



THE APPRAISAL FOUNDATION
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APPRAISAL STANDARDS BOARD

TO: All Interested Parties

FROM: Sandra Guilfoil, Chair
Appraisal Standards Board

RE: First Exposure Draft of proposed changes to the 2010-11 Edition of the *Uniform Standards of Professional Appraisal Practice*

DATE: October 3, 2008

REQUEST FOR WRITTEN COMMENTS

Starting in December 2007, the Appraisal Standards Board (ASB) launched a campaign asking appraisers, users of appraisal services, regulators, educators, and others how well the Uniform Standards of Professional Appraisal Practice (USPAP) was serving their needs. This was accomplished with a series of public documents and public meetings. The ASB received written comments representing almost 2,000 individuals, as well as oral comments offered at public meetings. The ASB considered every comment, developed a work plan to address the issues brought forward, and asked for and received public comment on the proposed work plan, which included changes for the next edition (2010-11) of USPAP as well as additional changes (such as those involving the issue of reporting) for the subsequent edition (2012-13) of USPAP.

As a result, the ASB is now presenting its First Exposure Draft of proposed changes to the 2010-11 edition of USPAP, which consists of proposed edits relating to:

- Definition of Signature
- Definition of Jurisdictional Exception and the JURISDICTIONAL EXCEPTION RULE
- The ETHICS RULE
- The COMPETENCY RULE
- STANDARD 3, *Appraisal Review, Development and Reporting*

The intent of this exposure draft is to obtain comments from appraisers, professional appraisal organizations, users of appraisal services, educators, regulators, state enforcement agencies and the general public. **All interested parties are encouraged to comment in writing to the Appraisal Standards Board (ASB) before the deadline of November 10, 2008.** Respondents should be assured that each member of the ASB will thoroughly read and consider all comments. Comments are also invited at the ASB Public Meeting on November 18, 2008, in Arlington, Virginia.

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. The Appraisal Standards Board regularly receives comments and suggestions for improving USPAP. All potential changes and additions to USPAP are evaluated in light of this goal. The proposed changes in this exposure draft are believed to improve USPAP understanding and enforcement, and thereby achieve the goal of promoting and maintaining public trust in appraisal practice.

Written comments on this exposure draft can be submitted by mail, e-mail and facsimile.

Mail: Appraisal Standards Board
The Appraisal Foundation
1155 15th Street, NW, Suite 1111
Washington, DC 20005

E-mail: comments@appraisalfoundation.org

Facsimile: (202) 347-7727

IMPORTANT NOTE: All written comments will be posted for public viewing, exactly as submitted, on the website of The Appraisal Foundation. The Appraisal Foundation reserves the right not to post written comments that contain offensive or inappropriate statements.

It is anticipated that a Second Exposure Draft on these topics will be released in December 2008. The Second Exposure Draft may incorporate changes and will respond to issues raised in public comments to the First Exposure Draft.

If you have any questions regarding the attached exposure draft, please contact The Appraisal Foundation at (202) 347-7722.

**First Exposure Draft
Proposed Changes
2010-11 Edition of the *Uniform Standards of Professional Appraisal Practice***

**Issued: October 3, 2008
Comment Deadline: November 10, 2008**

The presentation of each section begins with a discussion of the rationale for the proposed changes to USPAP. The rationale is identified as such and does not have line numbering so that the reader can more easily distinguish between the rationale and the proposed edits.

When commenting on various aspects of the exposure draft, you are strongly encouraged to include the reasons for your comments and any alternatives you believe should be considered. Also, please provide examples to illustrate your concerns and support your views.

For ease in identifying the various issues being addressed, the exposure draft is presented in sections.

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Please note that where text is to be deleted from USPAP, that text is shown as ~~strikeout~~. For example: ~~This is ~~strikeout~~ text proposed for deletion.~~ Text that will be added to existing portions of USPAP is underlined. For example: This is text proposed for insertion.

Exceptions have been made for the edited ETHICS RULE, COMPETENCY RULE and STANDARD 3. Due to the extensive changes in these proposed sections, the exposure draft does not show where text has been edited, inserted, deleted, or relocated. Reviewing these proposed sections with ~~strikeout~~ and underlined text would have resulted in difficulty in clearly and fully understanding the proposed changes.

Section 1: Proposed edits to the DEFINITION of “Signature”

RATIONALE

A comment was received by the Board suggesting that the definition of “signature” be removed. It was noted that the term “signature” no longer appears in USPAP and so is not needed in the DEFINITION section. It was also argued that signature technology continues to evolve and there is misunderstanding among appraisers and regulators in how to reconcile that technology to the requirements of USPAP.

This suggestion was seriously considered and the issues that initiated this proposal were reviewed and discussed. However, it is the Board’s opinion that removal of the reference from USPAP is not the best solution at this time.

Instead, the Board is proposing changes to the definition of “signature,” and requirements regarding the appropriate use of an appraiser’s signature are proposed for the Management section of the ETHICS RULE.

Finally, the Comment to the definition of “signature” is proposed for deletion. New language is proposed for the ETHICS RULE to address when appraisers affix or authorize the use of their signature. This change appropriately relocates requirements for proper management of an appraiser’s signature from the definition to a Rule.

PROPOSED EDITS

Following are the proposed edits to the definition of “signature”:

- 1 **SIGNATURE:** personalized evidence indicating authentication of the work performed by the appraiser
- 2 and the acceptance of the responsibility for content, analyses, and the conclusions in the report.

3 Comment: ~~A signature can be represented by a handwritten mark, a digitized image~~
4 ~~controlled by a personal identification number, or other media, where the appraiser has~~
5 ~~sole personal control of affixing the signature.~~

Section 2: Proposed edits to the DEFINITION of “Jurisdictional Exception Rule”

RATIONALE

The JURISDICTIONAL EXCEPTION RULE has been misunderstood and misapplied by some appraisers and appraisal clients. Appraisers often believe that the Rule is applicable when, in fact, it is not; and clients and intended users believe that their regulations and guidelines are jurisdictional exceptions when, in fact, they are not.

The Board proposes changes to the definition of “jurisdictional exception” and the JURIDICTIONAL EXCEPTION RULE. In both, the language that describes parts of USPAP that are *contrary* to law is proposed for change to law that *prohibits* compliance. Conceptually, this is not intended to change the meaning, but to clarify that jurisdictional exceptions are created when compliance with USPAP is prohibited by law or regulation.

PROPOSED EDITS

Following are the proposed edits to the definition of “jurisdictional exception”:

- 6 **JURISDICTIONAL EXCEPTION:** an assignment condition ~~that voids the force of a part or parts of~~
7 ~~USPAP, when compliance with part or parts of USPAP is contrary to law or public policy applicable to~~
8 ~~the assignment~~ established by applicable law or regulation, which prohibits an appraiser from complying
9 with a part of USPAP.

Section 3: Proposed edits to the ETHICS RULE

RATIONALE

Many comments were received from appraisers, regulators and other interested parties indicating that the ETHICS RULE should be examined for clarification and enhanced enforceability. After considering those comments and researching, among other things, the ethical standards and canons of other professions, the ASB is proposing the following amendments to the ETHICS RULE.

ETHICS RULE, Introductory Section

The introduction was reorganized and reworded in a more direct manner. Language that had been in the Rule has been moved to the Comment and edited for clarity.

USPAP is applicable to individuals; as stated in the PREAMBLE, it establishes “*requirements for appraisers.*” Therefore, portions of the Comment which are not enforceable since they relate to the ethical responsibilities of groups and organizations are proposed for deletion.

However, a portion of the Comment from the Management section related to appraiser’s obligations when employed by a group or organization were moved to this section. These general statements about appraiser compliance with USPAP are more appropriate in this section.

Conduct Section

The Conduct section of the ETHICS RULE focuses on how appraisers should perform regarding general conduct, and development and communication of assignments. This section has been reorganized to emphasize prohibitions.

It has been proposed to add a specific admonition against performing assignments with bias. This has always been implicit in the other admonishments; however, it is believed that adding it enhances clarity.

In response to public comment, and to further enhance clarity and aid enforcement, the admonitions against “misleading or fraudulent” acts have been separated. The Board believed it was necessary to distinguish between a misleading act and a fraudulent one. Further, the Board added the term “knowingly” to differentiate between ethical violations and errors of performance.

Prohibiting the use of unsupported conclusions regarding certain demographic characteristics is proposed for deletion from the ETHICS RULE. This prohibition is currently addressed by the obligation to comply with applicable law or regulation. This redundancy is unnecessary and misplaced in the ETHICS RULE.

The ASB seeks to further clarify appropriate conduct and proposes reordering the Conduct section and modifying and expanding the disclosure requirements to the following:

Prior to accepting an assignment, and if discovered at any time during the assignment, an appraiser must disclose to the client and in the report certification:

- any current or prospective interest in the subject property or parties involved; and,

- any services performed by the appraiser or the appraiser's employer regarding the subject property, in capacities other than that of an appraiser.

Comment: This requirement also applies in those cases where the appraiser is acting in the capacity of a subcontractor or independent contractor.

The first of these disclosures is currently required by USPAP, in the certification Standards Rules (2-3, 3-3, 5-3, 6-9, 8-3 and 10-3). Its inclusion in the ETHICS RULE emphasizes its importance, and this proposed requirement changes the timing of the disclosure such that a prospective client would know of any current or prospective interest an appraiser has in the property or parties at the time of the assignment rather than only when the assignment results are communicated.

The second disclosure allows a prospective client to know, at the time of the assignment, whether the appraiser or his or her employer, is performing other services with regard to the property, such as property management, leasing, brokerage, auction, investment advisory services, etc., thus allowing the client to determine potential conflicts, if any.

These disclosures prior to accepting an assignment are important to preserving public trust. The client should have an opportunity to evaluate this information before the report is delivered. The appraiser must avoid bias – a preference or inclination that may preclude his impartiality, independence, or objectivity in the assignment. The potential for bias or the perception of bias is also damaging to public trust in the appraisal profession. Therefore, appraisers should have an obligation to disclose an interest and potential conflict to the client prior to accepting the assignment or at the time of discovery.

Management Section

The ASB proposes to clarify that payment “*by the appraiser*” of undisclosed fees, commissions or things of value in connection with the procurement of an assignment is unethical. This edit, in the Rule and in the Comment, clarifies that the payment is made by the appraiser, rather than to the appraiser, a fact which has been a source of some confusion in the marketplace.

The Board proposes edits to the structure of the admonishments regarding advertising and payment of undisclosed fees so that they match the structure of the admonishment against contingent compensation and are more forceful.

As indicated previously, in response to the many comments expressing concern with respect to the management of an appraiser's signature, the Board is proposing changes to the definition of “signature.” In addition, requirements regarding the appropriate use of an appraiser's signature are proposed for the Management section of the ETHICS RULE.

The Comment to the definition of “signature” is proposed for deletion. New language is proposed for the ETHICS RULE to address when appraisers affix or authorize the use of their signature. This change appropriately relocates requirements for proper management of an appraiser's signature from the definition to a Rule.

Confidentiality Section

The Confidentiality section of the ETHICS RULE focuses on the appraiser-client relationship and the use of confidential information and assignment results. Edits to the format of this section are proposed

to make clear who may have access to certain information. In addition, information regarding the Graham-Leach-Bliley Act of 1999 currently in the Rule is proposed to be moved to a footnote. The information describes legislative background, and does not impose requirements on appraisers; therefore, it is more appropriate in a footnote than in the text of the Rule.

No substantive changes are proposed for this section.

Record Keeping Section

The Record Keeping section of the ETHICS RULE sets forth when an appraiser must have a workfile for an assignment, what must be in the workfile, and workfile retention and access obligations. The ASB also proposes edits to the format of this section for clarity.

A requirement in this section states that *An appraiser must have custody of his or her workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile.* The Board believes it is implicit in this requirement that an appraiser having custody of that workfile would honor such an agreement. However, there has been confusion about this issue. While it may be redundant, the Board is proposing the following addition:

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

The Board also proposes the deletion of an appraiser's obligation to allow the client access to the workfile for a Restricted Use Appraisal Report. The requirements that all appraisal reports contain sufficient information to enable the intended users of the appraisal to understand the report properly makes this ETHICS RULE statement unnecessary.

Conforming edits to SR 2-2(c)(viii), SR 8-2(c)(viii) and SR 10-2(b)(ix) are also proposed.

PROPOSED EDITS

The proposed edited ETHICS RULE begins on the following page.

Note: Due to the extensive changes in the proposed ETHICS RULE, the exposure draft does not show where the text has been edited, inserted, deleted, or relocated.

10 ETHICS RULE

11 **An appraiser must promote and preserve the public trust inherent in appraisal practice by**
12 **observing the highest standards of professional ethics.**

13 **An appraiser must comply with USPAP when either the service or the appraiser is obligated by**
14 **law or regulation, or by agreement with the client or intended users, to comply. In addition to**
15 **these requirements, an individual should comply any time that individual represents that he or she**
16 **is performing the service as an appraiser.**

17 Comment: This Rule specifies the personal obligations and responsibilities of the
18 individual appraiser. An individual appraiser employed by a group or organization that
19 conducts itself in a manner that does not conform to USPAP should take steps that are
20 appropriate under the circumstances to ensure compliance with USPAP.

21 This ETHICS RULE is divided into four sections: Conduct, Management,
22 Confidentiality, and Record Keeping. The Conduct, Management, and Confidentiality
23 sections apply to all appraisal practice. The Record Keeping section applies to appraisal
24 practice performed under STANDARDS 1 through 10.

25 Conduct:

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

28 **An appraiser:**

- 29 • **must not perform assignments with bias;**
- 30 • **must not advocate the cause or interest of any party or issue;**
- 31 • **must not accept an assignment that includes the reporting of predetermined opinions and**
32 **conclusions;**
- 33 • **must not misrepresent his or her role when providing valuation services that are outside of**
34 **appraisal practice;**
- 35 • **must not knowingly communicate assignment results in a misleading manner;**
- 36 • **must not knowingly use or communicate a misleading report or permit an employee or**
37 **other person to communicate a misleading report;**
- 38 • **must not engage in criminal conduct;**
- 39 • **must not communicate assignment results in a fraudulent manner; and,**
- 40 • **must not use or communicate a fraudulent report or knowingly permit an employee or**
41 **other person to communicate a fraudulent report.**

42 **Prior to accepting an assignment, and if discovered at any time during the assignment, an**
43 **appraiser must disclose to the client and in the report certification:**

- 44 • **any current or prospective interest in the subject property or parties involved; and,**
- 45 • **any services performed by the appraiser or the appraiser's employer regarding the subject**
46 **property, in capacities other than that of an appraiser.**

47 Comment: This requirement also applies in those cases where the appraiser is acting in
48 the capacity of a subcontractor or independent contractor.

49 **Management:**

50 **It is unethical for an appraiser to make payments of undisclosed fees, commissions, or things of**
51 **value in connection with the procurement of an assignment.**

52 Comment: Disclosure of fees, commissions, or things of value paid for the procurement
53 of an assignment must appear in the certification and in any transmittal letter in which
54 conclusions are stated. In groups or organizations engaged in appraisal practice, intra-
55 company payments to employees for business development are not considered unethical.

56 **It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement**
57 **for an assignment, that is contingent on any of the following:**

- 58 **1. the reporting of a predetermined result (e.g., opinion of value);**
- 59 **2. a direction in assignment results that favors the cause of the client;**
- 60 **3. the amount of a value opinion;**
- 61 **4. the attainment of a stipulated result (e.g., that the loan closes, or taxes are reduced); or**
- 62 **5. the occurrence of a subsequent event directly related to the appraiser's opinions and**
63 **specific to the assignment's purpose.**

64 **It is unethical for an appraiser to advertise for or solicit assignments in a manner that is false,**
65 **misleading, or exaggerated.**

66 **An appraiser must affix or authorize the use of his or her signature to certify recognition and**
67 **acceptance of his or her USPAP responsibilities in appraisal, appraisal review, or appraisal**
68 **consulting assignments (see Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3, and 10-3).**

69 **It is unethical for an appraiser to affix the signature of another appraiser without their consent.**

70 Comment: An appraiser is obligated to exercise due care to avoid unauthorized use of his
71 or her signature. An appraiser exercising such care is not responsible for unauthorized
72 use of his or her signature.

73 **Confidentiality:**

74 **An appraiser must protect the confidential nature of the appraiser-client relationship.**

75 **An appraiser must act in good faith with regard to the legitimate interests of the client in the use**
76 **of confidential information and in the communication of assignment results.**

77 **An appraiser must be aware of, and comply with, all confidentiality and privacy laws and**
78 **regulations applicable in an assignment.**¹

79 **An appraiser must not disclose: (1) confidential information; or (2) assignment results to anyone**
80 **other than:**

- 81 • **the client;**
- 82 • **persons specifically authorized by the client;**
- 83 • **state enforcement agencies;**
- 84 • **third parties as may be authorized by due process of law; and**
- 85 • **a duly authorized professional peer review committee except when such disclosure to a**
86 **committee would violate applicable law or regulation.**

87 **It is unethical for a member of a duly authorized professional peer review committee to disclose**
88 **confidential information presented to the committee.**

89 Comment: When all confidential elements of confidential information and assignment
90 results are removed through redaction or the process of aggregation, client authorization
91 is not required for the disclosure of the remaining information, as modified.

92 **Record Keeping:**

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

97 **The workfile must include:**

- 98 • **the name of the client and the identity, by name or type, of any other intended users;**
- 99 • **true copies of any written reports, documented on any type of media (A true copy is a**
100 **replica of the report transmitted to the client. A photocopy or an electronic copy of the**
101 **entire signed report transmitted to the client satisfies the requirement of a true copy.);**
- 102 • **summaries of any oral reports or testimony, or a transcript of testimony, including the**
103 **appraiser’s signed and dated certification; and**

¹ NOTICE: Pursuant to the passage of the Gramm-Leach-Bliley Act in 1999, numerous agencies have adopted new privacy regulations. Such regulations are focused on the protection of information provided by consumers to those involved in financial activities “found to be closely related to banking or usual in connection with the transaction of banking.” These activities have been deemed to include “appraising real or personal property.” (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information; Final Rule, 16 CFR Part 313.)

104 • all other data, information, and documentation necessary to support the appraiser's
105 opinions and conclusions and to show compliance with USPAP, or references to the
106 location(s) of such other documentation.

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

110 **An appraiser must have custody of his or her workfile, or make appropriate workfile retention,**
111 **access, and retrieval arrangements with the party having custody of the workfile. An appraiser**
112 **having custody of workfiles must allow other appraisers with workfile obligations related to the**
113 **assignment appropriate access and retrieval.**

114 Comment: Care should be exercised in the selection of the form, style, and type of
115 medium for records to ensure that they are retrievable by the appraiser throughout the
116 prescribed record retention period.

117 A workfile must be made available by the appraiser when required by state enforcement
118 agencies or due process of law.

119 A workfile in support of a Restricted Use Appraisal Report must be sufficient for the
120 appraiser to produce a Summary Appraisal Report (for assignments under STANDARDS
121 2 and 8) or an Appraisal Report (for assignments under STANDARD 10).

Section 4: Proposed edits to the COMPETENCY RULE

RATIONALE

The ASB periodically examines USPAP for conformance to current practice. In addition, the ASB has received numerous written and oral comments with recommendations and suggestions to improve the clarity of the COMPETENCY RULE. The intent of this examination of the COMPETENCY RULE is to ensure clarity of the appraiser's existing obligations. It is not the ASB's goal to introduce new requirements through the proposed edits to the COMPETENCY RULE.

Overview of Proposed Changes

The current COMPETENCY RULE is a brief, general statement followed by 33 lines of Comment. The current Comment addresses a number of different topics, including a rationale for the requirements of the Rule, examples of areas where competency is important, recognition of the diversity in appraiser experience and background, how an appraiser may obtain competency, and a discussion of geographic competency and its importance.

Changes to the format of the Rule are proposed to improve its clarity:

- Dividing the Rule into three "sections" to distinguish an appraiser's competency obligations in an assignment.
- Including a description of the characteristics of competency.
- Clearly stating the alternative actions an appraiser can take when he or she is not competent to perform the assignment.

Specific Changes to the COMPETENCY RULE

The first section of the proposed Rule more clearly sets forth the requirements for competency. A portion of the current Comment addressing an appraiser's familiarity with laws and regulations is included here as an element of competency. The Comment in the proposed Rule maintains the list of areas where an appraiser's competency should be considered, and clarifies that competency applies at the time the appraiser provides the service.

The second section of the COMPETENCY RULE lists the three requirements for an appraiser who has determined he or she is *not competent, but wishes to accept the assignment*. The requirements are followed by the portion of the current Comment, with proposed edits, that addresses how competency can be attained in this situation. No change in these requirements is proposed, although edits have been made to improve clarity.

The third section of the COMPETENCY RULE addresses the three existing requirements for an appraiser who has determined *during the course of an assignment* that he or she is not competent. This material is part of the existing Rule, but it is presented as a Comment. In the proposed Rule, these requirements are presented as a separate section. In order to improve understandability, the proposed text specifies the steps an appraiser should take in this situation. The current Rule simply refers the appraisers to the prior section of the Rule. The improved clarity of the requirements offsets the repetitive presentation.

The fourth and final part of the COMPETENCY RULE states an appraiser's obligation to withdraw from the assignment if he or she is unable to comply with the requirements of the COMPETENCY

RULE. This point is clearly implied by the existing Rule, and is presented in current USPAP education courses, but an explicit statement is considered necessary based on comments received by the ASB.

Other revisions and edits are proposed throughout to improve clarity.

PROPOSED EDITS

The proposed edited COMPETENCY RULE begins on the following page.

Note: Due to the extensive changes in the proposed COMPETENCY RULE, the exposure draft does not show where the text has been edited, inserted, deleted, or relocated.

122 **COMPETENCY RULE**

123 **The COMPETENCY RULE requires the appraiser to: (1) be competent to perform the**
124 **assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or**
125 **withdraw from the assignment.**

126 **Being Competent**

127 **The appraiser must determine, prior to accepting an assignment, that he or she can perform the**
128 **assignment competently. Competency requires:**

- 129 **1. the ability to properly identify the problem to be addressed; and**
130 **2. the knowledge and experience to complete the assignment competently; and**
131 **3. recognition of, and compliance with, laws and regulations that apply to the appraiser or to**
132 **the assignment.**

133 Comment: Competency applies to factors such as, but not limited to, an appraiser's
134 familiarity with a specific type of property or asset, a market, a geographic area, an intended
135 use, specific laws and regulations, or an analytical method. If such a factor is necessary for
136 an appraiser to develop credible assignment results, the appraiser is responsible for having
137 the competency to address that factor or for following the steps outlined below to satisfy this
138 COMPETENCY RULE.

139 For assignments with retrospective opinions and conclusions, the appraiser must meet the
140 requirements of this COMPETENCY RULE at the time of the assignment, rather than the
141 effective date.

142 **Acquiring Competency**

143 **If an appraiser determines he or she is not competent prior to accepting the assignment, the**
144 **appraiser must:**

- 145 **1. disclose the lack of knowledge and/or experience to the client before accepting the**
146 **assignment;**
147 **2. take all steps necessary or appropriate to complete the assignment competently; and**
148 **3. describe, in the report, the lack of knowledge and/or experience and the steps taken to**
149 **complete the assignment competently.**

150 Comment: Competency can be acquired in various ways, including, but not limited to,
151 personal study by the appraiser, association with an appraiser reasonably believed to have
152 the necessary knowledge and/or experience, or retention of others who possess the
153 necessary knowledge and/or experience.

154 In an assignment where geographic competency is necessary, an appraiser who is not
155 familiar with the relevant market characteristics must acquire an understanding necessary
156 to produce credible assignment results for the specific property type and market involved.

157 **When facts or conditions are discovered during the course of an assignment that cause an**
158 **appraiser to determine, at that time, that he or she lacks the required knowledge and experience**
159 **to complete the assignment competently, the appraiser must:**

- 160 **1. notify the client, and**
161 **2. take all steps necessary or appropriate to complete the assignment competently, and**
162 **3. describe, in the report, the lack of knowledge and/or experience and the steps taken to**
163 **complete the assignment competently.**

164 **Lack of Competency**

165 **If the assignment cannot be completed competently the appraiser must withdraw from the**
166 **assignment.**

Section 5: Proposed edits to the JURISDICTIONAL EXCEPTION RULE

RATIONALE

Work done in prior years related to the SUPPLEMENTAL STANDARDS RULE led the ASB to review the structure and content of the JURISDICTIONAL EXCEPTION RULE (JER). The Board concluded that the structure of the JER is not consistent with other Rules in USPAP and the requirements could be clearer. This decision was reinforced by responses to the *Invitation to Comment* calling for revisions to USPAP for greater clarity and enhanced enforcement.

The Rule, as it *currently* exists, serves two purposes: first, in the event that a law or regulation of any jurisdiction is contrary to any portion of USPAP, USPAP cedes its authority to that law; second, only the portion of USPAP that contradicts an existing law is void and the appraiser must comply with the remainder of USPAP.

The JURISDICTIONAL EXCEPTION RULE has been misunderstood and misapplied by some appraisers and appraisal clients. Appraisers often believe that the Rule is applicable when, in fact, it is not; and clients and intended users believe that their regulations and guidelines are jurisdictional exceptions when, in fact, they are not.

As stated previously, the Board proposes changes to the definition of “jurisdictional exception” and the JURISDICTIONAL EXCEPTION RULE. In both, the language that describes parts of USPAP that are *contrary* to law is proposed for change to law that *prohibits* compliance. Conceptually, this is not intended to change the meaning, but to clarify that jurisdictional exceptions are created when compliance with USPAP is prohibited by law or regulation.

The Board received questions relating to whether state and local laws take precedence over parts of USPAP when compliance with USPAP is required by federal law or regulation. This concern is addressed by the proposed addition of the Comment distinguishing the applicability of the Rule in assignments where compliance with USPAP is required by federal law or regulation, from its applicability in those assignments where USPAP compliance arises from other requirements, or by choice.

It is also proposed that the descriptions of “law” and “regulation” in this Rule are edited to conform to the description of those terms currently in the SCOPE OF WORK RULE.

The ASB proposes clarifying the Rule by reorganizing the text and specifically identifying the four requirements imposed on an appraiser in assignments involving a jurisdictional exception.

1. identify the law or regulation that prohibits compliance;
2. comply with that law or regulation;
3. disclose in the report the part of USPAP that are voided by that law or regulation; and
4. cite in the report the legal authority justifying this action.

The first and second statements are to identify and comply with the appropriate law or regulation creating the jurisdictional exception. This is now addressed with a negative statement rather than a positive statement of the appraiser’s responsibility to follow laws and regulations.

The third and fourth statements deal with the appraiser's disclosure obligations. The current version of the JURISDICTIONAL EXCEPTION RULE states that failure to make these disclosures is misleading rather than affirmatively stating that such disclosures are required. Furthermore, this is addressed in the Comment rather than the main body of the Rule.

PROPOSED EDITS

Following are the proposed edits to the JURISDICTIONAL EXCEPTION RULE:

167 **JURISDICTIONAL EXCEPTION RULE**

168 ~~If any part of USPAP is contrary to the law or public policy of any jurisdiction, only that part~~
169 ~~shall be void and of no force or effect in that jurisdiction. If any applicable law or regulation~~
170 ~~prohibits compliance with any part of USPAP, only that part of USPAP becomes void for that~~
171 ~~assignment.~~

172 Comment: When compliance with USPAP is required by federal law or regulation, no
173 part of USPAP can be voided by a law or regulation of a state or local jurisdiction. The
174 purpose of the JURISDICTIONAL EXCEPTION RULE is strictly limited to providing a
175 saving or severability clause intended to preserve the balance of USPAP if one or more of
176 its parts are determined to be contrary to law or public policy of a jurisdiction. By logical
177 extension, there can be no violation of USPAP by an appraiser disregarding, with proper
178 disclosure, only the part or parts of USPAP that are void and of no force and effect in a
179 particular assignment by operation of legal authority. It is misleading for an appraiser to
180 disregard a part or parts of USPAP as void and of no force and effect in a particular
181 assignment without identifying in the appraiser's report the part or parts disregarded and
182 the legal authority justifying this action.

183 ~~As used in the JURISDICTIONAL EXCEPTION RULE, law means a body of rules with~~
184 ~~binding legal force established by controlling governmental authority. This broad~~
185 ~~meaning includes, without limitation, the federal and state constitutions; legislative and~~
186 ~~court-made law; and administrative rules, regulations, and ordinances. Public policy~~
187 ~~refers to more or less well-defined moral and ethical standards of conduct, currently and~~
188 ~~generally accepted by the community as a whole, and recognized by the courts with the~~
189 ~~aid of statutes, judicial precedents, and other similar available evidence. Jurisdiction~~
190 ~~refers to the legal authority to legislate, apply, or interpret law in any form at the federal,~~
191 ~~state, and local levels of government.~~

192 **In an assignment involving a jurisdictional exception, an appraiser must:**

- 193 **1. identify the law or regulation that prohibits compliance;**
- 194 **2. comply with that law or regulation;**
- 195 **3. disclose in the report the part of USPAP that are voided by that law or regulation; and**
- 196 **4. cite in the report the legal authority justifying this action.**

197 Comment: The JURISDICTIONAL EXCEPTION RULE provides a saving or
198 severability clause intended to preserve the balance of USPAP if compliance with one or
199 more of its parts is prohibited by the law or regulation of a jurisdiction. When an
200 appraiser properly follows this Rule in disregarding a part of USPAP, there is no violation
201 of USPAP.

202 The JURISDICTIONAL EXCEPTION RULE cannot be used to support an appraiser's
203 decision not to comply with USPAP in its entirety for an assignment. As stated in the
204 PREAMBLE, USPAP does not establish who or which assignments must comply.

205 Law includes constitutions, legislative and court-made law, and administrative rules and
206 ordinances. Regulations include rules or orders having legal force, issued by an
207 administrative agency. Instructions from a client or attorney do not establish a
208 jurisdictional exception.

Section 6: Proposed Edits to STANDARD 3, *Appraisal Review, Development and Reporting*

RATIONALE

The ASB periodically examines portions of USPAP for conformance to current practice. While changes have been made to STANDARD 3 in the past, a thorough review of the requirements and organization of STANDARD 3 has not been performed by the ASB in many years. In addition, the ASB has received numerous written and oral comments regarding aspects of STANDARD 3 that should be considered for revision. For these reasons, the ASB is proposing an examination of all the requirements that apply to appraisal review development and reporting.

The goals of this examination of STANDARD 3 are:

- Revise the Standard for consistency with the requirements of the other Standards.
- Update the requirements for compatibility with current practices.
- Review the organization and text to improve clarity.

The ASB's intent is to update and clarify the requirements for appraisal review. It is not the goal of this examination of STANDARD 3 to introduce changes to current appraisal review practice or create new appraisal review requirements. The proposed changes in STANDARD 3 are extensive. For ease in understanding, this Rationale will provide an overview of the proposed changes followed by a more detailed discussion of the proposed changes.

Overview of Proposed Changes

An examination of the current requirements for appraisal review reveals that although the Standard addresses the requirements for both development and reporting, the requirements are often not distinct or fully elaborated. Therefore, revisions are proposed to expand and distinguish the development and reporting requirements.

A review of the other Standards reveals that they all include a basic format of general requirements followed by specific requirements. For example, Standards Rule 1-1 provides for the basic requirements of appraisal development, followed by the requirements of problem identification in Standards Rule 1-2. The remaining Standards Rules present more specific requirements. STANDARD 3 does not follow this format, which complicates understanding, application, education, and enforcement. Therefore, revisions are proposed to create a more logical and comprehensive structure.

The requirements of Standards Rules 3-1 (d) through (g) present the requirements related to the process of appraisal review. The considerations currently required (completeness, adequacy, relevance, appropriateness, and reasonableness) fail to reflect the true nature of current practice and are somewhat repetitive. The reviewer's scope of work can include much less than and much more than these considerations. Further, there is no distinction of the difference between reviewing an analysis (development) and reviewing a report. The proposed revisions are intended to better guide a review process that is in practice quite broad and flexible.

A common area of misunderstanding in STANDARD 3 relates to the requirements that apply to reviewers who are providing their own opinion(s) related to the subject of an appraisal, an appraisal review, or an appraisal consulting problem addressed in the work under review. In the review of an appraisal assignment, the reviewer can provide an opinion of value for the property that is the subject of the appraisal review assignment. In the review of an appraisal review assignment, the reviewer can

provide an opinion of quality for the work that is the subject of the appraisal review assignment. In the review of an appraisal consulting assignment, the reviewer can provide an analysis, recommendation, or opinion for the consulting problem that is the subject of the appraisal consulting assignment. Revisions are proposed to organize and clarify the requirements that apply to a reviewer providing their own opinion of value, review opinion, or consulting conclusion related to the work that is the subject of the appraisal review assignment.

Revisions and edits are proposed throughout to improve clarity.

Specific Changes to STANDARD 3

STANDARD

The STANDARD has been divided into two sections, one addressing development and one addressing reporting. The proposed language mirrors the form and content of the other STANDARDS.

The Comment sections in the STANDARD have been revised to incorporate Comment language found in other STANDARDS.

Some language was relocated to more appropriate locations.

Standards Rule 3-1

The text from the current SR 3-1 was relocated to SR 3-2 (see comments below).

The proposed SR 3-1 was created to incorporate the basic requirements for competency and diligence common to the other development Standards (SR 1-1, 4-1, 6-1, 7-1, and 9-1). The Comment to SR 3-1(a) was expanded to specifically address the issue of competency in appraisal review.

Standards Rule 3-2

The text from the current SR 3-2 was relocated to SR 3-3 (see comments below).

The proposed Standards Rule 3-2 addresses the identification of the assignment elements necessary to properly identify the appraisal review problem to be solved and determine the appropriate scope of work. For an appraisal review assignment, the assignment elements are the client and other intended users, intended use, purpose, the work under review and its relevant characteristics, effective date of the review, and assignment conditions. This is similar to the organization and content of Standards (SR 1-2, 4-2, 6-2, 7-2, and 9-2). There is an individual identification requirement and Comment for each assignment element.

Standards Rule 3-2(c) was extensively revised to more clearly address that reviewers can provide their own opinion(s) when reviewing work product related to (1) appraisal, (2) appraisal review, or (3) appraisal consulting. The current requirements focus almost exclusively on a reviewer's opinions of value in the review of an appraisal, but a reviewer can also provide review and consulting opinions in the review of an appraisal review or an appraisal consulting assignment. In the review of an appraisal review assignment, the reviewer can provide an opinion of quality for the work that is the subject of the appraisal review assignment. In the review of an appraisal consulting assignment, the reviewer can provide an analysis, recommendation, or opinion for the consulting problem that is the subject of the appraisal consulting assignment

Standards Rule 3-2(d) presents the requirement to identify the work under review and its relevant characteristics.

The current Standard does not address the use of a hypothetical condition in an appraisal review assignment. While there may be few instances where a hypothetical condition is used in an appraisal review, requirements similar to those found in the other Standards were incorporated in the proposed Standard Rule 3-2(g) to maintain consistency.

Standards Rule 3-3

The text from the current SR 3-3 was relocated to SR 3-6 (see comments below).

The proposed Standards Rule 3-3 addresses the requirements that apply to development of an appraisal review. In current appraisal practice, there are many reasons for performing an appraisal review and as a result the nature of the review process can vary widely. The Standards Rule reflects this fact with broad requirements. This is similar to the requirements that apply to appraisal consulting assignments. The current requirements to develop an opinion of completeness, adequacy, relevance, and reasonableness of the analysis in the work under review are retained as an aspect of the review process in the Comment.

Standards Rule 3-3 includes a clear recognition that the review process can address the adequacy of an analysis or the adequacy of a report of an analysis. The distinction recognizes that USPAP presents development and communication as separate processes. Further, in current practice, appraisal review assignments may include a review of the data and analysis provided in support of assignment results and/or a review of a report for conformity with applicable reporting requirements.

To illustrate this point, consider the review of a sales comparison *analysis*. The reviewer can form opinions related to the quality of analysis, such as the comparability of the sales, appropriateness of the units of comparison or the relevancy of the methods used to analyze the comparable sales data. In the review of the *reporting* of a sales comparison analysis, the reviewer could form opinions regarding the adequacy of the communication and conformance with applicable reporting requirements. The first review activity considers the quality of the analysis, and the second considers the quality of the reporting.

Standards Rule 3-3(c) is a response to many comments and questions regarding the development requirements that apply to a reviewer providing their own opinion of value, review opinion, or consulting conclusion related to the work that is the subject of the appraisal review assignment. The requirements have been organized and clarified in a single location.

The text makes clear that STANDARD 3 applies to the review of an appraisal review. In this type of assignment, the review appraiser offers an opinion on the quality of the appraisal review. Similar to a reviewer providing their own opinion of value, the scope of work can also include the reviewer providing his or her own review opinion on the work that was the subject of the review. For example, an appraisal review is prepared for an appraisal report. You are asked to review this appraisal review report for conformance to the client's appraisal review requirements. You conclude that the appraisal review you are reviewing is faulty. In this case, the client wishes you to perform your own review of the appraisal report. Therefore, your assignment includes the review of an appraisal review report and the review of an appraisal report. Both tasks require compliance with STANDARD 3.

Currently, there are Comments in SR 3-1 (e) and SR 3-1 (g) that apply to the review of a mass appraisal. These requirements (I) are more properly characterized as best practice; (II) represent an inappropriate imposition of scope of work requirements; and (III) are inconsistent with the content of USPAP. For these reasons, the mass appraisal review comments in SR 3-1 (e) and SR 3-1 (g) are not included in the proposed draft.

Standards Rule 3-4

The text from the current SR 3-4 was relocated to SR 3-7 (see comments below).

The proposed Standards Rule 3-4 addresses the general requirements that apply to reporting of an appraisal review assignment. The text was created to incorporate the basic requirements for clear and accurate communication common to the other development Standards (SR 2-1, 5-1, 6-8, 8-1, and 10-1).

Standards Rule 3-5

The proposed Standards Rule 3-5 presents the reporting requirements for an appraisal review assignment. The current reporting requirements are somewhat abbreviated and not clear (see current SR 3-2(d)). The proposed draft presents a more complete identification of the minimum report content, similar to the reporting requirements in other Standards.

Standards Rule 3-5(i) is a response to many comments and questions regarding the reporting requirements that apply to a reviewer providing their own opinion of value, review opinion, or appraisal consulting conclusion related to the work that is the subject of the appraisal review assignment. The requirements have been organized and clarified in a single location.

Standards Rule 3-6

Proposed Standards Rule 3-6 presents the certification requirements for an Appraisal Review Report. The certification requirements were revised for consistency with the other Standards.

Standards Rule 3-7

Proposed Standards Rule 3-7 presents the requirements for an oral Appraisal Review Report. No changes are proposed for requirements applicable to an oral Appraisal Review Report.

PROPOSED EDITS

The proposed edited STANDARD 3 begins on the following page.

Note: Due to the extensive changes in the proposed STANDARD 3, the exposure draft does not show where text has been edited, inserted, deleted, or relocated. The process of re-organizing and expanding the Standard was extensive and efforts to produce a draft that reflected the editing process did not result in an understandable document.

209 **STANDARD 3: APPRAISAL REVIEW, DEVELOPMENT AND REPORTING**

210 **In developing an appraisal review assignment, an appraiser acting as a reviewer must identify the**
211 **problem to be solved, determine the scope of work necessary to solve the problem, and correctly**
212 **complete research and analyses necessary to produce a credible appraisal review. In reporting the**
213 **results of an appraisal review assignment, an appraiser acting as a reviewer must communicate**
214 **each analysis, opinion, and conclusion in a manner that is not misleading.**

215 Comment: STANDARD 3 is directed toward the substantive aspects of developing a
216 credible opinion of the quality of another appraiser's work that was performed as part of
217 an appraisal, appraisal review, or real property appraisal consulting assignment.

218 STANDARD 3 also addresses the content and level of information required in a report
219 that communicates the results of an appraisal review assignment. STANDARD 3 does
220 not dictate the form, format, or style of Appraisal Review Reports. The substantive
221 content of a report determines its compliance.

222 In this Standard, the term "reviewer" is used to refer to an appraiser performing an
223 appraisal review.

224 **Standards Rule 3-1**

225 **In developing an appraisal review, the reviewer must:**

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

228 Comment: Changes and developments in economics, finance, law, technology, and
229 society can have a substantial impact on the appraisal profession. To keep abreast of
230 these changes and developments, the appraisal profession is constantly reviewing and
231 revising appraisal methods and techniques and devising new methods and techniques to
232 meet new circumstances. Each appraiser must continuously improve his or her skills to
233 remain proficient in appraisal review.

234 The reviewer must have the knowledge and experience needed to identify and perform
235 the scope of work necessary to produce credible assignment results. Aspects of
236 competency for an appraisal review, depending on the review assignment's scope of
237 work, may include, without limitation, familiarity with the specific type of property or
238 asset, market, geographic area, analytic method, and applicable laws, regulations and
239 guidelines.

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

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

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

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

253 **Standards Rule 3-2**

254 **In developing an appraisal review, the reviewer must**

255 **(a) identify the client and other intended users;**

256 **(b) identify the intended use of the reviewer's opinions and conclusions;**

257 Comment: A reviewer must not allow the intended use of an assignment or a client's
258 objectives to cause the assignment results to be biased. A reviewer must not advocate for
259 a client's objectives.

260 The intended use refers to the use of the reviewer's opinions and conclusions by the client
261 and other intended users; examples include, without limitation, quality control, audit,
262 qualification, or confirmation.

263 **(c) identify the purpose of the appraisal review, including whether the assignment includes the
264 development of the reviewer's own opinion of value, review opinion or real property
265 appraisal consulting conclusion related to the work under review;**

266 Comment: The purpose of an appraisal review assignment relates to the reviewer's
267 objective; examples include, without limitation, to determine if the results of the work
268 under review are credible for the intended user's intended use, or to evaluate compliance
269 with relevant USPAP requirements, client requirements, or applicable regulations.

270 In the review of an appraisal assignment, the reviewer can provide an opinion of value for
271 the property that is the subject of the appraisal review assignment.

272 In the review of an appraisal review assignment, the reviewer can provide an opinion of
273 quality for the work that is the subject of the appraisal review assignment.

274 In the review of an appraisal consulting assignment, the reviewer can provide an analysis,
275 recommendation, or opinion for the consulting problem that is the subject of the real
276 property appraisal consulting assignment.

277 **(d) identify the subject work under review in the appraisal review and the characteristics of
278 that work which are relevant to the intended use and purpose of the appraisal review,
279 including:**

- 280 **(i) the property and ownership interest (if any) in the work under review;**
- 281 **(ii) the date of the work under review and the effective date of the opinions or
282 conclusions in the work under review;**
- 283 **(iii) the appraiser(s) who completed the work under review, unless the identity is
284 withheld by the client; and**
- 285 **(iv) the physical, legal, and economic characteristics of the property, properties,
286 property type(s), or market area in the work under review.**

287 Comment: The subject of an appraisal review assignment may be all or part of a report, a
288 workfile, or a combination of these, and may be related to an appraisal, appraisal review,
289 or appraisal consulting assignment.

290 **(e) identify the effective date of the reviewer's opinions and conclusions;**

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

292 Comment: An extraordinary assumption may be used in a review assignment only if:

- 293 • it is required to properly develop credible opinions and conclusions;
294 • the reviewer has a reasonable basis for the extraordinary assumption;
295 • use of the extraordinary assumption results in a credible analysis; and
296 • the reviewer complies with the disclosure requirements set forth in SR 3-5(f) for
297 extraordinary assumptions.

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

299 Comment: A hypothetical condition may be used in a review assignment only if:

- 300 • use of the hypothetical condition is clearly required for legal purposes, for purposes
301 of reasonable analysis, or for purposes of comparison;
302 • use of the hypothetical condition results in a credible analysis;
303 • the reviewer complies with the disclosure requirements set forth in USPAP for
304 hypothetical conditions; and
305 • the reviewer complies with the disclosure requirements set forth in SR 3-5(f) for
306 hypothetical conditions.

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

309 Comment: Reviewers have broad flexibility and significant responsibility in determining
310 the appropriate scope of work in an appraisal review assignment.

311 The reviewer may use additional information available to him or her that was not
312 available to the original appraiser in the development of the work under review; however,
313 the reviewer must not use such information in the development of an opinion as to the
314 quality of the work under review.

315 **Standards Rule 3-3**

316 **In developing an appraisal review, a reviewer must apply the appraisal review methods and**
317 **techniques that are necessary for credible assignment results.**

318 **(a) When necessary for credible assignment results in the review of analyses, opinions, and**
319 **conclusions, the reviewer must:**

320
321 **(i) develop an opinion as to whether the analyses, opinions, and conclusions are**
322 **appropriate and credible within the context of the requirements applicable to that**
323 **work; and**

324
325 **(ii) develop the reasons for any disagreement.**
326

327 Comment: Consistent with the reviewer's scope of work, the reviewer is required to
328 develop an opinion as to the completeness, accuracy, adequacy, relevance, and
329 reasonableness of the analysis in the work under review, within the context of the
330 requirements applicable to the work under review.

331 **(b) When necessary for credible assignment results in the review of a report, the reviewer**
332 **must:**

333 **(i) develop an opinion as to whether the report is appropriate and not misleading**
334 **within the context of the requirements applicable to that work; and**

335 **(ii) develop the reasons for any disagreement.**

336 Comment: Consistent with the reviewer's scope of work, the reviewer is required to
337 develop an opinion as to the completeness, accuracy, adequacy, relevance, and
338 reasonableness of the report, within the context of the requirements applicable to that
339 work.

340 (c) **When the scope of work includes the reviewer developing his or her own opinion of value,
341 review opinion, or real property appraisal consulting conclusion, the reviewer must comply
342 with the Standard applicable to the development of that opinion.**

343 (i) **The requirements of STANDARDS 1, 6, 7, and 9 apply to the reviewer's opinion of
344 value for the property that is the subject of the appraisal review assignment.**

345 (ii) **The requirements of STANDARD 3 apply to the reviewer's opinion of quality for
346 the work that is the subject of the appraisal review assignment.**

347 (iii) **The requirements of STANDARD 4 apply to the reviewer's analysis,
348 recommendation, or opinion for the consulting problem that is the subject of the
349 appraisal consulting assignment.**

350 Comment: These requirements apply to the reviewer's own opinion of value, the
351 reviewer's opinion on the work under review in the review of another appraiser's review,
352 or the reviewer's real property appraisal consulting conclusion whether it:

- 353 • concurs with the opinions and conclusions in the work under review; or
- 354 • differs from the opinion and conclusions in the work under review.

355 When the appraisal review scope of work includes the reviewer developing his or her
356 own opinion of value, review opinion or real property appraisal consulting conclusion,
357 the following apply:

- 358 • The reviewer's scope of work in developing his or her own opinion of value, review
359 opinion, or real property appraisal consulting conclusion may be different from that of
360 the work under review.
- 361 • The effective date of the appraisal, appraisal review, or appraisal consulting opinions
362 and conclusions may be the same or different from the effective date of the work
363 under review.
- 364 • The reviewer is not required to replicate the steps completed by the original appraiser.
365 Those items in the work under review that the reviewer concludes are credible can be
366 extended to the reviewer's development process on the basis of an extraordinary
367 assumption. Those items not deemed to be credible must be replaced with
368 information or analysis developed in conformance with STANDARD 1, 3, 4, 6, 7, or
369 9, as applicable, to produce credible assignment results.

370 **Standards Rule 3-4**

371 **Each written or oral Appraisal Review Report must:**

372 (a) **clearly and accurately set forth the appraisal review in a manner that will not be
373 misleading;**

374 (b) **contain sufficient information to enable the intended users of the appraisal review to
375 understand the report properly; and**

376 (c) **clearly and accurately disclose all assumptions, extraordinary assumptions, and
377 hypothetical conditions used in the assignment.**

378 Comment: An Appraisal Review Report communicates the results of an appraisal review,
379 which can have as its subject another appraiser's work in an appraisal, appraisal review,
380 or appraisal consulting assignment.

381 The reviewer must prepare a separate report setting forth the scope of work performed
382 and the results of the appraisal review.

383 The report content and level of information in the Appraisal Review Report is specific to
384 the needs of the client, other intended users, the intended use, and requirements
385 applicable to the assignment. The reporting requirements set forth in this Standard are the
386 minimum for an Appraisal Review Report.

387 **Standards Rule 3-5**

388 **The content of an Appraisal Review Report must be consistent with the intended use of the**
389 **appraisal review and, at a minimum:**

390 **(a) state the identify of the client and any intended users, by name and type;**

391 **(b) state the intended use of the appraisal review;**

392 **(c) state the purpose of the appraisal review;**

393 **(d) state information sufficient to identify:**

394 **(i) the work under review, including the property and ownership interest (if any) in the**
395 **work under review;**

396 **(ii) the date of the work under review;**

397 **(iii) the effective date of the opinions or conclusions in the work under review; and**

398 **(iv) the appraiser(s) who completed the work under review, unless the identity is withheld**
399 **by the client.**

400 Comment: If the identity of the appraiser(s) in the work under review is withheld by the
401 client, that fact must be stated in the appraisal review report.

402 **(e) state the effective date of the appraisal review;**

403 **(f) clearly and conspicuously:**

404 **• state all extraordinary assumptions and hypothetical conditions; and**

405 **• state that their use might have affected the assignment results.**

406 **(g) state the scope of work used to develop the appraisal review;**

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

411 When any portion of the work involves significant appraisal, appraisal review, or
412 appraisal consulting assistance, the reviewer must state the extent of that assistance. The
413 signing reviewer must also state the name(s) of those providing the significant assistance
414 in the certification, in accordance with Standards Rule 3-6.

415 **(h) state the reviewer’s opinions and conclusions about the work under review, including the**
416 **reasons for any disagreement;**

417 Comment: The report must provide sufficient information to enable the client and intended
418 users to understand the rationale for the reviewer’s opinions and conclusions.

419 **(i) when the scope of work includes the reviewer’s development of an opinion of value, review**
420 **opinion, or real property appraisal consulting conclusion related to the work under review,**
421 **the reviewer must:**

422 **(i) state which information, analyses, opinions, and conclusions in the work under review**
423 **that the reviewer accepted as credible and used in developing the reviewer’s opinion**
424 **and conclusions;**

425 **(ii) at a minimum, summarize any additional information relied on and the reasoning for**
426 **the reviewer’s opinion of value, review opinion, or real property appraisal consulting**
427 **conclusion related to the work under review;**

428 **(iii) clearly and conspicuously:**

- 429 • **state all extraordinary assumptions and hypothetical conditions connected with the**
430 **reviewer’s opinion of value, review opinion, or real property appraisal consulting**
431 **conclusion related to the work under review; and**
- 432 • **state that their use might have affected the assignment results.**

433 Comment: The reviewer may include his or her own opinion of value, review opinion, or
434 appraisal consulting conclusion related to the work under review within the appraisal
435 review report itself without preparing a separate report. However, data and analyses
436 provided by the reviewer to support a different opinion or conclusion must match, at a
437 minimum, except for the certification requirements, the reporting requirements for a:

- 438 • Summary Appraisal Report for a real property appraisal (Standards Rule 2-2(b));
- 439 • Summary Appraisal Report for a personal property appraisal (Standards Rule 8-
440 2(b));
- 441 • Appraisal Review Report for an appraisal review (Standards Rule 3-5);
- 442 • Appraisal Consulting Report for real property appraisal consulting (Standards
443 Rule 5-2);
- 444 • Mass Appraisal Report for mass appraisal (Standards Rule 6-8); and
- 445 • Appraisal Report for business appraisal (Standards Rule 10-2(a)).

446 **Standards Rule 3-6**

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

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

- 450 — **the statements of fact contained in this report are true and correct.**
- 451 — **the reported analyses, opinions, and conclusions are limited only by the reported**
452 **assumptions and limiting conditions and are my personal, impartial, and unbiased**
453 **professional analyses, opinions, and conclusions.**
- 454 — **I have no (or the specified) present or prospective interest in the property that is**
455 **the subject of the work under review and no (or the specified) personal interest**
456 **with respect to the parties involved.**
- 457 — **I have no bias with respect to the property that is the subject of the work under**
458 **review or to the parties involved with this assignment.**

- 459 — my engagement in this assignment was not contingent upon developing or
460 reporting predetermined results.
- 461 — my compensation is not contingent on an action or event resulting from the
462 analyses, opinions, or conclusions in this review or from its use.
- 463 — my compensation for completing this assignment is not contingent upon the
464 development or reporting of predetermined assignment results or assignment
465 results that favors the cause of the client, the attainment of a stipulated result, or
466 the occurrence of a subsequent event directly related to the intended use of this
467 appraisal review.
- 468 — my analyses, opinions, and conclusions were developed and this review report was
469 prepared in conformity with the *Uniform Standards of Professional Appraisal
470 Practice*.
- 471 — I have (or have not) made a personal inspection of the subject of the work under
472 review. (If more than one person signs this certification, the certification must
473 clearly specify which individuals did and which individuals did not make a
474 personal inspection of the subject of the work under review.) (For reviews of a
475 business or intangible asset appraisal assignment, the inspection portion of the
476 certification is not applicable.)
- 477 — no one provided significant appraisal, appraisal review, or appraisal consulting
478 assistance to the person signing this certification. (If there are exceptions, the
479 name of each individual(s) providing appraisal, appraisal review, or appraisal
480 consulting assistance must be stated.)

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

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

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

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

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

500 **Standards Rule 3-7**

501 **To the extent that it is both possible and appropriate, an oral Appraisal Review Report must**
502 **address the substantive matters set forth in Standards Rule 3-5.**

503 Comment: See the Record Keeping section of the ETHICS RULE for corresponding
504 requirements.