



APPRAISAL STANDARDS BOARD
2011 SUMMARY OF ACTIONS
RELATED TO PROPOSED USPAP CHANGES
April 8, 2011

On April 8, 2011, the Appraisal Standards Board (ASB) approved and adopted modifications to the *Uniform Standards of Professional Appraisal Practice* (USPAP). This action was the culmination of a period of 15 months and five exposure drafts. Written comments were received from over 275 individuals, and oral comments were provided at five public meetings. The ASB considered every comment, developed a work plan to address the issues brought forward, and adopted revisions for the 2012-13 edition of USPAP, as well as continuing the examination of the issue of reporting for the 2014-15 edition of USPAP.

1. Revisions adopted for 2012-13 USPAP

The changes to USPAP that were adopted by the ASB were the result of five exposure drafts, which were issued on January 5, 2010, May 27, 2010, September 29, 2010, December 10, 2010, and February 11, 2011. The following changes were adopted by the Board on April 8, 2011, and will be incorporated in the 2012-13 edition of USPAP and associated guidance material with an effective date of January 1, 2012:

- Revisions to DEFINITIONS of “Client,” “Extraordinary Assumption,” “Hypothetical Condition,” and a new definition, “Exposure Time”
- Revisions Relating to Development and Disclosure of Exposure Time Opinion
- Revisions to Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3 and 10-3
- Creation of a new RECORD KEEPING RULE and Related Edits to the Conduct Section of the ETHICS RULE
- Revisions to Advisory Opinion 21, *USPAP Compliance*
- Revisions to STANDARDS 7 and 8: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT and REPORTING

In a separate action, on May 10, 2011 the Board adopted an additional revision related to Advisory Opinion 13 (AO-13), *Performing Evaluations of Real Property Collateral to Conform with USPAP**

*NOTE: The revisions to AO-13 were not contained in the exposure drafts issued by the ASB (see the accompanying section at the end of the *Revisions adopted for 2012-13 USPAP* section of this document for further information).

2. Revisions *not* adopted for 2012-13 USPAP

In addition, the Board elected not to adopt the proposed revisions in the Fifth Exposure Draft related to the following topics at this time:

- Required Labeling of Hypothetical Conditions
- Retirement of STANDARDS 4 and 5

3. Summary

The goal of the *Uniform Standards of Professional Appraisal Practice* is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. All potential changes and additions to USPAP are evaluated in light of this goal. The adopted changes are intended to improve the clarity, understanding and enforcement of USPAP, thereby furthering the goal of promoting and maintaining public trust in appraisal practice.

In reviewing comment letters received on the exposure drafts, the ASB's primary focus is the reasoning and insight presented in the letters, rather than the source or authorship. The ASB is guided by the quality, relevancy, and accuracy of the points made, and not their frequency.

The actions taken by the Board, and rationale for those decisions, are discussed below. With the exception of minor administrative edits, the Board acted on the proposed revisions to USPAP as contained in the Fifth Exposure Draft as shown on the following pages.

I. REVISIONS ADOPTED FOR 2012-13 USPAP

Definitions of Client, Exposure Time, Extraordinary Assumption, and Hypothetical Condition

Action:

The Board adopted the revisions proposed in the Fifth Exposure Draft. The definition of *Client* was changed to:

***CLIENT:** the party or parties who engage, by employment or contract, an appraiser in a specific assignment.*

***Comment:** The client may be an individual, group, or entity, and may engage and communicate with the appraiser directly or through an agent.*

Rationale:

The definition was revised to further clarify the proper application of the term client and to facilitate in the proper identification of the client in assignments. NOTE: Corresponding edits regarding the definition of Client will be made to STATEMENT ON APPRAISAL STANDARDS NO. 9 (SMT-9).

Action:

The Board adopted the revision proposed in the Fifth Exposure Draft. A new definition of *Exposure Time* was developed from STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6):

***EXPOSURE TIME:** estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.*

***Comment:** Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.*

Rationale:

The new definition is substantially the same as the definition currently in SMT-6, but it has been somewhat reformatted to be consistent with the rest of the DEFINITIONS. With the adoption of this definition, minor edits to SMT-6 will be made. The extent of those edits will be replacing the current paragraph that includes the definition with a copy of the new definition and a reference to its location in the DEFINITIONS. Moving this definition to the DEFINITIONS will enhance the usability of USPAP.

Action:

The Board adopted the revisions proposed in the Fifth Exposure Draft. The definition of *Extraordinary Assumption* was changed to:

EXTRAORDINARY ASSUMPTION: *an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions.*

Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Rationale:

The current definition of extraordinary assumption is often misunderstood by appraisers, clients and other intended users. This misunderstanding can result in misapplication by appraisers, increasing the probability of misleading assignment results. The ASB believes that adding the concept of the effective date of the assignment results to the definition will reduce misunderstanding and misapplication of this term.

Action:

The Board adopted the revisions proposed in the Fifth Exposure Draft. The definition of *Hypothetical Condition* was changed to:

HYPOTHETICAL CONDITION: *a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.*

Comment: Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Rationale:

The current definition of hypothetical condition is often misunderstood by appraisers, clients and other intended users. This misunderstanding can result in misapplication by appraisers, increasing the probability of misleading assignment results. The ASB believes that adding the concept of the effective date of the assignment results to the definition will reduce misunderstanding and misapplication of this term.

Revisions Relating to Development and Disclosure of Exposure Time Opinion and Subject Line of STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6)

Action:

The Board adopted the revisions proposed in the Fifth Exposure Draft related to the Comment to Standards Rules 1-2(c)(iv), 2-2(a)(v), 2-2(b)(v), 2-2(c)(v), 8-2(a)(v), 8-2(b)(v), and 8-2(c)(v). In addition, the Board updated STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6) to reflect that *exposure time* is now included in the DEFINITIONS section of USPAP. The revisions are shown in ~~strike through~~ and underline text as follows:

Standards Rule 1-2

- (c) **identify the type and definition of value, and, if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:**
- (i) **in terms of cash; or**
 - (ii) **in terms of financial arrangements equivalent to cash; or**
 - (iii) **in other precisely defined terms; and**
 - (iv) **if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser's opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;**

Comment: ~~When developing an opinion of market value, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion.⁸~~

Comment: When exposure time is a component of the definition for the value opinion being developed, the appraiser must also develop an opinion of reasonable exposure time linked to that value opinion.⁸

Standards Rule 2-2(a)(v) – Similar edits were made to Standards Rules 2-2(b)(v) and 2-2(c)(v).

- (v) **state the type and definition of value and cite the source of the definition;**

Comment: Stating the definition of value also requires any comments needed to clearly indicate to intended users how the definition is being applied.

When reporting an opinion of market value, state whether the opinion of value is:

- in terms of cash or of financing terms equivalent to cash, or

- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

When an opinion of reasonable exposure time has been developed in compliance with Standards Rule 1-2(c), the opinion must be stated in the report.²

Standards Rule 8-2(a)(v) – Similar edits were made to Standards Rules 8-2(b)(v) and 8-2(c)(v).

- (v) **state the type and definition of value and cite the source of the definition;**

Comment: Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.

When reporting an opinion of market value, state whether the opinion of value is:

- in terms of cash or of financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

When an opinion of reasonable exposure time has been developed in compliance with Standards Rule 7-2(c), the opinion must be stated in the report.

² See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Opinions of Value*.

STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6)

SUBJECT: Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions of Value

APPLICATION: Real Property, Personal Property

THE ISSUE:

In USPAP, the Comment to Standards Rule 1-2(c) ~~states (and Standards Rule 7-2(c) also includes a similar Comment)~~ states:

~~When developing an opinion of market value, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion.~~

When exposure time is a component of the definition for the value opinion being developed, the appraiser must also develop an opinion of reasonable exposure time linked to that value opinion.

The Comment to Standards Rules 2-2(a)(v), 2-2(b)(v), and 2-2(c)(v), states:

~~Stating the definition of value also requires any comments needed to clearly indicate to intended users how the definition is being applied.~~

When an opinion of reasonable exposure time has been developed in compliance with Standards Rule 1-2(c), the opinion must be stated in the report.

Similar Comments appear in Standards Rules 8-2(a)(v), 8-2(b)(v), and 8-2(c)(v).

How is the opinion of reasonable exposure time developed? Is it presumed to occur prior to or starting from the effective date of the appraisal?

THE STATEMENT:

Reasonable exposure time is one of a series of conditions in most market value definitions. Exposure time is always presumed to precede the effective date of the appraisal.

~~Exposure time may be defined as: the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market.~~

The DEFINITIONS in USPAP include the following:

***EXPOSURE TIME:** estimated length of time that a property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.*

Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.

Exposure time is different for various types of property and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable effort. This statement focuses on the time component.

The fact that exposure time is always presumed to occur prior to the effective date of the appraisal is substantiated by related facts in the appraisal process: supply/demand conditions as of the effective date of the appraisal; the use of current cost information; the analysis of historical sales information (sold after exposure and after completion of negotiations between the seller and buyer); and the analysis of future income expectancy projected from the effective date of the appraisal.

Rationale and Method for Developing an Opinion of Reasonable Exposure Time

The opinion of the time period for reasonable exposure is not intended to be a prediction of a date of sale or a one line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment. The opinion may be expressed as a range and can be based on one or more of the following.

- statistical information about days on market;
- information gathered through sales verification; and
- interviews of market participants.

Related information garnered through this process may include the identification of typical buyers and sellers for the type of property involved and typical equity investment levels and/or financing terms.

The reasonable exposure period is a function of price, time, and use, not an isolated opinion of time alone. As an example, an office building, an important artwork, a fine gemstone, a process facility, or an aircraft could have been on the market for two years at a price of \$2,000,000, which informed market participants considered unreasonable. Then the owner lowered the price to \$1,600,000 and started to receive offers, culminating in a transaction at \$1,400,000 six months later. Although the actual exposure time was 2.5 years, the reasonable exposure time at a value range of \$1,400,000 to \$1,600,000 would be six months. The answer to the question “what is reasonable exposure time?” should always incorporate the answers to the question “for what kind of property at what value range?” rather than appear as a statement of an isolated time period.

Applications to Client Uses of an Appraisal

When an appraisal is commissioned as the result of a mortgage application after a potential seller and buyer enter into a Contract for Sale, no conflict exists between the presumption in the appraisal process that exposure time occurs prior to the effective date of the appraisal and the intended use of the appraisal.

When an appraisal is commissioned for employee relocation, asset evaluation, foreclosure, or asset management purposes, the presumption in the appraisal process that exposure time occurs prior to the effective date of the appraisal may conflict with the intended use of the appraisal. Problems arise when clients attempt to make business decisions or account for assets without understanding the difference between reasonable exposure time and marketing time (see related Advisory Opinion 7, *Marketing Time Opinions*).

CONCLUSIONS:

- The reasonable exposure time inherent in the market value concept is always presumed to precede the effective date of the appraisal.
- Exposure time is different for various types of property and under various market conditions.
- The answer to the question “what is reasonable exposure time?” should always incorporate the answers to the question “for what kind of property at what value range?” rather than appear as a statement of an isolated time period.

Rationale:

While USPAP currently requires *developing* an opinion of reasonable exposure time when developing an opinion of market value for real and personal property, the *reporting* of such an opinion is not clearly specified in the current reporting requirements of STANDARDS 2 (real property) and 8 (personal property).

In order to assure that intended users understand the context in which the opinion of value is developed, the Board has adopted revisions to make it a clear requirement that reasonable exposure time must be *reported* in all assignments in which an opinion of reasonable exposure time must be *developed*.

Revisions to Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3 and 10-3

Action:

The Board adopted the revisions proposed in the Fifth Exposure Draft related to Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3, and 10-3. The additions are shown in underscore text as follows:

Standards Rule 2-3 – **Similar edits were made to Standards Rules 5-3, 6-9, 8-3, and 10-3.**

Each written real property appraisal report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report and no personal interest (or the specified) with respect to the parties involved.
- **I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.**
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)

- **no one provided significant real property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant real property appraisal assistance must be stated.)**

Comment: A signed certification is an integral part of the appraisal report. An appraiser who signs any part of the appraisal report, including a letter of transmittal, must also sign this certification.

In an assignment that includes only assignment results developed by the real property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes personal property, business or intangible asset assignment results not developed by the real property appraiser(s), any real property appraiser(s) who signs a certification accepts full responsibility for the real property elements of the certification, for the real property assignment results, and for the real property contents of the appraisal report.

When a signing appraiser(s) has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser(s) also must have no reason to doubt that the work of those individuals is credible.

The names of individuals providing significant real property appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 2-2(a)(vii), (b)(vii), or (c)(vii), as applicable.

Standards Rule 3-6

Each written Appraisal Review Report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

- **the statements of fact contained in this report are true and correct.**
- **the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.**
- **I have no (or the specified) present or prospective interest in the property that is the subject of the work under review and no (or the specified) personal interest with respect to the parties involved.**
- **I have performed no (or the specified) other services, as an appraiser or in any other capacity, regarding the property that is the subject of the work**

under review within the three-year period immediately preceding acceptance of this assignment.

- I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
- my compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
- my analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have (or have not) made a personal inspection of the subject of the work under review. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the subject of the work under review.) (For reviews of a business or intangible asset appraisal assignment, the inspection portion of the certification is not applicable.)
- no one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification. (If there are exceptions, the name of each individual(s) providing appraisal, appraisal review, or appraisal consulting assistance must be stated.)

Comment: A signed certification is an integral part of the Appraisal Review Report. A reviewer who signs any part of the appraisal review report, including a letter of transmittal, must also sign the certification.

Any reviewer who signs a certification accepts responsibility for all elements of the certification, for the assignment results, and for the contents of the Appraisal Review Report.

Appraisal review is distinctly different from the cosigning activity addressed in Standards Rules 2-3, 5-3, 6-9, 8-3, and 10-3. To avoid confusion between these activities, a reviewer performing an appraisal review must not sign the work under review unless he or she intends to accept responsibility as a cosigner of that work.

When a signing appraiser has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work.

The signing appraiser is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser also must have no reason to doubt that the work of those individuals is credible.

The names of individuals providing significant appraisal, appraisal review, or appraisal consulting assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 3-5(g).

Rationale:

In the 2010-11 edition of USPAP, the *performance of prior service(s)* must be addressed in the certification only when the appraiser has provided them within the relevant timeframe. However, in the 2010-11 edition of USPAP the appraiser must disclose either the presence or absence of any *current or prospective interest* regarding the subject or the parties involved. To improve consistency, for the 2012-13 edition of USPAP the Board is requiring that prior service(s) regarding the subject property be treated similarly in the certification as current/prospective interests are treated.

RECORD KEEPING RULE and Related Edits to the Conduct Section of the ETHICS RULE

Action:

The Board adopted the revisions proposed in the Fifth Exposure Draft creating a new RECORD KEEPING RULE and making revisions to the Conduct section of the ETHICS RULE. Because the RECORD KEEPING RULE is new, it is not shown in ~~striketrough~~ or underscore text; however, the revisions to the Conduct section of the ETHICS RULE have been shown in ~~striketrough~~ and underscore text as follows:

RECORD KEEPING RULE

An appraiser must prepare a workfile for each appraisal, appraisal review, or appraisal consulting assignment. A workfile must be in existence prior to the issuance of any report. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.

The workfile must include:

- **the name of the client and the identity, by name or type, of any other intended users;**
- **true copies of any written reports, documented on any type of media. (A true copy is a replica of the report transmitted to the client. A photocopy or an electronic copy of the entire report transmitted to the client satisfies the requirement of a true copy);**
- **summaries of all oral reports or testimony, or a transcript of testimony, including the appraiser's signed and dated certification;**
- **all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with USPAP, or references to the location(s) of such other documentation; and**
- **a workfile in support of a Restricted Use Appraisal Report must be sufficient for the appraiser to produce a Summary Appraisal Report (for assignments communicated under STANDARDS 2 and 8) or an Appraisal Report (for assignments communicated under STANDARD 10).**

An appraiser must retain the workfile for a period of at least five years after preparation or at least two years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.

An appraiser must have custody of the workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile. This includes ensuring that a workfile is stored in a medium that is retrievable by the appraiser throughout the prescribed record retention period.

An appraiser having custody of a workfile must allow other appraisers with workfile obligations related to an assignment appropriate access and retrieval for the purpose of:

- **submission to state appraiser regulatory agencies;**
- **compliance with due process of law;**
- **submission to a duly authorized professional peer review committee; or**
- **compliance with retrieval arrangements.**

Comment: A workfile must be made available by the appraiser when required by a state appraiser regulatory agency or due process of law.

An appraiser who willfully or knowingly fails to comply with the obligations of this RECORD KEEPING RULE is in violation of the ETHICS RULE.

Revisions to the Conduct section of the ETHICS RULE

Conduct

An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.

An appraiser:

- **must not perform an assignment with bias;**
- **must not advocate the cause or interest of any party or issue;**
- **must not accept an assignment that includes the reporting of predetermined opinions and conclusions;**
- **must not misrepresent his or her role when providing valuation services that are outside of appraisal practice;**
- **must not communicate assignment results with the intent to mislead or to defraud;**
- **must not use or communicate a report that is known by the appraiser to be misleading or fraudulent;**
- **must not knowingly permit an employee or other person to communicate a misleading or fraudulent report;**
- **must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value;**
- **must not engage in criminal conduct; and**
- **must not willfully or knowingly violate the requirements of the RECORD KEEPING RULE; and**
- **must not perform an assignment in a grossly negligent manner.**

Comment: Development Standards (1-1, 3-1, 4-1, 6-1, 7-1 and 9-1) address the requirement that “an appraiser must not render appraisal services in a careless or negligent manner.” The above requirement deals with an appraiser being grossly negligent in performing an assignment which would be a violation of the Conduct section of the ETHICS RULE.

If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in the subsequent report certification:

- **any current or prospective interest in the subject property or parties involved; and**
- **any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.**

Comment: Disclosing the fact that the appraiser has previously appraised the property is permitted except in the case when an appraiser has agreed with the client to keep the mere occurrence of a prior assignment confidential. If an appraiser has agreed with a client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three year period.

Rationale:

The Board believes that while the obligations of record keeping are important, minor clerical or administrative errors should not rise to the level of a violation of the ETHICS RULE. However, deliberate acts that violate the record keeping requirements would be violations of the ETHICS RULE.

The prohibition against a willful or deliberate failure to comply with the RECORD KEEPING RULE has been added to the Conduct section of the ETHICS RULE. It is also important to note, regardless of how minor errors originate, appraisers are ultimately responsible for record keeping requirements.

Revisions to Advisory Opinion 21, *USPAP Compliance*

Action:

The Board adopted revisions to illustrations in Advisory Opinion 21, *USPAP Compliance*. These revisions are based on the proposals contained in the Fifth Exposure Draft. They do not include the revisions that were proposed had STANDARDS 4 and 5 been retired. Because the only revisions applied to the *Illustrations* section of AO-21, these are what are shown below in ~~striketrough~~ and underscore text (other than administrative edits that were made for consistency with the newly-adopted revisions to USPAP, the remainder of AO-21 has not been revised from the 2010-11 edition of USPAP).

ADVISORY OPINION 21 (AO-21)

Illustrations

Brokerage and Appraisal

- ~~1. Liz Ross is an individual who provides both appraisal and brokerage services. When seeking a new brokerage client, Liz often prepares a market analysis to help establish an asking price for the client's property. What are Liz's obligations under USPAP?~~

~~Answer: Many states' brokerage and appraiser licensing laws have specific provisions for appraisers who are also brokers. In the absence of such laws, USPAP provides flexibility for brokers/appraisers and others who have multiple professional roles.~~

~~The critical element in determining whether Liz should comply with USPAP is the expectation of her brokerage client. If Liz includes her appraiser status in her brokerage marketing materials, such as advertisements, business cards, or letterhead, it is likely that her client expects her to bring to her brokerage practice the ethics and competence associated with an individual acting as an appraiser. By allowing her client to believe that her appraisal expertise adds credibility to her price estimate, Liz has created an obligation to comply with USPAP in the preparation of a price estimate for the client.~~

~~The extent of Liz's USPAP obligation depends on the intended use of the price estimate. The distinction between "price" and "value" is crucial here: within USPAP, "price" is a fact³ while "value" is an opinion⁴. If Liz recommends an asking price for a specific property owner,~~

³Price is defined as *the amount asked, offered, or paid for a property*. The Comment goes on *once stated, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.*

~~⁴Value is defined as the monetary relationship between properties and those who buy, sell, or use those properties. The Comment goes on to state, value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified for example, market value, liquidation value, or investment value.~~

~~under specific circumstances, she is analyzing *price* as defined by USPAP. STANDARDS 1, 7 and 9 apply to the development of an appraisal, which is defined as an opinion of *value*. Therefore, the obligations of STANDARDS 1, 7 and 9 do not apply to estimates of *price*. However, as an individual acting as an appraiser, Liz is obligated to comply with the remainder of USPAP (i.e., DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE. For example, her estimate of *price* must be ethically and competently prepared, as part of appraisal practice.~~

~~If Liz's recommendation represents the relationship between typical buyers and sellers, she is analyzing *value*. Her recommendation is an opinion of value and is by definition an appraisal. It must be ethically and competently prepared in accordance with STANDARDS 1, 7 or 9 and reported in compliance with STANDARDS 2, 8, or 10.~~

~~Alternatively, if Liz has been careful to separate her roles as broker and appraiser, she would be able to prepare *price* estimates as a valuation service, outside of appraisal practice. Liz should have sound reasons to believe that her brokerage client does not expect her to act as an appraiser. Further, she should not characterize her conclusions in any manner as representing a "value" or, an "opinion of value" of any kind.~~

1. Robert Agent is an individual who provides both brokerage and appraisal services. What are Robert's obligations under USPAP when preparing a broker's price opinion (BPO)?

Answer: Many states' brokerage and appraiser licensing laws have specific provisions for appraisers who are also brokers. In the absence of such laws, USPAP provides flexibility for brokers/appraisers and others who have multiple professional roles.

If providing the service as an agent or broker, USPAP requires only that an appraiser must not misrepresent his or her role. In others words, if Robert was contacted by his client because he is an agent or broker and signing his report as an agent or broker, then Robert need not comply with USPAP except to not misrepresent his role. If Robert is contacted by the client because he is known as an appraiser and is signing his report as an appraiser, then USPAP applies.

Appraisal Review

2. Dan Williams is an appraiser. He was asked by a client to perform an "administrative screening review" of an appraisal report to determine if a more thorough review is warranted. The client would like Dan to check the math calculations and determine whether the appraisal report complies with the client's basic content specifications. What are Dan's obligations under USPAP?

Answer: The client has engaged Dan because of his identification as an appraiser; this clearly creates an expectation by the client that the service will be provided in compliance with USPAP. Therefore, this service is part of appraisal practice; *at a minimum* Dan must comply with the portions of USPAP that apply generally to appraisal practice (i.e., DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.

Dan must next decide if compliance with STANDARD 3 is required. To do this, Dan must consider the intended use, intended user, and type and definition of value for the assignment. These factors are the basis of Dan's scope of work decision. If the appropriate scope of work includes *developing or communicating an opinion about the quality of another appraiser's work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment*, then that assignment is by definition an appraisal review. The label placed on the service cannot support acting outside of STANDARD 3. The client may call the assignment an "administrative screening review," but it is the extent of the service that defines it.⁵ Dan must decide, based on the problem to be solved and scope of work, if the assignment is an *appraisal review* as defined by USPAP. If the assignment is an *appraisal review*, then Dan must comply with the development and reporting requirements of STANDARD 3.

There may be circumstances when Dan is not acting as an appraiser. If Dan acts in other roles, say as a mortgage underwriter, then Dan may be in position to provide the valuation service outside of appraisal practice. If Dan acts outside of appraisal practice, he must ensure that he does not misrepresent his role and that the client and any other intended users do not expect him to act as an appraiser.

Rent Survey

3. A client has asked Mike Black to perform a rent survey. The client owns the Acme Office Building and wants to know if he is charging enough rent. The client asked Mike to perform this work because he knows Mike is an appraiser; therefore, this valuation service is included in appraisal practice and USPAP applies. How can Mike provide this service in compliance with USPAP?

Answer: Mike should fully investigate the client's expectations before determining the scope of work for this assignment. Does the client want only to know what rental rates are being charged for other office buildings in the area? If so, this is likely a service for which USPAP has no Standards (i.e., STANDARDS 1 and 2 when providing real property appraisals). Mike would then be obligated to comply with the portions of USPAP that apply generally to appraisal practice (i.e., DEFINITIONS, PREAMBLE, ~~the Conduct, Management, and Confidentiality sections~~ of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE). The development and reporting of the assignment results would be entirely at his discretion, and a workfile would not be required.

However, if the client expects Mike to collect rental rate and lease term information and to analyze them to conclude the market rental terms for the Acme Building, this is an appraisal. This assignment is an appraisal because it includes a specific subject property (i.e., the right to use space in the building) and the problem to be solved in the assignment is a value opinion (i.e., the market rental terms for that space). The appraisal assignment should then be completed in compliance with STANDARDS 1 and 2.

⁵The Comment to the definition of appraisal practice states that *the use of other nomenclature for an appraisal, appraisal review, or appraisal consulting assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the Uniform Standards of Professional Appraisal Practice.*

Appraisal and Market Information

4. Steven Andrews is a residential appraiser. One day, when attending a backyard barbecue, Steven is approached by a neighbor, who says, "Hey, Steven, I know you're an appraiser. What do you think my house is worth?" What should Steven say?

Answer: Steven should recognize immediately that his neighbor expects him to respond as an appraiser; therefore, Steven's answer should comply with USPAP. Steven can, of course, always decline to answer.

Alternatively, Steven could provide data, such as, "I've been keeping track of the house sales in our subdivision, and they have been from \$100,000 to \$150,000 over the past couple of years." Giving such information is a part of appraisal practice for which there are no Standards (i.e., STANDARDS 1 and 2 when providing real property appraisals). Steven should be certain that he is acting ethically and competently in giving this kind of information, but he doesn't need to prepare a workfile for it.

Steven should be careful, though, about applying any judgment in answering his neighbor's question. If Steven says, "House sales in our subdivision in the last year have been from \$100,000 to \$150,000. I know that you've done lots of interior improvements to your house and, besides, it's the more desirable two-story model, so its value should be near the high side of the range," he has just performed an appraisal. In this case, he should comply with STANDARDS 1 and 2 and prepare a workfile. If Steven only provides data, he is acting within appraisal practice, but if he relates that data to a specific property, he has provided an appraisal.

Litigation Services

45. Marie Vaughn has a diverse appraisal practice with a specialization in litigation services. She commonly aids attorneys in developing cross-examination strategies for expert witness testimony from appraisers. How does USPAP apply to Marie's "litigation services?"

Answer: In order to determine Marie's obligation, it is necessary to understand the nature of her role. If she is acting as an appraiser, her litigation services are part of appraisal practice and the ethics and competency requirements of USPAP apply. Marie must comply, at a minimum, with the portions of USPAP that apply generally to appraisal practice. These include the DEFINITIONS, PREAMBLE, the ~~Conduct, Management, and Confidentiality~~ sections of the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION. As an appraiser, Marie cannot act as an advocate for any party or issue.

If Marie's services include providing an opinion of value, she must comply with the appropriate appraisal standards (STANDARDS 1 and 2, 7 and 8, or 9 and 10). If Marie's services include providing an opinion about the quality of another appraiser's work, the appraisal review requirements of STANDARD 3 apply. If the service includes providing analysis, recommendation, or an opinion to solve a real property problem where an opinion of value is a component of the analysis leading to the assignment results, then Marie must adhere to the appraisal consulting requirements of STANDARDS 4 and 5.

On the other hand, if Marie provides litigation services as an advocate, then she is providing a valuation service outside of appraisal practice. When performing services outside of appraisal practice, Marie can act as an advocate and accept contingent compensation. The only USPAP obligation is that she not misrepresent her role. She must use care to distinguish her role from other roles that would carry an expectation of being impartial, objective, and independent, i.e., acting as an appraiser.

Marie may provide litigation services by either acting as an appraiser **or** acting as an advocate for the client's cause; however, she must not perform both roles in the same case.

Rationale:

AO-21 contains a series of questions with responses along with illustrative examples, which have been reviewed and updated or replaced as necessary to provide relevant guidance regarding when USPAP applies. The first illustrative example (*Liz Ross Brokerage and Appraisal*) has been replaced with a new more concise illustration. The Steven Andrews "backyard barbeque" illustration has also been removed.

Another illustration which was exposed, but not adopted, was an example which used Edward Hill as the subject. This illustration was meant to bring additional clarity to USPAP if STANDARDS 4 & 5 had been retired. Given the fact that they were not retired, this example will not be included in the 2012-13 edition.

In addition, the word "appraisal" has been deleted in reference to Marie Vaughn's practice in the fifth illustrative example.

Revisions to STANDARDS 7 and 8: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT and REPORTING

Action:

The Board adopted revisions to STANDARDS 7 and 8 as proposed in the Fifth Exposure Draft. The revisions have been shown in ~~striketrough~~ and underscore text as follows:

STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT

In developing a personal property appraisal, an appraiser must identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analyses necessary to produce a credible appraisal.

Comment: STANDARD 7 is directed toward the substantive aspects of developing a credible appraisal of personal property. The requirements set forth in STANDARD 7 follow the appraisal development process in the order of topics addressed and can be used by appraisers and the users of appraisal services as a convenient checklist.

Standards Rule 7-1

In developing a personal property appraisal, an appraiser must:

- (a) **be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;**

Comment: This Standards Rule recognizes that ~~the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in personal property practice have a substantial impact on the appraisal profession. Important changes in the cost and manner of acquiring, producing, and marketing personal property and changes in the legal framework in which property rights and interests are created, marketed, conveyed, and financed have resulted in corresponding changes in appraisal theory and practice.~~ appraisers perform their assignments result in the need for corresponding changes in personal property appraisal theory and practice. Social change has also had an effect on appraisal theory and practice. ~~To keep abreast of these changes and developments, the appraisal profession reviews and revises appraisal methods and techniques and develops methods and techniques to meet new circumstances. The appraisal profession responds to changing circumstances with revised and new appraisal methods and techniques. For this reason~~ Therefore, it is not sufficient for appraisers to maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve and update his or her skills and knowledge to remain proficient in the appraisal of personal property appraisal.

- (b) **not commit a substantial error of omission or commission that significantly affects an appraisal; and**

Comment: An appraiser must use sufficient care to avoid errors that would significantly affect his or her opinions and conclusions. Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.

- (c) **not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.**

Comment: Perfection is impossible to attain, and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Standards Rule requires an appraiser to use due diligence and care.

Standards Rule 7-2

In developing a personal property appraisal, an appraiser must:

- (a) **identify the client and other intended users;**
(b) **identify the intended use of the appraiser's opinions and conclusions;**

Comment: An appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased.

- (c) **identify the type and definition of value. If the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:**
- (i) **in terms of cash; or**
 - (ii) **in terms of financial arrangements equivalent to cash; or**
 - (iii) **in other precisely defined terms; and**
 - (iii) **if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser's opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;**

Comment: ~~When developing an opinion of value in a specified market or at a specified market level based on the potential sale of the property exposure time is a component of the definition for the value opinion being developed,~~ the appraiser must also develop an opinion of reasonable exposure time, linked to that value opinion.

- (d) **identify the effective date of the appraiser's opinions and conclusions;**
(e) **identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal, including:**

- (i) **sufficient characteristics to establish the identity of the item including the method of identification;**
- (ii) **sufficient characteristics to establish the relative quality of the item (and its component parts, where applicable) within its type;**
- (iii) **all other physical and economic attributes with a material effect on value;**

Comment: Some examples of physical and economic characteristics include condition, style, size, quality, manufacturer, author, materials, origin, age, provenance, alterations, restorations, and obsolescence. The type of property, the type and definition of value, and intended use of the appraisal determine which characteristics have a material effect on value.

- (iv) **the ownership interest to be valued;**
- (v) **any known restrictions, encumbrances, leases, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature if relevant to the assignment; and**
- (vi) **any real property or intangible items that are not personal property but which are included in the appraisal;**

Comment on (i)–(vi): The information used by an appraiser to identify the property characteristics must be from sources the appraiser reasonably believes are reliable.

An appraiser may use any combination of a property inspection and documents or other resources to identify the relevant characteristics of the subject property.

When appraising proposed modifications, an appraiser must examine and have available for future examination, ~~plans, specifications, or other~~ documentation sufficient to identify the extent and character of the proposed modifications.

An appraiser may not be required to value the whole when the subject of the appraisal is a fractional interest, a physical segment, or a partial holding.

- (f) **identify any extraordinary assumptions necessary in the assignment;**

Comment: An extraordinary assumption may be used in an assignment only if:

- it is required to properly develop credible opinions and conclusions;
- the appraiser has a reasonable basis for the extraordinary assumption;
- use of the extraordinary assumption results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

- (g) **identify any hypothetical conditions necessary in the assignment; and**

Comment: A hypothetical condition may be used in an assignment only if:

- use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- use of the hypothetical condition results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

(h) determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE.

Standard Rule 7-3

In developing a personal property appraisal, when necessary for credible assignment results, an appraiser must:

(a) analyze the property's current use and alternative uses ~~to encompass what is profitable, legal, and physically possible,~~ as relevant to the type and definition of value and intended use of the appraisal;

Comment: In the context of personal property, ~~highest and best use value can be a function of~~ may equate to the choice of the appropriate market or, ~~in some cases,~~ market level for the type of item, the type and definition of value, and the intended use of the appraisal.

The appraiser must consider the various uses of the property when viable alternative uses exist and when those alternative uses may result in a different value.

(b) define and analyze the appropriate market consistent with the type and definition of value; and

Comment: The appraiser must recognize that there are distinct levels of trade (measurable marketplaces) and each may generate its own data. For example, a property may have a different value at a wholesale level of trade, a retail level of trade, or under various auction conditions. Therefore, the appraiser must analyze the subject property within the correct market context.

(c) analyze the relevant economic conditions that exist on the effective date ~~at the time of the valuation,~~ including market acceptability of the property and supply, demand, scarcity or rarity.

Standards Rule 7-4

In developing a personal property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results.

(a) When a sales comparison approach is necessary for credible assignment results, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.

- (b) **When a cost approach is necessary for credible assignment results, an appraiser must:**
- (i) **analyze such comparable cost data as are available to estimate the cost new of the property; and**
 - (ii) **analyze such comparable data as are available to estimate the difference between cost new and the present worth of the property (accrued depreciation).**

- (c) **When an income approach is necessary for credible assignment results, an appraiser must:**
- (i) **analyze such comparable data as are available to estimate the market income of the property;**
 - (ii) **analyze such comparable operating expense data as are available to estimate the operating expenses of the property;**
 - (iii) **analyze such comparable data as are available to estimate rates of capitalization and/or rates of discount; and**
 - (iv) **base projections of future income and expenses on reasonably clear and appropriate evidence.**

Comment: An appraiser must, in developing income and expense statements and cash flow projections, weigh historical information and trends, current supply and demand factors affecting such trends, and competition.

- (d) **When developing an opinion of the value of a lease, ~~or~~ leased, or encumbered property, an appraiser must analyze the effect on value, if any, of the terms and conditions of the lease(s) or encumbrances.**

- When appraising multiple objects, the appraiser must consider the significance of the value of the individual assets to the assignment results. Those objects which are more significant to the assignment results should be the focus of the analysis and analyzed in appropriate detail.**

Comment: A group of objects may have a mix of high and low value items. Those objects that are more significant to the assignment results should be subject to a greater and appropriate depth of analysis.

- (f) **When analyzing the assemblage of the various component parts of a property, an appraiser must analyze the effect on value, if any, of the assemblage. An appraiser must refrain from valuing the whole solely by adding together the individual values of the various component parts.**

Comment: Although the value of the whole may be equal to the sum of the separate parts, it also may be greater than or less than the sum of such parts. Therefore, the value of the whole must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

A similar procedure must be followed when the value of the whole has been established and the appraiser seeks to value a part. The value of any such part must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

- (g) **When analyzing anticipated modifications to the subject property, an appraiser must analyze the effect on value, if any, of such modifications to the extent they are reflected in market actions.**
- (h) **When real property or intangible items are included in the appraisal, the appraiser must analyze the effect on value of such non-personal property items.**

Comment: When the scope of work includes an appraisal of real property or intangible items, competency in real property appraisal (see STANDARD 1) or business appraisal (see STANDARD 9) is required. In addition, competency in other types of personal property outside of the appraiser's specialty area may be necessary (see STANDARD 7 and the COMPETENCY RULE).

Standards Rule 7-5

When ~~the developing an~~ value opinion ~~to be developed is~~ of market value, an appraiser must, if such information is available to the appraiser in the normal course of business:⁶

- (a) **analyze all agreements of sale, validated offers or third-party offers to sell, options, and listings of the subject property current as of the effective date of the appraisal if warranted by the intended use of the appraisal; and**
- (b) **analyze all prior sales of the subject property that occurred within a reasonable and applicable time period, ~~given the intended use and the type of property involved~~ if relevant given the intended use of the appraisal and property type.**

Comment: The data needed for the required analyses in Standards Rule 7-5(a) and 7-5(b) may not be available or relevant in all assignments. See the Comments to Standards Rules 8-2(a)(viii), 8-2(b)(viii), and 8-2(c)(viii) for corresponding reporting requirements.

Standards Rule 7-6

In developing a personal property appraisal, an appraiser must:

- (a) **reconcile the quality and quantity of data available and analyzed within the approach or approaches used; and**
- (b) **reconcile the applicability and relevance of the approach or approaches, methods and techniques used to arrive at the value conclusion(s).**

⁶ See Advisory Opinion 24, *Normal Course of Business*.
ASB 2011 Summary of Actions
April 8, 2011

STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING

In reporting the results of a personal property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.

Comment: STANDARD 8 addresses the content and level of information required in a report that communicates the results of a personal property appraisal.

STANDARD 8 does not dictate the form, format, or style of personal property appraisal reports, which are functions of the needs of intended users and appraisers. The substantive content of a report determines its compliance.

Standards Rule 8-1

Each written or oral personal property appraisal report must:

- (a) clearly and accurately set forth the appraisal in a manner that will not be misleading;**
- (b) contain sufficient information to enable the intended users of the appraisal to understand the report properly; and**
- (c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment.**

Standards Rule 8-2

Each written personal property appraisal report must be prepared under one of the following three options and prominently state which option is used: Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report.⁷

Comment: When the intended users include parties other than the client, either a Self-Contained Appraisal Report or a Summary Appraisal Report must be provided. When the intended users do not include parties other than the client, a Restricted Use Appraisal Report may be provided.

The essential difference among these three options is in the content and level of information provided. The appropriate reporting option and the level of information necessary in the report are dependent on the intended use and intended users.

An appraiser must use care when characterizing the type of report and level of information communicated upon completion of an assignment. An appraiser may use any other label in addition to, but not in place of, the label set forth in this Standard for the type of report provided.

The report content and level of information requirements set forth in this Standard are minimums for each type of report. An appraiser must supplement a report form, when necessary, to ensure that any intended user of the appraisal is not misled and that the report complies with the applicable content requirements set forth in this Standards Rule.

⁷ See Advisory Opinion 11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2*, and Advisory Opinion 12, *Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2*.

A party receiving a copy of a Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report in order to satisfy disclosure requirements does not become an intended user of the appraisal unless the appraiser identifies such party as an intended user as part of the assignment.

(a) The content of a Self-Contained Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

(i) state the identity of the client and any intended users, by name or type;⁸

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the client's identity in the report.

(ii) state the intended use of the appraisal;⁹

(iii) describe information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;

(iv) state the property interest appraised;

(v) state the type and definition of value and cite the source of the definition;

Comment: Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.¹⁰

When reporting an opinion of market value, state whether the opinion of value is:

- in terms of cash or of financing terms equivalent to cash, or
- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

Comment: When an opinion of reasonable exposure time has been developed in compliance with Standards Rule 7-2(c), the opinion must be stated in the report.

(vi) state the effective date of the appraisal and the date of the report;¹¹

⁸ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁹ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁰ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

¹¹ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market and property as of the effective date of the appraisal was prospective, current, or retrospective.

(vii) describe the scope of work used to develop the appraisal;¹²

Comment: Because intended users' reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

When any portion of the work involves significant personal property appraisal assistance, the appraiser must describe the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with Standards Rule 8-3.¹³

(viii) describe the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;¹⁴

Comment: A Self-Contained Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7. The amount of detail required will vary with the significance of the information to the appraisal: and with the significance of a particular object or group of objects to the overall assignment results.

The appraiser must provide sufficient information to enable the client and intended users to understand the rationale for the opinions and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 7-6.

When reporting an opinion of market value, a summary of the results of analyzing the subject sales, offers, options, and listings in accordance with Standards Rule 7-5 is required. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

(ix) state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of the appropriate market or market level was developed by the appraiser, describe the support and rationale for that opinion;

¹² See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

¹³ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

¹⁴ See Advisory Opinion 2, *Inspection of Subject Property*.

Comment: In the context of personal property, ~~highest and best use may equate to~~ value can be a function of the current and alternative use of the subject property, the choice of the appropriate market or market level for the type of item, the type and definition of value, and intended use of the report.

(x) **clearly and conspicuously:**

- **state all extraordinary assumptions and hypothetical conditions; and**
- **state that their use might have affected the assignment results; and**

(xi) **include a signed certification in accordance with Standards Rule 8-3.**

(b) **The content of a Summary Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:**

Comment: The essential difference between the Self-Contained Appraisal Report and the Summary Appraisal Report is the level of detail of presentation.

(i) **state the identity of the client and any intended users, by name or type;**¹⁵

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances where the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the client's identity in the report.

(ii) **state the intended use of the appraisal;**¹⁶

(iii) **summarize information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;**

(iv) **state the property interest appraised;**

(v) **state the type and definition of value and cite the source of the definition;**

Comment: Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.¹⁷

When reporting an opinion of market value, state whether the opinion of value is:

- in terms of cash or of financing terms equivalent to cash, or

¹⁵ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

¹⁷ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

- based on non-market financing or financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

Comment: When an opinion of reasonable exposure time has been developed in compliance with Standards Rule 7-2(c), the opinion must be stated in the report.

- (vi) state the effective date of the appraisal and the date of the report;**¹⁸

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market and property as of the effective date of the appraisal was prospective, current, or retrospective.

- (vii) summarize the scope of work used to develop the appraisal;**¹⁹

Comment: Because intended users' reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

When any portion of the work involves significant personal property appraisal assistance, the appraiser must summarize the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with Standards Rule 8-3.²⁰

- (viii) summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;**²¹

Comment: A Summary Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7. The amount of detail required will vary with the significance of the information to the appraisal and with the significance of a particular object to the overall assignment results, and with the significance of a particular object or group of objects to the overall assignment results.

The appraiser must provide sufficient information to enable the client and intended users to understand the rationale for the opinion and conclusions,

¹⁸ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

¹⁹ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

²⁰ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

²¹ See Advisory Opinion 2, *Inspection of Subject Property*.

including reconciliation of the data and approaches, in accordance with Standards Rule 7-6.

When reporting an opinion of market value, a summary of the results of the analysis of the subject sales, offers, options, and listings in accordance with Standards Rule 7-5 is necessary. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

- (ix) **state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of the appropriate market or market level was developed by the appraiser, summarize the support and rationale for that opinion;**

Comment: In the context of personal property, ~~highest and best use may equate to value~~ can be a function of the current and alternative use of the subject property, the choice of the appropriate market or market level for the type of item, the type and definition of value, and intended use of the report.

- (x) **clearly and conspicuously:**

- **state all extraordinary assumptions and hypothetical conditions; and**
- **state that their use might have affected the assignment results; and**

- (xi) **include a signed certification in accordance with Standards Rule 8-3.**

- (c) **The content of a Restricted Use Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:**

- (i) **state the identity of the client, by name or type;²² and state a prominent use restriction that limits use of the report to the client and warns that the appraiser's opinions and conclusions set forth in the report may not be understood properly without additional information in the appraiser's workfile;**

Comment: An appraiser must use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In those rare instances when the client wishes to remain anonymous, an appraiser must still document the identity of the client in the workfile but may omit the client's identity in the report.

The Restricted Use Appraisal Report is for client use only. Before entering into an agreement, the appraiser should establish with the client the situations where this type of report is to be used and should ensure that the

²² See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.
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client understands the restricted utility of the Restricted Use Appraisal Report.

(ii) state the intended use of the appraisal;²³

Comment: The intended use of the appraisal must be consistent with the limitation on use of the Restricted Use Appraisal Report option in this Standards Rule (i.e., client use only).

(iii) state information sufficient to identify the property involved in the appraisal;

(iv) state the property interest appraised;

(v) state the type of value, and cite the source of its definition;²⁴

Comment: When an opinion of reasonable exposure time has been developed in compliance with Standards Rule 7-2(c), the opinion must be stated in the report.

(vi) state the effective date of the appraisal and the date of the report;²⁵

Comment: The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market and property as of the effective date of the appraisal was prospective, current, or retrospective.

(vii) state the scope of work used to develop the appraisal;²⁶

Comment: Because the client's reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

When any portion of the work involves significant personal property appraisal assistance, the appraiser must state the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant personal property appraisal assistance in the certification, in accordance with Standards Rule 8-3.²⁷

²³ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

²⁴ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*. See also Advisory Opinion 7, *Marketing Time Opinions*.

²⁵ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

²⁶ See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

²⁷ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

- (viii) **state the appraisal methods and techniques employed, state the value opinion(s) and conclusion(s) reached, and reference the workfile; exclusion of the sales comparison approach, cost approach, or income approach must be explained;**²⁸

Comment: An appraiser must maintain a specific, coherent workfile in support of a Restricted Use Appraisal Report. The contents of the workfile must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7 and for the appraiser to produce a Summary Appraisal Report.

When reporting an opinion of market value, information analyzed in compliance with Standards Rule 7-5 is significant information that must be disclosed in a Restricted Use Appraisal Report. If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

- (ix) **state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of the appropriate market or market level was developed by the appraiser, state that opinion;**

Comment: In the context of personal property, ~~highest and best use may equate to value~~ can be a function of the current and alternative use of the subject property, the choice of the appropriate market or market level for the type of item, the type and definition of value, and intended use of the report.

- (x) **clearly and conspicuously:**
- **state all extraordinary assumptions and hypothetical conditions; and**
 - **state that their use might have affected the assignment results; and**
- (xi) **include a signed certification in accordance with Standards Rule 8-3.**

Standards Rule 8-3

Each written personal property appraisal report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

- **the statements of fact contained in this report are true and correct.**
- **the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.**

²⁸ See Advisory Opinion 2, *Inspection of Subject Property*.

- I have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.
- I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)²⁹
- no one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.)

Comment: A signed certification is an integral part of the appraisal report. An appraiser who signs any part of the appraisal report, including a letter of transmittal, must also sign this certification.

In an assignment that includes only assignment results developed by the personal property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes real property, business or intangible asset assignment results not developed by the personal property appraiser(s), any personal property appraiser(s) who signs a certification accepts full responsibility for the personal property elements of the certification, for the personal property assignment results, and for the personal property contents of the appraisal report.

When a signing appraiser(s) has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a

²⁹ See Advisory Opinion 2, *Inspection of Subject Property*.
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reasonable basis for believing that those individuals performing the work are competent. The signing appraiser(s)³⁰ also must have no reason to doubt that the work of those individuals is credible.

The names of individuals providing significant personal property appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 8-2(a), (b), or (c)(vii), as applicable.³¹

Standards Rule 8-4 – Similar edits were made to Standards Rules 2-4, 3-7, 5-4, and 10-4.

To the extent that it is both possible and appropriate, an oral personal property appraisal report must address the substantive matters set forth in Standards Rule 8-2(b).

Comment: See the ~~Record Keeping~~ section of the ~~ETHICS~~ RECORD KEEPING RULE for corresponding requirements.

Rationale:

The ASB received comments from the personal property community indicating that STANDARDS 7 and 8 did not use personal property terminology and in some cases did not reflect current practice within the personal property discipline.

In response to concerns from personal property appraisal practitioners, a Personal Property Task Force (PPTF) was appointed by the ASB to assist in reviewing STANDARD 7: PERSONAL PROPERTY APPRAISAL, DEVELOPMENT and STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING. It had been several years since a comprehensive review had been made of STANDARDS 7 and 8, and after a thorough review, the PPTF made numerous recommendations to the ASB, the overwhelming majority of which were adopted by the Board.

³⁰ See Advisory Opinion 5, *Assistance in the Preparation of an Appraisal*.

³¹ See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

Revisions to Advisory Opinion 13, *Performing Evaluations of Real Property Collateral to Conform with USPAP*

Action:

For the reasons described in the rationale on the following page, for the 2012-13 edition of the USPAP document, the Board opted to remove the guidance that had appeared in Advisory Opinion 13 in the 2010-11 edition. As also stated, the Board intends to consult with the Interagency Work Group to develop a more relevant version of AO-13 that offers guidance pertinent to the *Interagency Appraisal and Evaluation Guidelines* that were issued on December 2, 2010.

ADVISORY OPINION 13 (AO-13)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Performing Evaluations of Real Property Collateral to Conform with USPAP

APPLICATION: Real Property

THE ISSUE:

How can an appraiser operating under the *Uniform Standards of Professional Appraisal Practice* (USPAP) develop an evaluation of real property collateral (evaluation)?

NOTE: The advice that had previously appeared in Advisory Opinion 13 (AO-13) was provided to assist appraisers in understanding and complying with the *Interagency Appraisal and Evaluation Guidelines* that had been issued on October 27, 1994.

Those guidelines were superseded by revised *Interagency Appraisal and Evaluation Guidelines* issued on December 2, 2010. As a result, the ASB will be working with the Interagency Work Group to update AO-13 to provide meaningful guidance on this more recent edition of the guidelines. The ASB intends to expose proposed revisions to AO-13 as soon as possible, and expects to issue an updated version of AO-13 prior to the effective date of the next edition of USPAP, on January 1, 2014.

In the interim, appraisers are urged to review the revised guidelines by clicking on the following link to The Appraisal Foundation website:

<https://appraisalfoundation.sharefile.com/d/s9a321e73b1947af9>

Rationale:

As mentioned above, the federal financial agencies issued updated *Interagency Appraisal and Evaluation Guidelines* on December 2, 2010. Because the ASB was already in the process of exposing revisions for the 2012-13 edition of USPAP, the ASB was unable to consult with the Interagency Work Group to develop updated guidance based on the new guidelines (i.e. AO-13) in time to include it in the 2012-13 publication. Therefore, the ASB will be consulting with the Interagency Work Group and exposing an updated AO-13 in the near future, prior to the publication of the 2014-15 edition of USPAP.

As indicated above, in the interim appraisers are urged to review the updated guidelines by visiting the link provided on The Appraisal Foundation website.

II. REVISIONS *NOT* ADOPTED FOR 2012-13 USPAP

Required Labeling of Hypothetical Conditions

Action:

The Board voted not to adopt the revisions proposed in the Fifth Exposure Draft on this topic.

Rationale:

The Board received responses with specific examples showing the detailed explanation of a hypothetical condition without using the proposed label. These submitted examples included clear explanations of the hypothetical conditions as is currently required by USPAP. Alternative examples were provided with a proposed label but with an abbreviated explanation. The point demonstrated was that the label of hypothetical condition is not as important as the current USPAP requirements for clearly and conspicuously stating the details of the hypothetical condition.

As a result, the concept of labeling hypothetical conditions was not considered a necessary revision to USPAP.

Retirement of STANDARDS 4 and 5

Action:

The Board voted not to retire STANDARDS 4 and 5 as was proposed in the Fifth Exposure Draft.

Rationale:

The ASB exposed the idea of retiring STANDARDS 4 and 5, REAL PROPERTY APPRAISAL CONSULTING DEVELOPMENT and REPORTING. The rationale for retirement centered on relying on the appraisal development and reporting standards to cover assignments where the value opinion used in the appraisal consulting assignment was developed by the appraiser performing the assignment. In assignments where the value opinion was accepted after an appraisal review, STANDARD 3 would apply.

Many of the responses received by the Board supported the proposed retirement of these standards. A smaller number of responses expressed a concern that the consulting elements of the appraisal consulting assignment would no longer have any development or reporting standards. There was also concern that when a value developed by another appraiser was accepted based on an extraordinary assumption, the assignment would have no development or reporting standards.

The Board decided that unless there are some standards in place to control the development and reporting of analyses, recommendations and opinions other than just value opinions, retirement of STANDARDS 4 and 5 is not the best option at the present time in terms of promoting and maintaining public trust in appraisal practice.