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To whom it may concern:

On behalf of over 5,440 Members of the Appraisal Institute of Canada, I am pleased to have the opportunity to make a submission in the context of Finance Canada's review of the Anti-Money Laundering and Anti-Terrorist Financing Regime.

Firstly, we take the opportunity to introduce our membership of professionally qualified designated real property appraisers.

The Appraisal Institute of Canada (AIC) is the premier real property valuation association in Canada. Founded in 1938 and representing over 5,440 Members, AIC is a self-regulating professional organization that grants the distinguished Accredited Appraiser Canadian Institute (AACI) and Canadian Residential Appraiser (CRA) designations to individuals across Canada and around the world. Our Members adhere to nationally and internationally recognized standards – the Canadian Uniform Standards of Professional Appraisal Practice – and are respected worldwide for the rigorous designation program and ongoing professional development requirements.

AIC has a long history of providing valued, independent opinions about property value. In 2017, our Members conducted over 1.2 million third-party appraisals with an overall value of approximately \$1.28 trillion. This represented \$704 billion in residential property and \$577 billion in non-residential property, including commercial, industrial as well as many other types of real estate. Furthermore, we have many Members who provide in-house expertise to private and public interests including (but not limited to) governments, crown corporations/agencies, corporations and mortgage insurers.

AIC Members are committed to working with legislators, government and stakeholders within the real estate industry to ensure that the market, and more importantly consumers, are protected against fraudulent and/or criminal real estate activities. We believe our Members' unbiased opinions and strong valuation fundamentals contribute to a sustainable and healthy marketplace that enables Canadians to prosper.



As a professional valuation association, AIC Members are expected to provide quality services within their areas of competence and in compliance with AIC's Code of Conduct, Regulations and the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP). Compliance with CUSPAP is the AIC and our Members' contract with the public we serve.

Fraudulent or criminal behaviour within the real estate market is a concern to us. As an organization with Members who do not have a stake into the outcome of a real estate transaction, we recognize the importance of strong mortgage underwriting guidelines and valuations that consider the creditworthiness of the borrower as well as the reliable value of the collateral to mitigate the risk of any type of criminal activity within the real estate industry.

The Department of Finance's discussion paper on "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime" identifies a few aspects where we believe our Members can play a role.

The paper indicates that "the non-federally regulated mortgage sector is complex and composed of various kinds of entities subject to different regulatory obligations." One way to help address these concerns is to apply the Office of the Superintendent of Financial Institutions' (OSFI) B-20 and B-21 Guidelines to all lenders providing mortgage financing across the country. The Residential Mortgage Underwriting Practices and Procedures (B-20 Guidelines) and the Residential Mortgage Insurance Underwriting Practices and Procedures (B-21 Guidelines) introduced by OSFI require federally regulated financial institutions (FRFIs) and mortgage insurers to rely on appropriate numbers of on-site inspections and third-party professional appraisals to verify the value of collateral used during the mortgage underwriting process. This policy is particularly important to mitigate risk when it comes to confirming the legitimacy of both the lender and borrower.

Recent federal policy decisions, including the stress-test for homebuyers, have placed more scrutiny on potential borrowers; as a result, an increasing number of Canadians have sought financing through secondary, non-federally regulated lenders. Imbalances have thus been built in our system and a parallel, less-regulated industry has established itself with a growing share of the Canadian mortgage market and the potential for a greater risk of mortgage fraud.

While AIC recognizes that federal regulatory oversight of the financial system has been very sound over the past challenging decade, we believe it is time to ensure consistency across the country and across all lenders by bringing non-federally regulated institutions under the regulatory umbrella that has served Canadians and the economy so well. It is time to apply the same rules to everyone operating in Canada's mortgage space, in the interest of consumer protection and market stability.

The discussion paper also highlights that while the Anti-Money Laundering and Anti-Terrorist Financing Regime includes real estate brokers, sales representatives, and developers, there are other organizations/professionals that are not included yet play an integral role within the real estate sector in Canada. We believe appraisers are one of those professional groups.



Appraisers help mitigate and detect fraudulent activity by conducting onsite inspections and completing comprehensive research on the subject property as well as analyzing comparable properties to arrive at an unbiased opinion of market value. Through the appraisal process, a professional appraiser typically gathers information about the owner or occupant; the ownership history; vacancy circumstances; the sales and listings history including: dates of sales, and purchase, list, and selling prices; and the intended use and users of the report.

An AIC appraiser provides structured reporting documentation and gathers information from on-site activities, transaction activities, bona fide purchasers, and objective data about normal marketplace activity – all information allowing appraisers to identify and warn of abnormal behaviour that may indicate fraudulent activity such as: inflated prices, false transactions, frequent or rapid transactions, “straw buyers”, counterfeit documents, data manipulation or mortgage fraud. All this detail can trigger red flags related to fraudulent or criminal activity.

In conclusion, we recommend that the Government of Canada encourage and work with provincial governments to apply the OSFI B-20 and B-21 Guidelines to all non-federally regulated lenders providing mortgage financing within their jurisdiction to help better detect fraudulent or criminal behaviour within the real estate sector.

Yours truly,



Keith Lancaster MBA, CAE, AACI (Hon.)  
Chief Executive Officer  
Appraisal Institute of Canada