

Members' Consultation  
on  
*Draft HKIS Valuation Standards  
2017 Edition*

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# HKIS VALUATION STANDARDS REVISION WORKING GROUP

16 members:

- **Sr K.K. Chiu**, General Practice Divisional Council Chairman
- **Sr C.K. Lau**, Convener of the Working Group
- **Sr Alnwick Chan**, GPD Council Member
- **Sr Charles Chan**
- **Ms. Yuki Chan**
- **Sr Victor Chow**, GPD Council Member
- **Sr David Faulkner**
- **Ms. Joanne Law**
- **Sr Gary Man**
- **Sr Alex Mo**
- **Ms. Tiffany Poon**
- **Sr Vivian Poon**
- **Sr Michael Price**
- **Mr. Alton Wong**
- **Sr K.B. Wong**
- **Sr Natalie Wong**

# TIME TABLE

Date	Event
17 January 2017	Launch of International Valuation Standards 2017 (“IVS 2017”) with the effective date of 1 July 2017
13 February 2017	First Meeting of HKIS Valuation Standards Revision Working Group
30 June 2017	Approval of Consultation of HKIS Valuation Standards 2017 Edition by GPD Council
July – August 2017	Consultation amongst HKIS members & Handling of queries and comments
<b>12 August 2017 (Saturday)</b>	<b>Discussion Forum on Revision of HKIS Valuation Standards</b>
25 August 2017	End of Consultation Period
End of August 2017	Consolidation of Comments and Finalization of HKIS Valuation Standards 2017 Edition
September 2017	Obtain Approval from GPD Council of HKIS Valuation Standards 2017 Edition
October 2017	Submission to HKIS General Council for approval
8 December 2017 (tentative date)	Endorse and Ratify the HKIS Valuation Standards 2017 Edition in HKIS AGM 2017
December 2017	Following AGM approval, notification by GPD Council / HKIS General Council to Members of the 2017 Edition including major changes from the 2012 Version.
<b>30 December 2017 (Saturday)</b>	<b>Effective Date of HKIS Valuation Standards 2017 Edition</b>

# HIGHLIGHTS

Mandatory Compliance with International Valuation Standards 2017 (“IVS 2017”)

RICS Valuation – Global Standards 2017 (“Red Book 2017”) as reference

Applicable to all HKIS Members. Only Corporate Members of General Practice Division could be qualified valuers to undertake valuation.

# Major Differences between *2012 Edition and Draft 2017 Edition*

# **VS 1 – Compliance with IVS and HKIS VS**

# Q: WHICH PARTS OF THE STANDARDS ARE MANDATORY? WHICH PARTS CAN BE EXEMPTED OR DEPARTED?

	2017 Edition	2012 Edition
<b>1. Mandatory Compliance</b>	IVS and HKIS VS	HKIS VS
<b>2. Compliance with Other Standards</b>		
- Hong Kong Properties	When mandatory or requested, compliance with named standards together with IVS and HKIS VS	Not mentioned
- Overseas Properties	<ol style="list-style-type: none"> <li>If mandatory or requested, compliance with HKIS VS, IVS and the local standards</li> <li>Voluntary compliance with other standards will be taken as departure. (See departure below)</li> </ol>	Subject to agreement with the client on which standards to be adopted if the local standards materially different from HKIS VS



	2017 Edition	2012 Edition
<b>3. Exemption</b>	No	Yes (The scenarios in the VS)
<b>4. Exception</b>	VS 4 – 10 may be exempted when appropriate (including but not limited to the listed scenarios)  VS 1-3 at all time applicable	The entire VS is exempted under the listed scenarios
<b>5. Departure</b>		
- Standards not allowed for departure	VS 1 – 3 (Compliance with HKIS VS and IVS, Valuer’s Qualification & Ethics)	Minimum contents of valuation reports
- Requested Departure	Same as 2012 Edition	Listed out situation where the instruction should not be accepted
- Agreement with the client	Required	Required
- Justification to HKIS on voluntary departure when requested	Yes	Yes
<b>6. Range of Application</b>	All HKIS members [and affiliates]	Corporate Members of GPD

# **VS 2 – Qualification of a Valuer / Valuation Reviewer**

# Q: WHAT ARE THE QUALIFICATIONS OF A VALUER PROVIDING VALUATION?

	2017 Edition	2012 Edition
<b>1. Valuer's Qualification</b>		
- Corporate Member of GPD	Yes	Yes
- Knowledge and Experience	Yes	Yes
- Compliance with other relevant regulations	Yes	Yes
- Further time-to-time requirement from GPD	Yes	No
<b>2. Reviewer's Qualification</b>	Same as Valuer's	Not mentioned
<b>3. External Assistance</b>	Allowed, but the valuer must have the knowledge to understand and interpret the works	Allowed

# **VS 3 – Ethics, Professionalism and Conflict of Interests**

**Q:**  
**ANY GUIDANCE TO MEMBERS IN A CASE OF  
POTENTIAL CONFLICT OF INTERESTS?**

Substantially lengthened

Mandatory Compliance in all circumstances

Objective: Highest professional and ethical  
standards

## Conflict of Interests

Two fundamental requirements:

- Not to advise or represent a client where doing so would involve a conflict of interest or **a significant risk of a conflict of interest**
- **Keep Record**
  - Decision to accept assignments;
  - Informed Consent; and
  - Any measures to avoid conflicts of Interests

## Conflict of Interests

**Only proceed when all the parties' interests can be served.**

Informed Consent can be sought only when the above condition is satisfied.

Informed Consent:

- Let all the affected parties clearly understand:
  - There is actual or significant risk of conflict;
  - Material facts;
  - What the conflict of interest is or may be;
  - The conflict of interests may affect the ability to advise or act fully in the interest of a party; and
  - What precautions should be taken to protect the affected parties.

## Conflict of Interests

### Informed Consent:

- Important to Note:
  - Message must reach out to all the affected parties and make sure the affected parties fully understand the implications
  - Transparent to all matters and no material information or data hidden
- Cautious to handle in case of individuals or a wide range of affected parties
- Professional Judgement (may provide justifications to HKIS when required) to decide whether to proceed even with Informed Consent from all affected parties
- Laid down in the terms of engagement and the report



## Preservation of Confidentiality

### Preliminary Advice:

- The opinion is provisional and subject to completion of the final *report*;
- The advice is provided for *client's* internal purposes only; and
- Any draft is on no account to be published or disclosed.

\*\*\* Applicable to Verbal Valuation\*\*\*

Competence

Suitability

## Disclosure to third parties

### Applicable when

- Third parties may rely on (mortgage, accounting purposes, etc.);
- Public disclosure.

### Laid down in the terms of engagement, the report and public reference

- The relationship with the client and previous involvement;
- Rotation policy (7 years);
- Time as signatory;
- Proportion of fees.

# VS 4 – Terms of Engagement

# Q: IS THERE A CHECKLIST FOR DRAFTING OF THE ENGAGEMENT LETTER?

		2017 Edition	2012 Edition
1.	Identification and status of the valuer	New	Not mandatory
2.	Identification of the client(s)	Yes	Yes
3.	Identification of any other intended users	New	Not mandatory
4.	Identification of the asset(s) or liability(ies) being valued	Yes	Yes
5.	Valuation (financial) currency	Yes	Yes
6.	Purpose of the valuation	Yes	Yes
7.	Basis(es) of value adopted	Yes	Yes
8.	Valuation date	Yes	Yes
9.	Nature and extent of the valuer's work – including investigations – and any limitations thereon	Yes	Yes
10.	Nature and source(s) of information upon which the valuer will rely	Yes	Yes

		2017 Edition	2012 Edition
11.	All <i>assumptions</i> and special <i>assumptions</i> to be made	Yes	Yes
12.	Format of the report	New	Not mandatory
13.	Restrictions on use, distribution and publication of the report	Yes	Yes
14.	<i>Confirmation</i> that the valuation will be undertaken in accordance with the IVS	New	Not mandatory
15.	The basis on which the fee will be calculated	Yes	Yes
16.	A statement setting out any limitations on liability have been agreed.	Yes	Yes
17.	Valuation Approaches	Not mandatory	Yes
18.	Financial Reporting Standards	Not mandatory	Yes
19.	Payment term and abortive fee	Not mandatory	Yes
20.	Other standardized term	-	Yes

# VS 5 – Bases of Values

**Q:**  
**ANY UPDATES ON DEFINITIONS OF  
DIFFERENT BASES OF VALUES?**

	2017 Edition*	2012 Edition
Market Value	Yes	Yes
Market Rent	Yes	Yes
Equitable Value	New	No
Investment Value	Yes	Yes
Synergistic Value	Yes	Yes
Liquidation Value	New	No
Fair Value	Yes	Yes
Special Value	Repealed	Yes

\* The definitions are based on IVS 104 Bases of Value.

## Changes on definition of Synergistic Value:

- “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”
- The additional value is the “Marriage Value”.

## Value for Sales under Repossession (VSR)\*

- Market Value subject to a special assumptions of market constraint
- Procedural valuation

\* The definition of VSR is based on The HKIS Valuation Standards - 2012 Edition and further elaborated the steps.



# VS 6 – Valuation Approaches and Methods\*

\* This section is based on IVS 105 Valuation Approaches and Methods.

**Q:**  
**ANY UPDATES ON DEFINITIONS OF  
DIFFERENT VALUATION APPROACHES AND  
METHODS?**

A New Standards to specify the principles and considerations in different approaches

Summarize all the methods under 3 approaches:

- Market Approach
- Income Approach
- Cost Approach

\* This section is based on IVS 105 Valuation Approaches and Methods.

# VS 7 – Valuation Process and Records

**Q:**  
**ANY UPDATES ON VALUATION PROCESS AND RECORDS?**

**Objectives:**

- The process of a valuation must always be carried out to the extent necessary to produce a valuation that is professionally adequate for its purpose.

**Inspection:**

- Valuers exercise professional judgement to carry out to the extent necessary.
- Statement on the extent of inspections and investigation in both terms of engagement and the report

**Revaluation without Inspection:**

- Client's confirmation on the same is required.

(Remember insufficient inspection or no inspection may be questioned and valuers may provide justification if required.)

# VS 8 – Assumptions and Special Assumptions\*

\* This section is based on IVS 104 Bases of Value (200. Assumptions and Special Assumptions) and RICS Valuation – Global Standards 2017 VPS 4 Bases of value, assumptions and special assumptions.

**Q:**  
**WHAT SHOULD VALUERS DO WHEN  
DEALING WITH DIFFERENT SPECIAL  
ASSUMPTIONS?**

**General Assumptions:**

- Assumed facts that are consistent with, or could be consistent with, those existing at the valuation date

**Treatment:**

- Agreed with clients in writing  
(Confirmation of the contents of draft report will be taken as one form of agreement in writing)

## Special Assumptions:

- Assumed facts that differ from those existing at the valuation date.

## Caution:

- Must be realistic, relevant and valid.

## Treatment:

- Expressly agreed with clients and confirmed in writing

(Records in writing on the communications with the clients on the special assumptions and the confirmation are required.)

## Projection:

- 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.



# VS 9 – Reporting\*

## Q: ANY UPDATES ON VALUATION REPORTING STANDARDS?

		2017 Edition	2012 Edition
1.	Identification and status of the valuer	Yes	Yes
2.	Identification of the client(s) and any other intended users	New on intended users	Client only
3.	Purpose of the valuation	Yes	Yes
4.	Identification of the asset(s) or liability(ies) valued	Yes	Yes
5.	Basis(es) of value adopted	Yes	Yes
6.	Valuation date	Yes	Yes
7.	Extent of investigations	Yes	Yes
8.	Nature and source(s) of information relied on	Yes	Yes
9.	All <i>assumptions</i> and special <i>assumptions</i>	Yes	Yes
10.	Restrictions on distribution and publication of the report	Yes	Yes

\* This section is based on IVS 103 Reporting and RICS Valuation – Global Standards 2017 VPS 3 Valuation reports.

		2017 Edition	2012 Edition
11.	Confirmation that the assignment has been undertaken in accordance with the IVS	New on IVS	On HKIS VS only
12.	Valuation Approaches and reasoning	Yes	Yes
13.	Amount of the valuation or valuations	Yes	Yes
14.	Date of the valuation report	Yes	Yes
15.	Commentary on any material uncertainty in relation to the valuation where it is essential to ensure clarity on the part of the valuation user	New	-
16.	A statement on whether or not any limitation on liability have been agreed.	New	-
17.	Currency	Included in amount of valuation or valuations	Yes
18.	Any limits or exclusion of liability to parties other than the client	Not mandatory	Yes

# VS 10 – Real Property Interests\*

\* This section is based on IVS 400 Real Property Interests.

**Q:  
ANY EXTRA REQUIREMENTS MEMBERS  
NEED TO TAKE NOTE OF WHEN DOING VALUATIONS OF  
REAL PROPERTY INTERESTS?**

New section focusing on additional requirements for valuations of Real Property Interests

- Valuation approaches and methods
- Special considerations for real property interests
- Requirements
- Special assumptions

More practical guidance and examples to members on valuations of Real Property Interests

# VGN 1 – Business Interests and Business Enterprises

\* This section is based on IVS 200 Businesses and Business Interests.

**Q:**  
**WILL THERE BE MORE INFORMATION AND  
GUIDANCE ON BUSINESS VALUATION?**

From Application Standards to Guidance Notes

Consistent with IVS 2017

Special considerations in performing business valuations are included:

- Ownership rights (proprietorship, corporate or partnership)
- Reasonableness on business information (owner's perspective / market participates perspective)
- Economic and industry considerations
- Operating assets (income-producing) and non-operating assets

# VGN 2 – Intangible Assets

\* This section is based on IVS 210 Intangible Assets.



## From Application Standards to Guidance Notes

### Consistent with IVS 2017

Detailed principles and considerations in different approaches and methods used in arriving at a conclusion of value.

- For example: excess earnings method, relief-from-royalty method and with-and-without method under income approach; treatment for tax amortization benefit (TAB)

# **VGN 3 – Valuation for Financial Statements and Accounts Reporting Purposes**

**Q:  
IS THERE ANY GUIDANCE FOR VALUERS  
TO WORK WITH AUDITORS?**

Combination of Previous VS 9 and GN 1 of 2012  
Edition

Generally, valuer has the responsibility to let the auditor (an intended user) understand the valuation.

It will be proper to pass the key inputs (comparables, cap. rates, adopted market rent, discount rates, etc.) in the calculation to the auditors.

It will be up to the decision of the valuer whether it is proper to pass the entire calculation worksheet to the auditor.

# VGN 4 – Valuation of Real Properties for Secured Lending

**Q:**

## **IS THERE ANY UPDATES ON VERBAL VALUATION?**

New Term “Preliminary Indication of Value”, commonly know as “verbal valuation” before.

Attention to the requirements on the preliminary advice:

- The opinion is provisional and subject to completion of the final *report*;
- The advice is provided for *client's* internal purposes only; and
- Any draft is on no account to be published or disclosed.

Such clauses may be laid down in the master service agreement or the communications with the bankers.

Inspection of Non-typical real estate.

The new requirement of Value for Sales under Repossession.

***NEXT STEP...***

# TIME TABLE

Date	Event
25 August 2017	End of Consultation Period
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September 2017	Obtain Approval from GPD Council of HKIS Valuation Standards 2017 Edition
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*Thank you.*

## Q&A Session

*Disclaimer: This PowerPoint is prepared for the purpose of Members' Consultation of the Draft HKIS Valuation Standards 2017 Edition. For details, please refer to the full set of Draft available at:*

[http://www.hkis.org.hk/gpd/en/newsroom\\_views2.php?id=8](http://www.hkis.org.hk/gpd/en/newsroom_views2.php?id=8) .