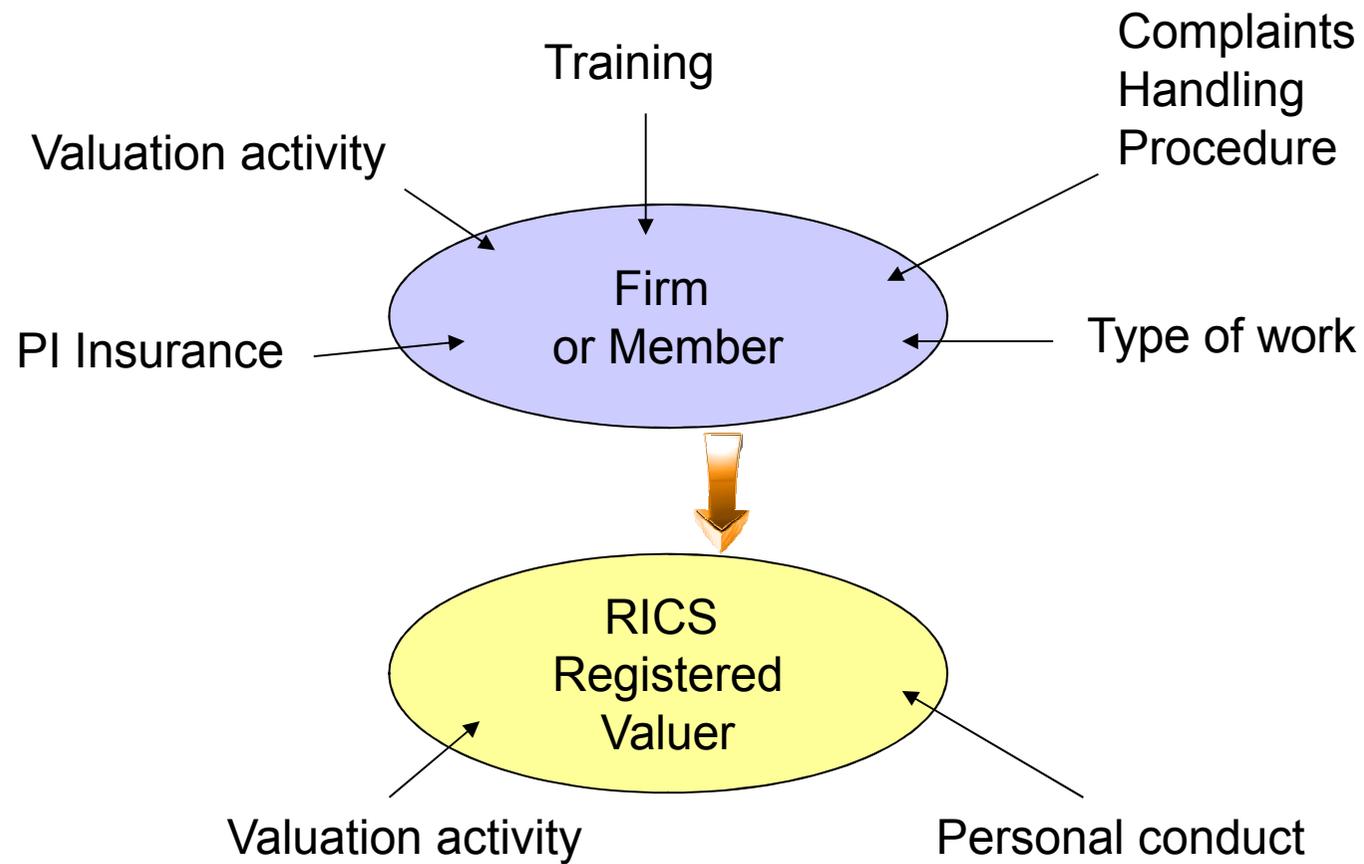


RICS

the mark of
property
professionalism
worldwide

Regulation

Information



Process Overview

1
Information

**Information from
Regulated Firms**

**Information from all
valuers registered**

**Risk
Assessment**

2
Review

Desk top review

**Site based
investigation**

Interview possible

3
Outcome

**Always: Report
issued with
recommendations**

**Sometimes:
disciplinary
proceedings**



RICS

the mark of
property
professionalism
worldwide

Regulation

Standards tested

Valuation Standard 1 Compliance and ethical requirements:

- Clearly defined qualification for task
- Valuer's competence clearly recorded on file
- A clear conflict of interest check recorded on the file
- Where conflict identified, measures taken to manage the conflict are clearly recorded (in file, terms of engagement and valuation report) and agreed with the client!



RICS

the mark of
property
professionalism
worldwide

Regulation

VS1 – Critical non compliance

Valuation Standard 1 Compliance and ethical requirements:

- Valuers acting outwith or on the periphery of areas where they cannot clearly demonstrate detailed local knowledge.
- Valuers attempting tasks for which they cannot demonstrate specialist skills.
- Acting when a clear conflict of interest exists and not declaring to client.
- Conflict check carried out but details/results not recorded in file.
- Failure to clearly define & record steps taken to manage a potential conflict in the case file, terms of engagement and the report.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS1 – Good Practice

Valuation Standard 1 Compliance and ethical requirements:

- Firm operates a skills and geographic coverage matrix for each valuer's task allocation.
- The firm maintain a record of each valuers CPD and keep on file an updated CV for each valuer to demonstrate qualification for any task undertaken.
- Full details of Conflict of Interest checks recorded on a file checklist.
- Where a potential conflict has arisen the measures taken to manage the conflict are clearly and fully documented.



RICS

the mark of
property
professionalism
worldwide

Regulation

Standards tested

Valuation Standard 2 Terms of engagement:

- Agreed dated and signed compliant terms of engagement held on file
- A clear valuation purpose is recorded
- The name of the valuer, their qualifications for the task in hand with a statement that they are competent to undertake the task in hand
- Any assumptions, special assumptions, departures and scope of investigation have been identified and agreed with client



RICS

the mark of
property
professionalism
worldwide

Regulation

VS2 – Critical non compliance

Valuation Standard 2 Terms of engagement:

- No signed terms of engagement on file
- Non compliant terms of engagement
- Non case specific terms of engagement
- No clear valuation purpose defined
- No clear statement on valuer identity or qualification for task
- No attempt to define any assumptions, special assumptions or departures agreed with client.
- No attempt to define scope of inspection.
- No mention of RICS Standards, Monitoring or CHP



RICS

the mark of
property
professionalism
worldwide

Regulation

VS2 - Good Practice

Valuation Standard 2 Terms of engagement:

- Fully compliant terms of engagement, signed by client retained in every file.
- The terms of engagement are presented in a single easy to read document.
- The terms of engagement are fully case specific.
- The terms of engagement are specific on valuation purpose and use.
- The terms of engagement clearly define any assumptions, special assumptions, departures and scope of inspection.
- Clear statement regarding valuer qualification for task.
- States clearly the valuation standard applied.



RICS

the mark of
property
professionalism
worldwide

Regulation

Standards tested

Valuation Standard 3 Basis of value:

- Appropriate basis of value stated and used
- Appropriate definition of the basis of value included in:
 - Terms of engagement
 - Valuation report
- Technical valuation requirements complied with for basis of value.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS3 – Critical non compliance

Valuation Standard 3 Basis of value:

- Wrong basis of value used.
- Valuer makes up his own value base
- No real basis of value defined
- Valuer does not understand the specific use of each value base
- Basis of value statement and definition omitted from terms of engagement document
- Basis of value statement and definition omitted from report document
- Combination of 3 or more !



RICS

the mark of
property
professionalism
worldwide

Regulation

VS3- Good practice

Valuation Standard 3 Basis of value:

- Appropriate basis of value stated and used.
- Appropriate definition of the basis of value included in:
 - Terms of engagement
 - Valuation report
- Technical valuation requirements complied with for basis of value.
- Conceptual framework for value base attached to report at least as an appendix.



RICS

the mark of
property
professionalism
worldwide

Regulation

Standards tested

Valuation Standard 4 Applications:

- International Valuation Standards have been followed in connection with:
 - International Financial Reporting Standards (refer to relevant Financial Reporting Standard)
 - Secured Lending



RICS

the mark of
property
professionalism
worldwide

Regulation

VS4 – Critical non compliance

Valuation Standard 4 Applications:

- Non compliant terms of engagement content.
- Non compliant report content.
- Use of wrong value base for specific IFRS/ IVS requirement.
- No clear statement of standards applied especially for Financial reporting cases.
- Unclear or vague valuation purpose.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS4 – Good practice

Valuation Standard 4 Applications:

- Clear statement of compliance with International Valuation Standards & which specific individual standards have been applied in both terms of engagement & report.
- Value bases correctly used and implications of value base clearly defined when it differs from market value.
- Terms of engagement and valuation report comply with content requirement of both the specific IVS standard and VS 6.1.
- Valuer clearly demonstrates understanding of valuation standard and his qualification for the specific task.



RICS

the mark of
property
professionalism
worldwide

Regulation

Standards tested

Valuation Standard 5 Investigations:

- Legible and appropriate site inspection notes held on file
- Comprehensive, relevant investigations undertaken and on file
- Dated, analysed and relevant comparable evidence held on file
- A correct & logical valuation approach and calculation has been adopted and recorded with supporting rationale



RICS

the mark of
property
professionalism
worldwide

Regulation

VS5 – Critical non compliance

Valuation Standard 5 Investigations:

- No site notes of any kind on file - report produced from memory !
- No site notes of any kind on file – report produced from a range of undocumented information sources.
- Illegible, unstructured & insufficient site inspection/investigation notes.
- No comparable data on file.
- Comparable data unsourced, not dated or referenced.
- No comparable analysis on file.
- No valuation calculation or valuation rationale on file.
- No attempt to document information relied on, its source or reliability.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS5 – Critical non compliance

Valuation Standard 5 Investigations:

- No audit trail of information to support valuation and report.
- No clear linkage between comparables and valuation.
- Scope of inspection and investigation does not comply with minimum standards required by standards.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS5 – Good practice

Valuation Standard 5 Investigations:

- A correct & logical valuation approach has been adopted and recorded.
- Comprehensive and relevant investigations undertaken and clearly recorded.
- Appropriate and full comparable information and valuation rationale on file.
- Complete and legible site notes.
- Task specific pro forma site notes used to record all aspects of exercise.
- All items relied on or stated in report clearly documented in case file.



RICS

the mark of
property
professionalism
worldwide

Regulation

Standards tested

Valuation Standard 6 Valuation reports:

- A dated and signed compliant valuation report held on file.
- Agreed, dated and signed terms of engagement matched with the dated and signed report.
- A clear valuation purpose is recorded.
- The name of the valuer, their qualifications for the task in hand with a statement that they are competent to undertake the task in hand.
- A clear audit trail from instruction to valuation report.
- Robust file management processes.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS6 – Critical non compliance

Valuation Standard 6 Valuation reports:

- Clear failure to include all items required in valuation standards specifically as an integral part of report.
- Failure to include terms of engagement as an appendix or integral part of the report document.
- The report is unclear on its specific purpose or its intended use.
- The report either omits or is unclear on any, assumptions, special assumptions, departures or scope of inspection.
- The report relies on information provided in terms of engagement.
- The report contains information not included or referenced in case file.



RICS

the mark of
property
professionalism
worldwide

Regulation

VS6 – Good practice

Valuation Standard 6 Valuation reports:

- A fully compliant valuation report.
- Agreed dated and signed terms of engagement matched with the dated and signed report.
- Clear audit trail of information from instruction to report.
- Report clearly written and easily understood by client.
- Purpose and intended use of report clearly defined.
- Limitation on use clearly stated.



RICS

the mark of
property
professionalism
worldwide

Regulation

The very best practice !

- A file checklist in every file to record all key case file elements as completed, by whom and when.
- Pro-active quality assurance – set standards and ensure maintained.
- Active peer review / audit programme – Quarterly.
- Appoint a compliance officer.
- Appoint a Red Book officer.
- Countersigning provisions.



RICS

the mark of
property
professionalism
worldwide

Regulation

The very best practice !

- Use of template site inspection notes for all aspects of valuation.
- Case specific templates for terms of engagement and reports.
- Appoint a file manager.
- Wherever possible insist on a liability cap.
- Ensure personal liability excluded.
- Ensure for every case there is a clear and comprehensive audit trail to support the valuation.



RICS

the mark of
property
professionalism
worldwide

Regulation

Outcomes

Of the inspections undertaken over nearly 2 years :

- 19% were good or very good
- 67% were satisfactory
- 10% were less than satisfactory requiring actions to be undertaken to improve and
- 4% revealed more significant regulatory issues



RICS

the mark of
property
professionalism
worldwide

Regulation

Disciplinary issues

- Unqualified (not competent) to undertake the task in hand
- Undeclared and unmanaged conflict of interest
- Irresponsible approach to the valuation
- Suspicious activity; e.g. fraud
- Breach of Rules of Conduct or Scheme Rules



RICS

the mark of
property
professionalism
worldwide

Regulation

Continuing aspirations

- Increase awareness of the standards to improve competence, quality of advice and accuracy
- Encourage greater focus on training and CPD
- Create an environment to share valuation best practice
- Obtain better access to PII for Valuers
- Ensure that RICS as a professional body mitigates the threat of external regulation
- Continue to raise the status of the RICS qualification and improve the profession's perception



RICS

the mark of
property
professionalism
worldwide

Regulation

Next steps

- Continued roll out of VRS to all world regions
- Ongoing stakeholder engagement
- Continued publication of best practice through a variety of mediums
- Feedback to Valuation Professional Group and Valuation Standards Board to ensure the Red Book reflects the real world



RICS

the mark of
property
professionalism
worldwide

Regulation

Any
questions?

