

20 December 2001

Dear Sirs,

## **Re Invitation to Comment – The Addition of Real Estate Provisions and Guidance to the GIPS Standards**

### **Introduction**

RICS is a professional body representing over 110,000 Chartered Surveyors worldwide in the fields of property, land, construction and associated environmental issues. It is regulated by its Charter with the objective of promoting the public good. This allows RICS to comment independently on matters that it perceives to be relevant to its profession. RICS members work in both the public and private sectors.

Valuation forms a significant part of the work of the profession, demonstrated by the fact that over 25,000 members of the RICS belong to its Valuation Faculty. A significant proportion of the work of those RICS members who specialise in valuation is performed for financial reporting and investment performance measurement purposes and RICS members are keen to continue developing their skills and services to meet these needs.

RICS members are required to comply with the RICS Appraisal and Valuation Standards Manual (known as the “Red Book”) when undertaking valuation work, wherever this is undertaken in the world.

### **Comments on Proposed Real Estate Section (6) of the GIPS Standards**

In response to the specific questions raised by you, we would comment as follows:

**1. *Do you support the AIMR’s effort to develop global real estate provisions to be added to the GIPS standards?***

RICS supports AIMR’s efforts to develop global real estate provisions to be added to the GIPS standards.

**2. *Do you agree with the valuation requirements and recommendations, including the eventual acceleration of the frequency of both the valuation review and independent appraisals?***

#### **Frequency**

RICS does not have any comment on the issue of the valuation frequency other than to say that valuation of this level of frequency (i.e. quarterly) is not without practical difficulty in producing accurate and reliable valuations.

#### **Independent**

We do have comments on the recommendation for the use of “Independent Valuations”. Independent has a narrow definition within the Red Book, and

experience is showing that the market demands for integrity, objectivity and independence are, in practice, covered within the External Valuer definition. All valuers should have independence of thought in the sense that their judgment is required to be objective and without undue influence from other parties

The vast majority of valuation instructions carried out by our members are on the basis that they are “External Valuers”. The extent to which other non-valuation fee earning relationships with the same client should be an impediment to acting as their valuers is a hotly debated subject around the world and has parallels in the auditing profession.

RICS does not support the recommendation in the standard that ‘*“Independent Valuation” is the standard which should be sought*’. In our view the requirement should be for an “External Valuer”, although we would recommend that the standard include a further disclosure requirement, where other fee earning relationships exist, regarding the proportion of non-valuation fee income derived from the client. Following recommendations we are making in other reports, we are promoting public disclosure over a 5% threshold of fee income for any particular client against the total income of the valuer’s business. We note that there is a difference in terminology and we recommend the definitions should refer to “External Valuer” (and “Independent Valuer” if this is retained) rather than “Valuation” in order to maintain consistency with the valuation definitions of the International Valuation Standards Committee and RICS Red Book. We attach extracts from our Red Book providing the definitions and will be pleased to clarify any point arising over the telephone.

**3. *Do you support the additional disclosures proposed for direct and indirect real estate investments?***

We support the concepts of disclosure as far as it is practical. We believe there is a distinction between disclosure and a reporting function, and the fund manager will need discretion in such a disclosure requirement, where he will – in all probability – be relying on third party inputs. With the goal being the development and enhancement of consistency and uniformity to approach we believe the adoption and refinement of template models will meet the requirements for additional disclosure, which we support as a notion.

**4. *Should the IPC consider including these real estate provisions in the GIPS standards as soon as possible after the public comment period or should they not be added until 2005 to allow all countries time to implement GIPS?***

RICS would support implementation of the real estate provisions in the GIPS standards at an early stage. Whatever timescale is adopted by the IPC, RICS would take steps to assist the development of the relevant valuation standards by the IVSC and to ensure that its members worldwide are provided with guidance on these within the RICS Red Book.

**5. *Should AIMR consider any other methods for meeting the objectives of developing global real estate provisions for the GIPS standards?***

RICS has no specific recommendations. We would suggest detailed discussion with Investment Property Databank (IPD), which we understand, is an organization known to you, and who would be able to provide industry benchmarks for performance as they too collect data in the global arena.

**General**

RICS has had sight of the response by the IVSC and broadly supports its General Comments and conclusion. In particular RICS would strongly support the IPC referring to International Valuation Standards in the GIPS Real Estate Provisions, as the international valuation standard which is supported by RICS and the vast majority of the world's leading valuation associations. With reference to paragraph 2.1 of the IVSC response, we confirm that the RICS is revising its standards to adopt unequivocally the IVS definition of Market Value, and is actively promoting its adoption.

If we can be of any further assistance to you, or if you would like to discuss any of these matters further, please do not hesitate to contact us.

Yours faithfully

**Duncan Preston FRICS  
Chairman Valuation Faculty**