



Mr Neil Grummitt
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority

By email: mortgagelending@apra.gov.au

21 July 2014

Dear Mr Grummitt,

Draft Prudential Practice Guide - APG 223 – Residential Mortgage Lending

The IVSC is an independent, not-for-profit, private sector organisation formed with the objective of strengthening worldwide valuation practice in the public interest. It achieves this objective by:

- Developing high quality international standards and supporting their adoption and use;
- Facilitating collaboration and cooperation among its member organisations;
- Collaborating and cooperating with other international organisations; and
- Serving as the international voice for the valuation profession.

The membership of the IVSC comprises over seventy professional valuation bodies, standard setters, and self-regulatory organisations from more than fifty countries. The IVSC also receives financial and logistical support from a number of global valuation firms and banks. The Australian Property Institute is a long standing member of IVSC and requires its members to comply with the International Valuation Standards (IVSs) as issued by the IVSC when undertaking valuations.

As the global valuation standard setter the IVSC not only issues standards for the conduct of valuations but also considers it in the public interest that it assists legislators and regulators in development of regulations that include provisions on valuation to ensure that these reflect internationally recognised procedures and are operationally effective. Our comments are therefore confined to the proposed clauses 61 -71 “Security Valuation”.

With regard to clause 61 “Valuation Methods” we recommend that the guide includes reference to the desirability of commissioning valuations that are in accordance with recognised valuation standards, eg the IVSs. The IVSs permit significant flexibility in the degree of investigation and reporting detail, simply requiring that these must be appropriate for the intended purpose of the valuation. Subject to this, all the types of valuation listed in the current first sentence of clause 61 can be undertaken under the IVSs. Requiring that valuations are undertaken in accordance with internationally recognised standards will help ensure the quality of the process and that all ADIs are working to a common framework for valuing security. The IVSs will also be familiar to many of the Australian valuation practitioners who are likely to be commissioned by ADIs.

The sound risk management practices discussed the second and third sentences of clause 64 would also be enhanced if valuations are required to be undertaken in accordance with the IVSs.

Clause 66 provides that the valuation management process itself may be effectively outsourced to third parties. The IVSC has noted the recent trend in a number of countries towards lenders appointing third party management companies to procure and process the valuations of property offered as security. Some of the professional bodies in membership of the IVSC have made us aware that some of these management companies are structured and operated in a manner that puts severe pressure on the quality of the valuation. There are particular concerns around the extent and quality of information being provided to the external valuer, unrealistic constraints on the valuer's investigations and unrealistically short time scales being imposed. These can all compromise the valuation and undermine the principles of a robust risk management framework espoused in the previous clauses.

Some outsourced valuation management companies add considerable value to the commissioning and quality assurance of the valuation process and therefore there is nothing wrong with the principle of outsourcing. However, whereas lenders are regulated and in many cases professional valuers are either regulated by state licensing or through membership of a professional body, there is increased risk by introducing an unregulated intermediary between the lender and valuer. We therefore suggest that the PPG be strengthened by making it clear that where an ADI outsources management of its valuation process it should ensure that its supplier commissions valuations in accordance with the sound risk management processes discussed in clauses 64 and 65 and in accordance with recognised standards to ensure that there is no loss of quality or increase in risk.

We trust our comments are helpful but should you have any questions please do not hesitate to contact the writer.

Yours faithfully

A handwritten signature in black ink, appearing to be 'C G Thorne', with a stylized flourish at the end.

C G Thorne
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