



## **RICS Exploratory Unification Task Force Report**

Report Date: June 26, 2008

To: **ASA Executive Committee and Board of Governors**

Committee Chair: Donna Walker

Committee Members: Jack Beckwith, Nelson Clayton, George Silver, Laurie Saunders, Brad Southern

Discipline Representation: RP, BV, PP, MTS

### ***Committee Establishment***

On December 29, the Board of Governors approved a resolution titled, "Statement of Formation of An Exploratory Unification Committee." The final paragraph of that resolution said, " Therefore, be it resolved, that the Board of Governors of the American Society of Appraisers authorizes a "Unification Committee" consisting of selected members, headquarters staff and outside advisors to complete the preliminary due diligence and discovery process with RICS Americas; conducted in a manner to ensure each organization is aware of and understands each other organization's membership policies, operational structures, credentialing criteria, and financial obligations and benefits, the results of which shall be communicated to the Board of Governors."

### ***Objectives***

This task force is charged with exploring the major issues that might arise if ASA were to merge with RICS. Potential areas for consideration: a) the structure of RICS and how ASA's disciplines might fit within that structure; b) the decision-making processes of RICS and how ASA's members might function within those processes; c) RICS's designations and accreditation paths and their similarities and differences with those of ASA; d) financial matters such as dues structures, financial stability, melding of ASA's assets and liabilities with those of RICS, and control of expenditures.

## ***Task Force Findings***

### **Structure of RICS and How ASA Disciplines Might Fit Within That Structure**

RICS structure is outlined in attached organization chart. (**Exhibit 1**). The organization is divided into seven large geographic areas. We are most concerned with RICS Americas. An organization chart for RICS Americas is also attached (**Exhibit 2**). ASA disciplines would populate the professional groups listed under the Valuation Council. Since RICS has little presence in the United States, approximately 1,000 members (mostly MAIs), if ASA were to merge with RICS the ASA disciplines should be able to exert influence in these professional groups as ASA members would essentially make up the entire membership of the BV, Personal Property, and MTS professional groups as RICS has virtually no BV, PP, or MTS groups or designated RICS members. Real Property would be the one exception. The professional group for real property would be made up of ASA members and 1,000 MAIs and possibly rural/agricultural appraisers and farm managers if the ASFMRA joined RICS. Discussions with RICS task force leader, Brian Glanville, indicates that it is envisioned that ASA's current BV leadership would migrate to a similar leadership position in the business valuation professional group under the Valuation Council (**Exhibit 3**). The same would occur for MTS, PP and RP. Gems and jewelry would have to establish itself as a sub-discipline of personal property. Because RICS has few members in the US, ASA members would constitute the majority of members in each valuation council board with the exception of real property.

Brian Glanville has stated that the RICS Americas organization details are at this time purposely 'loose' in order to allow each valuation discipline board (committee) to establish its own committee rules and structure including the election of committee members.

RICS also has a parallel organizational track of national associations where members (across disciplines) participate in public and regulatory outreach and in geographic chapters of RICS. This is shown on **Exhibit 1**.

**Conclusion:** RICS is developing its Americas structure along lines similar to ASA's multidisciplinary structure and RICS lack of existent members may offer ASA members an opportunity to actively participate in the establishment of RICS in the US.

**Recommendation:** ASA may want to negotiate for some kind of guarantee of the roles of current discipline committee leaders and members.

### ***Decision Making Process of RICS and How ASA Members Might Function Within Those Processes***

The decision making process at the valuation discipline board level as discussed above can mirror current ASA discipline structure since current discipline members and leaders are assumed to take an active role in the valuation groups should ASA and RICS merge. The next level up is the Valuation Council which has two members from each discipline. Currently ASA members who are former leaders of ASA have been asked and have accepted positions in the council to facilitate the merger of the two organizations. These members expect that current ASA discipline committee leaders would move into these positions if a merger were affected.

RICS membership in committees above the Valuation Council is by appointment. Appointment is through a nominating committee. The RICS Americas Board would be the immediate committee above the Valuation Council. Above the Americas Board are more global committees. At this point we note that the flavor of this process may affront our more democratic sensibilities. We also note that RICS in its presentations states "a nominations system, overseen by global and regional boards, assures that leadership is representative of the breadth that makes RICS membership so distinctive and compelling. *Where appropriate, elections are held for key roles.*" (Emphasis added).

**Conclusion:** If ASA merges with RICS in the long run the American character, for better or worse, should have its effect on the organization. How could an American become president of all of RICS? We don't know, but we are sure with time it could happen. However, in the short term it's the task force's opinion that if a merger is affected, ASA members and leaders should concentrate on establishing valuation groups in the image of current discipline committees and developing and

pursuing the goals of those committees with the added international scope, financial resources, and marketing abilities of RICS.

**Recommendation:** Negotiations should include the requirement that each discipline board name a certain number (2) of members to the Valuation Council.

### ***RICS Designations and Accreditation Paths and Their Similarities and Differences with Those of ASA***

RICS has three designations: FRICS, MRICS, and a technical designation each with a corresponding path to designation as shown in **Exhibit 4**. In general, RICS emphasizes ethics and professional competence, specifically knowledge and understanding of valuation methodologies and practical experience in using valuation methodologies. RICS has no report review requirement but it does require members to present an example of their professional work to a panel of professionals doing similar type of work. In terms of experience RICS requires 10 years for its FRICS designation. RICS currently does not require continuing education after its designation is achieved and does not offer valuation courses akin to ASA POV courses. Instead, RICS current MRICS accreditation process which applies to recent college graduates relies on candidates having a university degree from a RICS accredited university that has direct application to a RICS designation. For established professionals RICS looks at a combination of relevant experience (10 years) and professional credentials. RICS has changed and broadened its accreditation paths as it has moved into areas outside of the United Kingdom.

**Conclusion:** RICS clearly requires education, work experience, and advance course work specific to the professional designation being sought. The process has rigor and is taken seriously by the organization. How to combine the accreditation paths of RICS and ASA should be a discipline specific authority and responsibility. This process is being undertaken by each ASA discipline with the exception of BV in terms of designation reciprocity to determine what is required for reciprocity between RICS designations and the equivalent ASA discipline specific designation.

## ***Financial Matters Such As Dues Structures, Financial Stability, Melding ASA Assets and Liabilities with Those of RICS and Control of Expenditures***

RICS dues are shown on **Exhibit 5**. The initial dues are higher than the continuing dues. When compared to ASA's dues, including chapter dues and assessments, ASA's dues are between those of RICS MRICS and FRICS designations.

The task force asked the RICS task force to inform us of the organization's legal status. RICS reply was as follows:

RICS legal status is an independent, non-profit organization, incorporated by Royal Charter on August 26, 1881. The Royal Charter sets out the objectives of the Institution and requires it to: "maintain and promote the usefulness of the profession for the public advantage." In practice, the Royal Charter means that important changes to the RICS constitution – its By-Laws - have to be ratified by the UK government, through the Privy Council. Royal Charters have a long history in the UK, where they are rarely granted, and are viewed as the "gold standard" of excellence and integrity in the modern professional world. All RICS members are enrolled by this global entity, which sets global regulations and collects annual dues.

The Royal Institution of Chartered Surveyors, Inc, is a New York State Type A Corporation, as defined under Section 102(a)(5) of the Not-For-Profit Corporation Law. This entity – a subsidiary of the British parent - employs staff based in the Americas and holds the lease on the New York office. The American corporate entity files payroll taxes only. Currently, RICS files consolidated income tax returns in the UK. [Note: Deloitte is currently reviewing the legal/tax status of all RICS operations; RICS regulations and by-laws are flexible, allowing adjustment to optimize tax status as appropriate].

The RICS Foundation, formed by RICS in 2000, is a world-wide charitable Foundation, established to enhance the quality of the built and natural environments for the benefit of all, with a commitment to sustainability as an intrinsic part of all efforts. The RICS Foundation is a not-for-profit company limited by guarantee, registered in Wales and England, UK. It is also a charity. In many ways, it is comparable to the American Society of Appraisers Educational Foundation (ASAEF). If appropriate, RICS could incorporate comparable not-for-profit foundations in the US as well.

LionHeart, founded by RICS members in 1899, is a benevolent fund, established to provide confidential advice, information, support, and in certain circumstances financial assistance to those who find themselves in difficulty. Past and present members of the RICS and their families are eligible for assistance. Frequently help is given in cases of ill-health, disability or unemployment, separation of families, and difficulties in retirement. LionHeart is an independent charity, run by members for members. It is neither funded nor managed by the RICS, but governed by Trustees who are members of the RICS. The charity is dependent on RICS members and their firms to assist those in need.

RICS also owns and operates several commercial, for-profit entities, including RICS Books (commercial publishing and bookselling), Building Cost Information Service (a leading provider of cost information to the construction industry) and RICS Dispute Resolution Service. These entities are all incorporated in the UK.

The committee reviewed five years of financial statements for fiscal years July 31, 2004 through 2008. RICS had, as of July 31, 2008, net reserves of £32.6 million (approximately \$54 million USD). In fiscal year 2008 RICS had an operating deficit of £1.9million (approximately \$3.1 million USD). All other years had operating surpluses ranging from £91,000 (approximately \$150,000 USD) to £2.7 million (approximately \$4.5 million USD). For fiscal year 2008, the organization had a consolidated after tax surplus (income) of £1.8 million (approximately \$2.9 million USD) (operating deficit plus other income and expense).

We also asked RICS about its budgeting process. Specifically:

**Do faculties have their own budget/pot of money that they work with or is this set by RICS HQ and they are expected to remain within that budget?**

Response:

RICS members can seek funding from three sources:

- 1) Their Professional Group
- 2) Their World Regional Board
- 3) Commercial Activities

#### Professional Groups

RICS Professional Groups (formerly known as Faculties) have their own global budgets for global activities. These budgets are set by the Global Management Board for the fiscal year to fund the core activities of the Professional Groups, including research, education and regulation. Funds for these activities – as for other activities that do not generate their own revenues and therefore require investment - come primarily from members' annual subscriptions, which are collected centrally and then re-allocated in accord with global strategy and priorities.

#### World Regions

RICS World Regions, including RICS Americas, also have their own budgets, set by the Global Management Board for the fiscal year. These budgets fund core regional activities, including member services, public affairs and development. Many of these local activities are discipline-specific and implemented through the RICS Americas Councils. The RICS Americas Board and staff allocate this budget to the Americas activities that require investment. As with all other core RICS activities, the funds come primarily from members' annual subscriptions. At this time, RICS Americas receives substantial investment from the Global Management Board, well beyond the subscription income collected from the region.

### Commercial Activities

In addition to the core regional activities that require investment, which are funded by the allocation from the Global Management Board, RICS Americas may opt to engage in commercial activities within the region. These commercial (i.e., revenue-generating) activities may include events, training and solicitation of advertisement/sponsorship, as long as they are consistent with global guidelines and standards. Any income collected within the region from these activities remains within the region, for allocation by the RICS Americas Board and staff to projects consistent with global standards and priorities. Any income from commercial activities (including training) conducted across multiple regions is shared by agreement with the participants in the activity.

In summary, any member groups – including disciplines or local Chapters - that desire their own “pot of money” to fund activities have two options: generate commercial income that covers the cost of their desired activities or convince the relevant Board that the activities merit investment to achieve global RICS objectives.

We also asked RICS about the organization’s experience in other merger situations. Specifically:

### ***In Past Mergers, How Has RICS Handled The Assets And Liabilities Of The Assumed Organization?***

RICS is a product of a series of mergers.

RIC’s most recent merger, with the Incorporated Society of Valuers and Auctioneers (ISVA), occurred in 2000. The two organizations agreed that all members would be better served if a single view could be put forward about issues relating to property, derived from a wider range of professional disciplines. They also believed that valuable economies of scale in administration would be achieved. Thus after a series of negotiations, both organizations voted in favor of merging the 7,000-member ISVA into RICS. Fears that ISVA members would lose their status and voice within the larger RICS were addressed by assuring that all members of ISVA would gain the right to place the equivalent RICS letters after their name and that the education routes into the ISVA would become additional points of entry into the RICS. An agreed transition period applied in which both designations were used by ISVA members. Leaders of ISVA were invited to participate in appropriate RICS committees and boards

RICS took ownership of all ISVA assets, including an office facility, and assumed all liabilities. The ISVA Benevolent Fund was merged with LionHeart, the RICS charitable foundation. Funds were combined and LionHeart took on the responsibility for ISVA members and their dependants in need.

## ***Have The Staffs Of These Organizations Been Given Opportunities In RICS?***

After the merger with ISVA, most staff of both organizations was retained. ISVA's Chief Executive, for example, remains RIC's Global Education Products Manager. Many other ISVA staff remain in active roles within RICS. Where there was overlap, a few staff members were offered early retirement incentives.

The RICS Americas staff currently numbers just 11. RICS is not familiar enough with ASA operations to comment in any real detail on where ASA staff would fit within RICS Americas, but from a preliminary view, it would seem that the ASA staff might logically fill several key roles within RICS in the Americas. ASA staff would, for example, seem well positioned to become the education development and delivery center for RICS education programs, as RICS currently has no facility for these activities in the Americas, whereas the ASA staff is experienced at handling education processes. ASA staff would also add substantial capability in areas including events management, government affairs and member service.

### ***Deal Breakers***

We were asked to note possible deal breakers. We see three.

- 1. The fear that ASA will be lost in a large international organization.** A merger with RICS does mean that ASA as it is known today would cease to exist. This may not be acceptable to BOG members, disciplines, and members at large if they are of the opinion that unification of the appraisal profession is not paramount and that ASA is capable of continuing with its current resources. The RICS Americas organization structure is based on the ASA multidiscipline model. The lack of RICS members in the United States has the potential of allowing ASA members - assuming a merger - to control the various disciplines in RICS. However, RICS solicitation of ASA members to populate RICS committees has alienated some who interpret these actions as bad faith. Members from disciplines other than business valuation are concerned that RICS' interest is only with business valuation.

**Recommendation:** The task force recommends that at this time instead of a merger, ASA continue to pursue a cooperative relationship with RICs as outlined in the Memorandum of Understanding

dated August 4, 2008, in terms of professional education, government relations, joint meetings, reciprocity and other shared interests.

**2. Business valuation discipline's bias against predominantly real property organizations.** In general all disciplines are concerned that they will lose their current control in a new organization and in particular the Business Valuation discipline views RICS' real property concentration as a strong negative.

**Recommendation:** The task force recommends that discipline committee leaders are the main negotiators in crafting a merger agreement because if the disciplines are not convinced of their autonomy within RICS the merger will not be either approved or successful.

**3. Loss of Intellectual property.** A concern of all disciplines is that ASA's education courses, as intellectual property and what makes ASA attractive to RICS will be lost once a merger is complete.

**Recommendation:** We recommend that a merger agreement include specific details that assure that discipline committees/professional groups have authority and responsibility on educational curriculum and input into how, where and when courses are delivered to. Further, that those valuation professional groups have control over who teaches courses and that those professional groups ensure that they are not promoted and sold without their control.

Other issues such as continuation of *designations* (the RICS task force agreed that everyone will be able to keep their designations in the short term, but that a long term goal is to eliminate the alphabet soup of designations) and the *name* (RICS is being used not Royal Institution of Chartered Surveyors) should not be considered deal killers but must be addressed in any merger agreement.

## ***Pros and Cons of a Possible Merger***

The task force was not specifically asked to determine the pros and cons of a merger with RICS. However, ultimately the decision process of the BOG will come down to such a weighting and we felt compelled to share some of our initial thoughts.

### **Pros**

**RICS international presence** – RICS’ global scope offers international networking to members and the ability to grow ASA education outside of the US.

**RICS influence with International Financial Reporting Standards (IFRS) and International Valuation Standards Committee (IVSC)** – RICS’ influence with these organizations will give ASA members the ability to play key roles in the establishment of IVS.

**Size** - Consolidation of North American appraisal professionals will strengthen the appraisal profession’s ability to interact with and influence regulators.

**Desire to Diversify** – RICS’ interest in business valuation and machinery and equipment valuation offers the ASA business valuation and MTS disciplines a platform from which to grow global valuation disciplines.

**Nascent Organization in the US** – RICS’ lack of established organization in the US may offer ASA, its disciplines and its members an opportunity to influence the structure and direction of the organization.

**Greater Resources** - Greater financial strength, greater marketing and public relations resources are services ASA members want.

### **Cons**

**Size** - Large size runs a risk of ASA disciplines and members not being able to maintain control and influence.

**Real Property Orientation** - RICS organizational focus is on real property related activities; valuation/appraisal is only a small part of the organization; within the valuation non real estate disciplines are very small.

**International Scope and Networking** – This may be valuable to only some members and some disciplines.

**Loss of intellectual property** - How do we protect our intellectual property from being promoted and sold without our control?

**Discipline Consolidations** - The Personal Property and Gems and Jewelry Disciplines would have to consolidate.

## ***Conclusion***

The pursuit of common objectives, based on a well planned itinerary consisting of mutual development of programs that strengthen individual appraisal disciplines, may eventually result in a future merger with RICS. This approach may relieve the uncertainty of RICS taking ownership of all ASA assets. A coordinated effort by the leadership of both organizations may eliminate the fear of ASA not having a responsible voice within a larger entity.

A merger of RICS and ASA could result in a single designation that represents the high standards of an elite appraisal organization. In the final analysis, ASA and RICS credentials would be synonymous with a unified body. A part of that unification process and membership body acceptance may well result in references to “Royal” and “American” in the credentials being replaced with a more universal acronym appropriate to a global organization. This could be one of the steps taken by RICS and ASA to create a common organization.

The above represents the full level of inquiry, findings and recommendations of the task force in executing its charge. We appreciate the opportunity to serve the EC and BOG in this process and look forward to answering any questions you may have.

Respectfully submitted,

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Donna Walker, Chair

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George Silver, Member

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Jack Beckwith, Member

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Laurie Saunders, Member

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Nelson Clayton, Member

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Brad Southern, Member

## Exhibit 1 – RICS Structure



Source: RICS

## Exhibit 2 – RICS Americas Structure

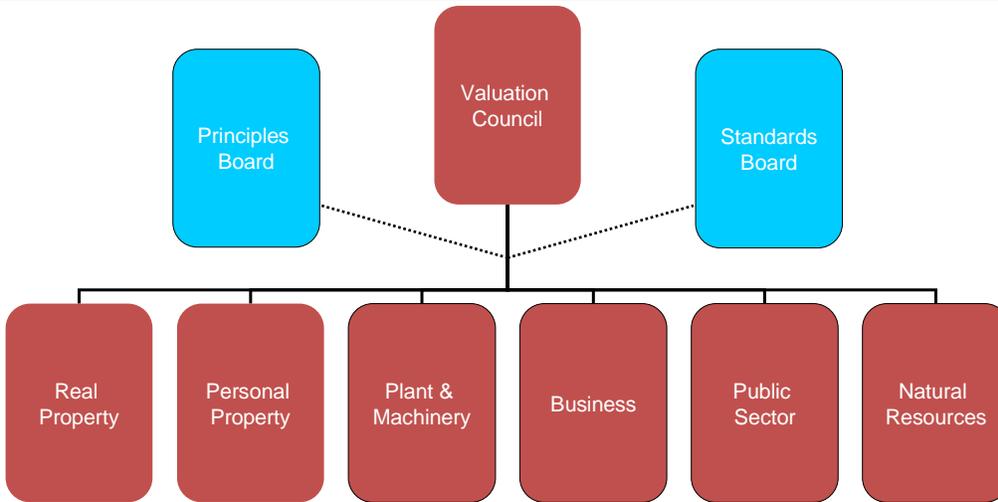


*Source: RICS*

## Exhibit 3 – RICS Americas Valuation Council

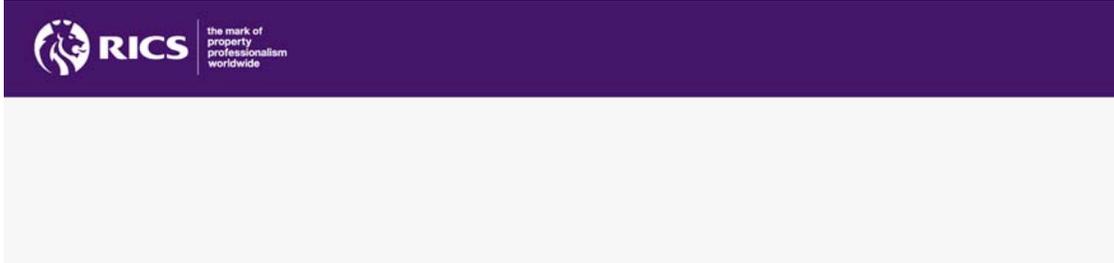


### RICS Americas Valuation Council: Detail of Committees.



Source: RICS

## Exhibit 4 – RICS Accreditation Process



*Source: RICS*

## **RICS Americas Dues Structure**

<b>Grade</b>	<b>Annual Dues</b>	<b>Additional Year One Fees</b>	<b>Year One Total</b>
<b>FRICS</b>	\$780	\$390*	\$1,170
<b>MRICS</b>	\$385	\$650	\$1,035
<b>AssocRICS</b>	\$265	\$135	\$400
<b>Trainee</b>	\$190	\$135	\$325

\* This fee applies for existing member advancing to Fellow status. For new members coming in at Fellow grade additional fees apply.