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June 2, 2014

Mr. Barry J. Shea, Chair
Appraisal Standards Board
The Appraisal Foundation
1155 15th Street, NW, Suite 1111
Washington, DC 20005
asbcomments@appraisalfoundation.org

RE: "Second Exposure Draft of Proposed Changes for the 2016-17 Edition of the *Uniform Standards of Professional Appraisal Practice*" dated April 30, 2014

Dear Mr. Shea:

On behalf of the Appraisal Institute, the Professional Standards and Guidance Committee ("PSGC") submits these comments in response to the "Second Exposure Draft of Proposed Changes for the 2016-17 Edition of the *Uniform Standards of Professional Appraisal Practice*" dated April 30, 2014.

In general, we are concerned that USPAP presents Standards that are broadly applicable to valuation services, rather than presenting more narrowly focused requirements. We appreciate the alternate proposals provided in this exposure, but are concerned that any proposals incorporated into the 2016-17 edition of USPAP maintain USPAP's internal consistency. Specific examples of both concerns are provided through our comments and suggestions.

Section 1 – Proposed Revision to Report Definition

The tracked changes in this section are somewhat confusing, as they appear to mark changes from the last exposure draft, rather than indicating proposed changes to the existing language in USPAP.

We find the language presented in Alternative 2 on lines 9-10 an acceptable change from the current definition which requires the "report" to be the document transmitted at the conclusion of an assignment. However, the Comment addresses record retention requirements and so is not relevant to the definition; further, this information is presented elsewhere in USPAP and so it is redundant. For these reasons we strongly suggest this proposed Comment be deleted.

We oppose the proposed changes presented in Alternative 1. Our concerns regarding Alternative 1 are the same as those we expressed in our comments to the first exposure draft, specifically:

Lines 1-4: The proposed definition of "report" in Alternative 1 creates confusion because of the wording "or to a party authorized by the client." The PSGC is concerned that the proposed definition of Report could lead to confusion in the marketplace. The addition of language indicating that a Report can be transmitted "to the client or to a party authorized by the client" creates two uncertainties:

- whether a Report has been transmitted to a client, to an intended user(s) or to someone else, or to a client and an intended user(s) and someone else.
- whether an appraiser has complied with the Confidentiality section of the ETHICS RULE under which the appraiser has specific obligations to a client. This requirement may not be met should an appraiser transmit a Report to others.

Section 2 – Communication of Assignment Results

We again find Proposal 2 the more acceptable alternative, provided that the language is consistent with the definition of "report" presented in Alternative 2 of Section 1. In this Section, the proposed language in both alternatives includes the concept that an appraiser may transmit this material to parties other than the client, a concept with which we strongly disagree for reasons previously stated.

This problem also appears in Lines 82-87 and Lines 90-92. The definition and the language in the Record Keeping Rule are not consistent. Further, we note the proposed Comment below line 71 is not shown with line numbers, and so it is not clearly indicated as part of the proposed change.

Proposal 1

Lines 15-17: Definition of Report Draft – The definition allows a party authorized by the client to receive a report draft. Anyone other than the client would not understand the purpose of a report draft. In addition, the definition is problematic for the reasons stated above in our comments concerning Lines 1-4. We do not believe this definition is needed. It creates more questions than it answers.

Lines 18-20: As we stated in our last comment letter, the Comment to the proposed definition of Report Draft states, in part, "A Report draft may not be used by the appraiser..." Appraisers don't "use" reports, so if this statement is retained the word "use" should be replaced with "issued" or "provided." However, this statement is unnecessary as it is redundant in light of the prohibitions of the Ethics Rule and so should not be included here.

Lines 21-24: Definition of Interim Communications – As we also stated in our last letter, the proposed definition of "Other Interim Communications" appears to be both redundant with the proposed definition of "Report Draft" and too broad. Also, while the term indicates that the communication is "interim" the definition itself does not contain any language indicating that the information being communicated is preliminary. We do not see a need for this term and definition in USPAP. It does not serve to clarify; rather, it creates more confusion.

Lines 30-34: Record Keeping Rule – The rule states that a true copy is “the entire report transmitted to the client”. However, according to the Alternative 1 definition of report, the report may not necessarily be transmitted to the client. The definition allows for a report to be transmitted to the client or parties authorized by the client. Language in Lines 30-34 is inconsistent with the definition.

Lines 38-41: Record Keeping Rule – The requirement in these lines is too important to be a comment, and is misplaced in the Record Keeping Rule. These requirements should be in the Reporting Standards, or included within the definition of report draft and interim communication, if those definitions are adopted.

Lines 44-46: Record Keeping Rule – The language does not include parties authorized by the client; although we believe this to be the appropriate language, it is inconsistent with the remainder of the proposed changes. Furthermore, the term “draft report” is used instead of “report draft.”

The definitions included in the proposals (REPORT DRAFT, OTHER INTERIM COMMUNICATION, DRAFT) are imprecise and create confusion by attempting to create two classes of communications other than a Report. We believe the solution is much simpler and more straightforward. USPAP should allow for the provision of a communication of an appraisal or appraisal review that is “not final” as long as it (1) clearly indicates it is not final and (2) does not include a signed certification; USPAP should be more focused on the content of the communication rather than with labels. Placing emphasis on labels over content emphasizes rules and is not consistent with Standards.

A clearer result can be accomplished by defining report as “any communication of an appraisal or appraisal review with a signed certification” (as in Alternative 2 of Section 1) and then adding as a Comment the following: “A communication that is not intended by the appraiser to be final (1) must clearly indicate that it is not final and (2) must not include a signed certification.”

Section 3 – Record Keeping Rule (Alternative Approach)

Creating a Rule for a specific intended use is not consistent with the concept of “Standards.” We believe this is inappropriate for any given intended use as USPAP should provide flexibility for valuation professionals to meet clients’ needs over a broad spectrum of assignment types. Clients have the ability to impose more stringent requirements in addition to those presented in USPAP and so if a particular user group chooses to require more of the appraisers it engages, that is easily done in the engagement process.

Section 4 – Proposed Revisions to Standard 3

We agree with deleting the requirement to identify the effective date of the review.

Lines 293-297: We agree with the proposed change. The proposed language is clearer.

Section 5 – Retirement of Statements on Appraisal Standards

We continue to be in favor of retiring the Statements in favor of addressing appropriate issues in Advisory Opinions.

We suggest that SMTs 3, 4, 6 and 9 be retired as Statements and re-issued as Advisory Opinions, and that SMT-2 be retired; we do not see the need for advice on this topic.

Section 6 – Proposed Revisions to the Confidentiality Rule

Most of the changes proposed for the confidentiality section are unnecessary and redundant. The proposals are "best business practices" that appraisers should consider in daily practice. However, they are not Standards. The information could be included in an advisory opinion or FAQ.

Our specific comments are:

- Lines 481 and 496-498: We oppose this proposed change, as the identification, or existence, of a "successor" is a legal question; an appraiser should not be required to make that determination. Further, what steps may be "reasonable" is also a legal opinion. Adding the concept of a client's "successor" to USPAP creates an overly burdensome requirement on appraisers.
- Lines 487 and 488: We agree with the proposed change as presented.
- Line 504: USPAP does not indicate that the duties of confidentiality owed by an appraiser to a client are terminated by any event or action, and so we do not see a reason to make this statement in USPAP. This advice would be better presented in an FAQ.

Section 7 – Other Confidentiality-related Revisions Under Consideration

We do not think the example presented in this section of the exposure draft needs the ASB's attention. Examples like this are best business practices and are adequately addressed in USPAP.

Section 8 – Other USPAP Edits

It is not necessary to add "reasonable" to the Comments to SR 1-2(c) and SR 7-2(c).

We do not think a change in the definition of appraisal is necessary.

General Comment – Improving Exposure Drafts

As noted in our comments on the First Exposure Draft, it would be helpful if the ASB added line numbers to the rationales included in an Exposure Draft so that those preparing comments could specifically cite to language in one or more rationales that has elicited a comment.

We trust that you will find our comments helpful. Please do not hesitate to contact me if you have any questions regarding these comments.

Sincerely,

A handwritten signature in blue ink that reads "Paula Konikoff". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

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