

RESPONSES TO QUESTIONS TAKEN ON NOTICE

by the

ROYAL INSTITUTION OF CHARTERED SURVEYORS (RICS)

to the

JOINT STANDING COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

regarding

IMPAIRMENT OF CUSTOMER LOANS

*Hearing at the Sofitel Wentworth, Sydney
on Monday 4 April 2016*

	Question	Response
1	<p>CHAIR: Thank you. Could I start off by asking you to confirm again for us from your perspective is the percentage of people who are operating in the area of being a licensed or registered valuer who are members of RICS. Do you represent 10 per cent of the industry or 90 per cent of the industry?</p> <p>Mr Hardie: We have 600-odd members of our organisation who are valuers. What proportion that is of the overall industry I do not believe we are in a position to say. I am happy to take the matter on notice if I can provide a clearer response than that.</p>	<p>The RICS cannot provide any further clarity about the total number of valuers in Australia beyond the response provided. We note that the Australian Property Institute (API) claims to represent ‘the interests of nearly 8,000 property experts throughout Australia’, although it is not clear whether all of these individuals are valuers.</p> <p>Further, there are some RICS members who are also members of the API.</p>
2	<p>Senator O'NEILL: And how much market share do you have?</p> <p>Mr Hardie: The RICS?</p> <p>Senator O'NEILL: Yes, of the banks' business.</p> <p>Mr Hardie: I could not say.</p> <p>Senator O'NEILL: Is it large or small, Mr Hardie?</p> <p>Mr Hardie: The ANZ, in terms of adopting the RICS red book, gives instructions to its valuers to say that they can undertake the valuation in accordance with either API guidelines—the Australian Property Institute guidelines—or the RICS guidelines. I do not believe we would be in a position to tell you what proportion of the work is undertaken by the valuers working on behalf of the ANZ bank using either our red book or the API guidelines.</p> <p>CHAIR: How many of the members of your organisation would work for banks as a predominant proportion of their work?</p>	<p>Valuers operating in Australia conduct a variety of work, from low-risk, lower-value residential valuation work through to commercial and industrial valuation which can attract higher risk and higher value. RICS members are predominantly involved in larger projects, where higher risk and value combine to require a valuer of high competence and experience.</p> <p>The RICS is not in a position to determine our proportion of market share. However, we believe that RICS members would be equally represented (against professionals accredited by other bodies) at the higher-value end of the market, and under-represented at the lower end of the market. It is not possible to provide an exact percentage.</p>

	<p>Prof. Parker: The majority would be either for secured lending for banking or financial reporting for balance sheet purposes. Probably, the majority.</p> <p>CHAIR: How many of them would be, for example, on panels of providers for banks where a significant proportion of their work came through standard terms and conditions agreed for a period of three or five years—or whatever the panel terms are—with a bank?</p> <p>Prof. Parker: In terms of those that may be on panels, I would assume the majority would be on panels. In terms of whether the bank secured lending work forms a majority of their practice, I would be unable to answer that.</p> <p>CHAIR: Could you take that on notice? I am aware you may not be able to answer that, even on notice. But could you take it on notice to provide the committee with an indication of that?</p> <p>Mr Hardie: Yes.</p>	
3	<p>Senator O'NEILL: Could you provide a sample of a valuation and indicate for us clearly where it is easy for somebody to see what the instructions are?</p> <p>Prof. Parker: I do not personally have one.</p> <p>Senator O'NEILL: On notice would be fine. I am sure you would be able to access one at some point in time.</p> <p>Prof. Parker: Yes. Given that they are often proprietorial documents between clients—</p> <p>Mr Hardie: We will engage with our professionals group and find</p>	<p>The RICS Valuations Professional Group has considered whether it is possible to provide a de-identified valuation instruction and/or valuation report. However, it was agreed that any redacted document would provide no useful purpose as it could still, potentially, identify a building/property being valued or provide little to no useful information to the Committee.</p> <p>One member of the Group indicated that a set of instructions would usually instruct a valuer to conduct a valuation in accordance with the guidelines issued by the relevant Authorised Deposit-taking Institution (ADI). A valuer will have access to a series of guidelines issued by each of the ADI which are, generally, similar to each other. Guidelines are established</p>

	<p>something that is suitably de-identified that we can provide to the committee.</p>	<p>specific to the nature of the property being valued – for example, there are guidelines for the valuation of residential space, office space and industrial space. These are non-binding but are followed in practice by the valuer.</p>
4	<p>Senator O'NEILL: Thank you. That still does not give me great confidence that this is going to be an easy document for people with small business loans who are engaging in commerce to be able to read without too much translation by a professional. I also want to frame your answer in an understanding of how much of the market you have and how much of the red book that you just referred to was actually applied, which was the answer we did not get at the beginning to the chair's question of how much of the market you guys cover.</p> <p>Mr Hardie: We are prepared to take that question on notice. I suppose one of the things that I gleaned from Professor Parker's evidence this morning is that this is detailed work and it is something that requires some experience and understanding of to understand properly. The end user, at the end of the day, needs to be in a position to ask a question if they are unsure about what something does or does not mean. But these are technical valuations undertaken for a particular purpose. If what the committee is seeking is greater transparency or perhaps more easily defined terms in the way in which a document is framed, the committee can of course recommend that. But I am not certain that that is something—we believe the red book, obviously, goes so far as to explain what those assumptions need to be that are built in.</p>	<p>The RICS believes there is a role for plain English, and consistent, definitions for terms used in both valuation instructions and in valuation reports.</p> <p>As a regulating body, and with a requirement to act in the public interest, RICS would be prepared to work with industry to develop a set of standard terms and definitions which could be provided to end users to help them better understand what has been instructed/reported.</p> <p>We also note that we work together with other professional accreditation organisations, such as the Australian Property Institute, to progress improved understanding of the profession. Where appropriate to do so, the two organisations work together and with Authorised Deposit-taking Institutions (ADI) to improve the way the valuation profession operates in Australia. Where we can jointly-represent the profession to stakeholders we do so.</p> <p>We do note that a number of firms already provide cover sheets with their instructions which provide a list of definitions as they relate to work with that organisation.</p>
5	<p>Senator O'NEILL: That is an assumption that we definitely would have to say is not the case. At the beginning of conversations that have been reported: 'Yes, it does seem fair that if you are paying for it, maybe you should have a look at it.' It still does not go to where</p>	<p>See response to question 4.</p>

	<p>we need to go, which is to actually have a deep understanding of the set of assumptions that are embedded in this valuation, and whether, indeed, it is a market-value valuation or an investment-value valuation, or what assumptions have been embedded in it.</p> <p>Prof. Parker: As Mr Hardie said—at the risk of pushing our own barrow—if the requirement on the banks was to follow the red book, with a secondary requirement that came out of this committee that the copy of the report should be provided to the borrower, then that would appear to address some of the issues you raise.</p> <p>Mr Hardie: If it would assist the committee, we would be happy to take that on notice and raise that with our professionals valuation group to determine whether they—as the eminent group of valuers in the profession that they are—believe that there are some things that could be done to encourage greater interoperability, I suppose, of that valuation advice once it has been provided, based on who the client is, who has paid for it and that kind of thing.</p>	
6	<p>Mr RUDDOCK: In terms of your supervisory role, how many people did you expel this year?</p> <p>Mr Hardie: We could take that on notice.</p>	<p>RICS has a range of disciplinary measures we can use against members, including sanctions, fixed penalties, consent orders, interim measures (which include practice restrictions and suspensions), and expulsions.</p> <p>So far this year, no Australian members have been disciplined as part of our Regulated Firm and Valuer Registration cases. However, for reference and globally, our regulation practices have resulted in:</p> <ul style="list-style-type: none"> • 36 sanctions, • 231 fixed penalties; and • 68 consent orders; • two members were placed on interim measures (one suspension and one restriction to practice); and

		<ul style="list-style-type: none"> • one member was expelled. • One firm was also removed. <p>Unless there is a case of criminal activity, serious ethical breach, gross negligence, or unwillingness to cooperate with measures to improve the competence of a member, the goal of the enforcement program is not to expel the member, but to bring them into compliance where possible. Consent orders, for example, are designed as a formal compliance plan for the member, which is monitored and enforced. Failure to comply with the consent order then results in further discipline, up to expulsion.</p> <p>RICS believes that the low number of expulsions is actually a measure of the quality of our members and the monitoring programs we have in place to capture activity requiring correction.</p> <p>A further 380 members will go before disciplinary panels later this month where the charge of non-compliance with Compulsory Professional Development (CPD) requirements and, if confirmed, will result in expulsion. Four of those members are in Australia. RICS members in Australia are among our most compliant members on CPD, with 96% of members completing at least 20 hours of learning over the last year.</p>
7	<p>Mr RUDDOCK: It would be relevant for me on that same matter to know whether the banks, for instance, would only use your members for valuation purposes.</p> <p>Mr Hardie: We would dearly like the banks to only use RICS members for the purposes of valuation. We would also like them to adopt the red book as the principle means by which they determine</p>	<p><i>Clarification:</i></p> <p>On page 9 of the Proof Hansard from the hearing, Mr Ruddock asked whether RICS would like it if the ‘the banks...would only use your members for valuation purposes’. In his response, Mr Hardie stated that RICS would ‘dearly like the banks to only use RICS members...’.</p>

	<p>the way in which property and assets are valued.</p>	<p>To avoid any misinterpretation, RICS is a global organisation whose policy is to collaborate with local organisations in all of the countries in which it represents its members. The use of the word “only” was incorrect. To avoid any misinterpretation, RICS seeks the increased engagement by the banks with RICS and its members and standards in the normal course of business, but not to the exclusion of those valuers who are members of other organisations that are aligned to and actively promote the use of international standards.</p> <p>RICS notes that as a fundamental principle and in the interest of the public, we are actively promoting an increased adoption of international valuation standards when valuers undertake valuation work in Australia. RICS members use international standards and are regulated against these. It is in this context that the statement was made. RICS is currently collaborating with other professional bodies to improve key property valuation issues that arise in a dynamic market from time to time</p>
8	<p>Senator KETTER: Chair, I want to follow up on that. Professor Parker, I am just looking at your red book, at 4.8. I know you do not like to use the term 'forced sale', but you talk about the circumstances there at 4.7 and 4.8, and at the end of 4.8 you refer to the fact that, 'the term is a description of the situation under which the sale takes place and so it must not be used as a basis of value'. So am I correct in assuming that should mean it does not have an effect on the actual valuation that you provide?</p> <p>Prof. Parker: No, the basis of value is either market value or investment value. There are only two bases of value.</p>	<p><i>Clarification</i></p> <p>In Professor Parker's response, he noted two bases of value. The Red Book, at VPS 4, Para 1.1.3 notes that there are five bases of value being:</p> <ul style="list-style-type: none"> • Market value • Market rent • Investment value (worth) • Fair value – IFRS definition • Fair value – IVS definition.