INTERNATIONAL VALUATION STANDARDS COUNCIL

Code of Ethical Principles for Professional Valuers

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Introduction

1 The International Valuation Standards Council (IVSC) is an independent, not-for- profit, private sector organisation that has a remit to serve the public interest. The IVSC's objective is to build confidence and public trust in the valuation process by creating a framework for the delivery of credible valuation opinions by suitably trained valuation professionals acting in an ethical manner.

2 The IVSC achieves this objective by:

a) creating and maintaining the International Valuation Standards (IVSs);

b) issuing technical guidance for professional valuers; and

c) promoting the development of the valuation profession and ethical practices globally.

3 This Code of Ethical Principles (this 'Code') has been prepared by the IVSC Professional Board in order to promote ethical practice and conduct in valuation.

4 This Code consists of:

The Fundamental Principles

The Fundamental Principles – Guidance

Appendix 1 – Threats and Safeguards

Appendix 2 – Discussion of Fundamental Principles

5 The 'Fundamental Principles' consist of five principles of conduct to which a professional valuer is expected to adhere when providing a valuation service.

6 The 'Fundamental Principles – Guidance' provides guidance on the conceptual approach that should be adopted in applying the Fundamental Principles.

7 Appendix 1 identifies the principal categories of threat that may compromise a professional valuer's ability to comply with the Fundamental Principles and the types of safeguard that may be appropriate to avoid or mitigate those threats.

8 Appendix 2 contains additional discussion of the Fundamental Principles with some illustrations of some common threats to a professional valuer's ability to comply with each of them and steps that should be taken to avoid those threats.

Applicability of this Code

9 Valuation Professional Organisations[1] in membership of the IVSC are required to have rules requiring ethical conduct by their members. A Valuation Professional Organisation may adopt this Code or maintain its own rules, providing such rules reflect the five Fundamental Principles of this Code.

10 The 'Fundamental principles – guidance' and the discussions in the appendices may not be applicable where the professional valuer is subject to the rules of a Valuation Professional Organisation and those rules contain specific actions that should be either taken or avoided in order to comply with the Fundamental Principles in the context of the professional valuer's area of practice.

11 In this Code references to a professional valuer are as outlined in the IVSC paper *'A Competency Framework for Professional Values'*. Depending on context, this may be an individual person, a firm or other corporate body.

[1] A Valuation Professional Organisation of the IVSC is established as a not for profit organisation that sets minimum education and ethical standards for individual valuers and that upholds the public interest over those of individual members

Fundamental Principles

12 It is fundamental to the integrity of the valuation process that those who rely on valuations have confidence that those valuations are provided by valuers who have the appropriate experience, skill and judgement, who act in a professional manner and who exercise their judgement free from any undue influence or bias. Accordingly, a professional valuer is expected to comply with the following ethical principles:

a) **Integrity:** to be straightforward and honest in professional and business relationships.

b) **Objectivity:** not to allow conflict of interest, or undue influence or bias to override professional or business judgement.

c) **Competence:** to maintain the professional knowledge and skill required to ensure that a client or employer receives a service that is based on current developments in practice, legislation, and valuation techniques.

d) **Confidentiality:** to respect the confidentiality of information acquired as a result of professional and business relationships and not to disclose such information to third parties without proper and specific authority (unless there is a legal or professional right or duty to disclose), nor to use information for the personal advantage of the professional valuer or third parties.

e) **Professional behaviour:** to act diligently and to produce work in a timely manner in accordance with applicable legal requirements, technical and professional standards. To always act in the public interest and to avoid any action that discredits the profession.

Fundamental Principles – Guidance

13 This guidance is designed to assist professional valuers with the approach that should be taken to applying the Fundamental Principles and to identify, evaluate, and address threats to their ability to comply with the Fundamental Principles.

14 The circumstances in which professional valuers operate may create specific threats to compliance with these Fundamental Principles. Some common types of threat are identified in the appendices to this Code. However, it is impossible to define every situation that creates threats to compliance with the Fundamental Principles and to specify the appropriate action. Valuation assignments differ significantly in their nature and, consequently, different threats arise that require the application of different safeguards. This guidance may help deter a professional valuer from concluding that a situation is permitted if it is not specifically prohibited by this Code or among the situations discussed in the appendices.

15 When a professional valuer identifies a potential threat to their ability to comply with the Fundamental Principles they should evaluate the significance of that threat. Some threats may be eliminated or reduced to an acceptable level by taking appropriate safeguards. Examples of such safeguards are discussed in the appendices to this Code. In deciding whether it is appropriate to accept a valuation assignment subject to putting such safeguards in place, the professional valuer should take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available at the time, would be likely to conclude that the threat or threats would be eliminated or reduced to an acceptable level by the application of the safeguards and that compliance with the Fundamental Principles is not compromised.

16 If the threat or threats to the professional valuer's ability to comply with the Fundamental Principles cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied, the valuation assignment should be declined or discontinued.

17 If a professional valuer encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the professional valuer consult with the member body to which they belong or, if appropriate, the relevant regulator.

18 If a significant conflict cannot be resolved by either declining the assignment or putting in place safeguards, a professional valuer may consider obtaining professional advice from the relevant professional body or from legal advisors. This can generally be done without breaching the Fundamental Principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege.

19 Instances in which the professional valuer may consider obtaining legal advice vary. For example the valuer may encounter a fraud, the reporting of which could breach their responsibility to respect confidentiality. The professional valuer may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

20 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional valuer would need to decide whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organisation.

Threats and Safeguards

This Appendix includes discussion of the major categories of threat to a professional valuer's ability to comply with the Fundamental Principles and of the categories of safeguard that may eliminate or mitigate those threats. A Valuation Professional Organisation to which a professional valuer belongs may have rules that identify different or more specific threats or safeguards against those threats that are appropriate to the area of valuation practice in which its members operate.

A1.1 Threats to a professional valuer's ability to comply with the Fundamental Principles may be created by a broad range of relationships and circumstances. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one Fundamental Principle. Threats fall into one or more of the following categories:

a) **Self-interest threat** – the threat that a financial or other interest will inappropriately influence the professional valuer's judgement or behaviour;

b) **Self-review threat** – the threat that a professional valuer will not appropriately evaluate the results of a previous judgement made or service performed, or by another individual within the same firm or employing organisation, on which the valuer may rely when forming a judgement as part of providing a current service;

c) **Client conflict threat** – the threat that two or more clients may have opposing or conflicting interests in the outcome of a valuation;

d) **Advocacy threat** – the threat that a professional valuer will promote a client's or employer's position to the point that their objectivity is compromised;

e) **Familiarity threat** – the threat that due to a long or close relationship with a client or employer, a professional valuer may be too sympathetic to their interests or too accepting of their work; and

f) **Intimidation threat** – the threat that a professional valuer will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the valuation opinion.

A1.2 The extent to which any of the categories of threat listed above will impinge on a professional valuer's ability to comply with the Fundamental Principles will depend upon the facts surrounding the potential assignment. For example, if Company A had launched a hostile takeover bid for Company B, a client conflict threat would arise if a valuer was to accept an instruction from Company A when it was already instructed by Company B. In contrast, if Company A and Company B could not agree on a price and jointly instructed the valuer to provide an independent valuation, no conflict would arise.

A1.3 Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into the following broad categories:

a) Safeguards contained in statutes or regulations relating to the purpose for which the valuation is undertaken.

b) Safeguards contained in rules of conduct issued by a Valuation Professional Organisation to which the professional valuer belongs and

c) safeguards contained in a firm's internal working procedures and quality controls.

A1.4 Typical examples of safeguards created by statute or regulation include:

- regulations on the corporate structure and governance of firms providing valuation services
- statutory licensing of valuers for certain types of valuation
- regulations on the educational, training and experience requirements for individuals providing valuation services for specific purposes
- external review by a legally empowered third party of valuations, reports or other information produced by a professional valuer.

A1.5 Typical examples of safeguards created by a Valuation Professional Organisation include:

- requirements to comply with professional standards
- monitoring of compliance with professional standards and disciplinary procedures
- rules on the basis of remuneration for valuation assignments.

A1.6 Typical examples of safeguards in a firm's working procedures include:

- structuring a firm so that the professional valuer or valuation team dealing with a valuation assignment is operationally separate from parts of the firm providing any potentially conflicting service. Separation of managerial control, access to data and support services should all be considered as appropriate to the circumstances and level of threat
- requirements for maintaining a register of the material personal interests of professional valuers and other staff engaged in valuation assignments
- requirements for internal peer review of valuations
- periodically changing the professional valuer responsible for a recurring valuation assignment
- controls on the acceptance of gifts or hospitality from those commissioning valuations.

A1.7 The typical examples of safeguards listed in the foregoing three paragraphs are not intended to be exhaustive, nor are they capable of avoiding or mitigating every threat that a professional valuer may encounter to their ability to comply with the Fundamental Principles

A1.8 The effectiveness of a safeguard will often be enhanced by it being disclosed to the client and to any others who may rely upon the valuation. Consideration should therefore be given to the disclosure of any safeguards appropriate to the assignment that are in place or that are proposed before an assignment is commenced. Consideration should also be given to including reference to these safeguards in the valuation report or any published reference to the report, especially where the valuation is to be relied upon by parties other than the commissioning client.

A1.9 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards include:

- effective, well-publicised complaint systems operated by the employing organisation, a Valuation Professional Organisation or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behaviour
- an explicitly stated duty on professional valuers to report breaches of ethical requirements.

Discussion of Fundamental Principles

This Appendix examines each of the Fundamental Principles and provides illustrations of common threats to compliance and actions that a professional valuer can take or avoid to mitigate those threats. A Valuation Professional Organisation to which a professional valuer belongs may have rules that impose different or more specific detailed requirements in order to apply the Fundamental Principles to the area of valuation practice within which its members operate.

Integrity

A2.1 The principle of integrity imposes an obligation on all professional valuers to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

A2.2 A professional valuer should not knowingly be associated with a valuation, a report containing a valuation, a reference to a valuation or any other communication about a valuation if they believe that it either:

a) contains statements or information that are materially false or misleading or that are made recklessly; or

b) omits or obscures information required to be included where such omission or obscurity would be misleading.

A2.3 If a professional valuer becomes aware that they have been associated with such information, they should take immediate steps to be disassociated from that information, for example by issuing a modified valuation or report.

Objectivity

A2.4 The principle of objectivity imposes an obligation on the professional valuer not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.

A2.5 A professional valuer may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all situations to which a professional valuer may be exposed that would create a threat to objectivity. Some threats to objectivity are incapable of avoidance or mitigation and where this is the case the professional valuer should decline the assignment. However, some potential threats to objectivity may be either eliminated or effectively mitigated by safeguards. These safeguards can include appropriate disclosure of the threat to the relevant parties and obtaining their consent to proceed with the valuation assignment. Other safeguards are discussed in these appendices.

A2.6 Examples of situations that could potentially impose a threat, and which should prompt a professional valuer to consider either declining an assignment, or adopting safeguards to eliminate or avoid any threat or perception of bias include:

- requests to produce valuations for the buyer and the seller of an asset in a transaction
- requests to produce valuations for two or more parties competing for an opportunity
- requests to value for a lender where advice is also being provided to the borrower
- undertaking a valuation for third-party consumption where the professional valuer's firm has other substantial fee-earning relationships with the commissioning client
- providing recurring valuations of the same asset unless controls are in place to minimise the risk of self-review
- requests for a professional valuer to act as an advocate and as an expert in relation to the same matter.

A2.7 The extent to which any of the preceding examples will compromise the professional valuer's objectivity will depend upon the circumstances of each case – for example, the purpose of the valuation, the client's objectives and the practicality of eliminating or reducing the threat to an acceptable level by putting in place appropriate procedural safeguards. In many cases previous involvement with an asset presents no threat to objectivity and the knowledge it provides may actually enhance the ability of the professional valuer to provide an objective opinion.

A2.8 In considering whether a situation creates a threat to their objectivity, a professional valuer should recognise that it is often the perception of possible bias by others that creates the threat to the credibility of the valuation. There will be situations where some past or current involvement with either the asset to be valued or a party interested in that asset creates no material threat to objectivity but which could give rise to a perception of bias if subsequently discovered by a party who has relied on the valuation. Disclosure of any such involvement in the scope of work and report can be an effective means of avoiding any perception of bias.

A2.9 Examples of other safeguards to prevent or minimise bias or the perception of bias can include:

- ensuring that the professional valuer and all those assisting with the valuation are operationally separate from departments providing potentially conflicting services within the same firm
- disclosure of other fee-earning relationships with the commissioning client where the valuation may be relied upon by a third party.

A2.10 Where regular recurring valuations are provided of the same asset, possible safeguards against the threat to objectivity arising from self review include:

- providing for periodic peer review by a valuer or valuers unconnected with the assignment or
- periodically changing the professional valuer responsible for the assignment.

A2.11 If a professional valuer considers that a threat to objectivity can be eliminated or effectively mitigated by disclosure of the cause of the threat and any other safeguards taken or proposed, care should be taken not to breach the principle of confidentiality. If past involvement with an asset or a party interested in the asset cannot be disclosed without breaching the continuing duty of confidentiality to another client the assignment should be declined.

A2.12 If a professional valuer considers that a threat to objectivity can be eliminated or effectively managed by reaching an agreement that they may proceed with two or more parties with potentially conflicting interests in either the outcome of the valuation or the subject asset, care should be taken to ensure the parties are properly informed and aware of the potential consequences for their interest in consenting to the professional valuer being appointed. Obtaining agreement from two or more interested parties that a valuation assignment can be accepted does not absolve the professional valuer from the duty to comply with the Fundamental Principles.

A2.13 If no satisfactory safeguards to eliminate or minimise the threat to objectivity can be identified the professional valuer should decline the assignment.

Competence

A2.14 The principle of competence requires a professional valuer to

a) to maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and

b) to act in accordance with applicable technical and professional standards when providing professional services.

A2.15 Competent professional service requires the exercise of sound judgement in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

a) attainment of professional competence; and

b) maintenance of professional competence.

A2.16 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional valuer to develop and maintain the capabilities to perform competently within the professional environment.

A2.17 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

A2.18 A professional valuer should take reasonable steps to ensure that those working under the professional valuer's authority in a professional capacity have appropriate training and supervision.

A2.19 If a professional valuer does not have the professional knowledge and necessary experience to competently undertake a valuation assignment that is offered, the professional valuer should decline that assignment.

Confidentiality

A2.20 The principle of confidentiality imposes an obligation on all professional valuers to refrain from:

a) disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

b) using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

A2.21 A professional valuer should maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member.

A2.22 A professional valuer should maintain confidentiality of information disclosed by a prospective client or employer.

A2.23 A professional valuer should maintain confidentiality of information within the firm or employing organisation.

A2.24 A professional valuer should take reasonable steps to ensure that staff under the professional valuer's control and persons from whom advice and assistance is obtained respect the professional valuer's duty of confidentiality.

A2.25 The need to comply with the principle of confidentiality continues even after the end of a relationship between a professional valuer and a client or employer. When a professional valuer changes employment or acquires a new client, the professional valuer is entitled to use prior experience. The professional valuer should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

A2.26 The following are examples of circumstances where professional valuers are or may be required to disclose confidential information or when such disclosure may be appropriate:

- disclosure is permitted by law and is authorized by the client or the employer
- disclosure is required by law, for example:
  - (i) the production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) disclosure to the appropriate public authorities of infringements of the law that come to light.
- There is a professional duty or right to disclose, when not prohibited by law:
  - (i) to comply with the quality review of a Valuation Professional Organisation or other professional body;
  - (ii) to respond to an inquiry or investigation by a Valuation Professional Organisation or regulatory body;
  - (iii) to protect the professional interests of a professional valuer in legal proceedings; or
  - (iv) to comply with technical standards and ethical requirements.

A2.27 In deciding whether to disclose confidential information, relevant factors to consider include:

- Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional valuer.
- Whether all the relevant information is known and substantiated, to the extent it is practicable. When the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement should be used in determining the type of disclosure to be made, if any.
- The type of communication that is expected and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

Professional behaviour

A2.28 The principle of professional behaviour imposes an obligation on all professional valuers to act diligently in the service of their clients and to ensure that the service provided is in accordance with all legal, technical and professional standards that are applicable to either the subject of the valuation, the purpose of the valuation or both.

A2.29 Professional behaviour includes acceptance of a responsibility to act in the public interest. A professional valuer's duty is not limited to satisfying the needs of a particular client or employer. There is also a need to consider if professional decisions have a wider impact on unidentified third parties. For example, valuations are frequently undertaken that can directly impact upon third parties such as stockholders in a company or investors in a fund. While the client's needs are normally paramount, a professional valuer should avoid knowingly accepting any instruction that appears to be prejudicial to the interests of the wider public, and which could discredit their own reputation and that of the profession generally.

A2.30 In marketing and promoting themselves and their work, professional valuers should not bring the profession into disrepute. Professional valuers should be honest and truthful and not:

a) make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or

b) make disparaging references or unsubstantiated comparisons to the work of others.

A2.31 Professional behaviour involves acting responsibly and courteously in all dealings with clients and the public at large and responding promptly and effectively to all reasonable instructions or complaints.

A2.32 A professional valuer should avoid any action that may discredit the profession. Apart from the examples provided in this discussion this includes any action that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional valuer at that time, would be likely to conclude adversely affects the good reputation of the profession.