

November 11, 2011

Mr. J. Carl Schultz, Jr., Chair  
Appraisal Standards Board  
The Appraisal Foundation  
1155 15<sup>th</sup> Street, NW, Suite 1111  
Washington, DC 20005

RE: Comments in Response to Discussion Draft on Communication and Reporting in the *Uniform Standards of Professional Appraisal Practice (USPAP)*

Dear Mr. Schultz:

On behalf of the Appraisal Institute, the Appraisal Standards Committee (“ASC”) submits these comments on the Discussion Draft on Communication and Reporting in the *Uniform Standards of Professional Appraisal Practice (USPAP)* dated October 12, 2011. We welcome the Appraisal Standards Board’s affording this opportunity to provide input on the important questions in the Discussion Draft. We continue to appreciate the ASB’s efforts to promote a high level of public trust in appraisal practice.

Our responses to each of the Discussion Draft questions are noted below:

Section 1 – Interim Communications and Record Keeping

*Conceptual Questions on Communications with the Client and Record Keeping:*

1. *Should there be minimum reporting requirements for the communication(s) of draft, interim, or preliminary opinions and conclusions prior to the completion of an assignment?*

**Response:**

These terms must be defined before we can answer this question, as they are not used in a consistent manner. In addition, the definition of “report” needs to be revisited. Depending on how these terms are defined, there may or may not be a need to establish requirements regarding how they are handled.

2. *Should there be record keeping requirements for the communication(s) of draft, interim, or preliminary opinions and conclusions prior to the completion of an assignment?*

**Response:**

While at first blush it may appear that public trust dictates that these communications be maintained, the ASC is concerned that a record keeping requirement for drafts, interim, or preliminary opinions and conclusions would simply create an unworkable situation causing appraisers to be out of compliance with this part of USPAP. Again, these terms need to be defined before this question can be answered.

3. *Should the RECORD KEEPING RULE be modified to include true copies of all communications that express an appraiser's assignment results?*

**Response:**

The ASC interprets this question to pertain to assignment results that are part of appraisal practice falling outside of appraisal, appraisal review and appraisal consulting; for example, teaching a USPAP course. In this instance, the assignment results might include such items as course preparation notes, slide numbers, or example reminders. We can see no benefit to public trust in requiring retention of true copies of such communications.

4. *Should a Rule be created to address an appraiser's draft, interim, or preliminary communications of opinions or conclusions related to an assignment?*

**Response:**

See answer to Question No. 1. Without clear definitions of these terms, the need for a Rule to be created cannot be assessed.

5. *Specifically, what additional workfile requirements, if any, would you recommend?*

**Response:**

The existing workfile requirements in USPAP are sufficient.

6. *Specifically, what additional communication requirements, if any, would you recommend?*

**Response:**

No additional communication requirements are recommended.

7. *What specific changes, if any, should be made to the definition of "Assignment Results?"*

**Response:**

No specific changes should be made to the definition of "Assignment Results" although it might be advisable to clarify the term and/or provide examples in an Advisory Opinion.

8. *What specific changes, if any, should be made to the definition of "Report?" Should the definition include all communications such as interim, draft, or preliminary assignment results? Should the reference to "upon completion of the assignment" be removed from the definition?*

**Response:**

The ASC submitted these suggested alternative definitions to the ASB in July 2010:

Report: An appraisal report or an appraisal review report.

- (New definition) Appraisal report: Any communication, written or oral, of an opinion of value developed in an appraisal assignment.
- (New definition) Appraisal review report: Any communication, written or oral, of an opinion of the quality of another appraiser's work developed in an appraisal review assignment.

9. *Would the creation of new definitions, such as "Interim Communications," "Draft Report," etc. be beneficial in promoting public trust?*

**Response:**

No. The ASC believes that it would be more beneficial to move toward using words the way people usually use them rather than devising unique, sometimes confusing, definitions that are USPAP-specific. Clarifying what is meant by “assignment results” using examples in an Advisory Opinion would be beneficial.

Section 2 – Scope of Work

*Conceptual Questions Related to Scope of Work and the SCOPE OF WORK RULE:*

1. *Do current development, reporting and record keeping requirements sufficiently address appraiser independence throughout the appraisal process (development and reporting), including adequate documentation of that independence?*

**Response:**

The ASC sees no reason to make any changes to these requirements. We continue to express disagreement with the requirement to disclose prior services. As stated in our July 2010 response to the Second Exposure Draft of Proposed Changes for the 2012-2013 edition of USPAP: “This new requirement has proven to be unworkable in practice and should be removed entirely from USPAP. We could offer numerous examples of how this new requirement has caused problems. For instance, periodic construction inspections require disclosure of prior assignments which might have occurred a week or a day previously, often for the same client.

Residential appraisers, litigation appraisers, and others are encountering questions and problems with their clients relative to this requirement. This requirement does not enhance public trust; conversely it causes confusion in the market. Clients do not understand why this disclosure must be made especially when the prior service was recently provided for the same client. Furthermore, there is a tendency for clients to believe that since disclosure has been made, the fact that the appraiser provided prior services is inherently a problem. This flies in the face of the most fundamental tenet in USPAP: That the appraiser must remain independent, impartial and unbiased. If that is the case, why should prior services have anything to do with the current service?”

2. *If reporting/communication is to be covered by a Rule, should this Rule, like the current SCOPE OF WORK RULE, apply only to appraisal, appraisal review, and appraisal consulting? If yes, should there be any additional Rules for other assignments and what should they include?*

**Response:**

Yes. The ASC does not see any threat to public trust from the current provisions of USPAP in this regard.

3. *Should the reporting requirements allow greater flexibility for appraisers to determine the necessary and appropriate level of information to be communicated to the client and other intended users with the assignment results? How could this be accomplished?*

**Response:**

Yes. If appraisers can be trusted to make scope of work decisions, they are equally capable of making communication determinations without detrimentally impacting public trust.

In 2010, the ASC provided an in-depth discussion of the need for a SCOPE OF REPORTING RULE with a structure that parallels the SCOPE OF WORK RULE.

At that time, we stated: “We agree with reducing the number of report options. In fact, we suggest a single report option with content driven by a SCOPE OF REPORTING RULE parallel in structure to the current SCOPE OF WORK RULE that drives development. This would eliminate the need for report option labels.”

4. *Should the reporting of assignment results be addressed in a Rule? For example, this could be part of the existing SCOPE OF WORK RULE, as a separate new Rule that addresses only the scope of reporting and/or communication, or it could be an “umbrella” Rule that covers the scope of the assignment development, and reporting.*

**Response:**

To continue with a reiteration of our 2010 comments: we still see a problem with terminology in this and related reporting standards. Common dictionary definitions confirm that “state,” “summarize,” and “describe” are essentially synonymous. Therefore using these terms does not serve to make distinctions among the report options.

We see three possible solutions for this continuing lack of clarity.

1. Develop USPAP definitions of “state” and “summarize,” that make clear distinctions between the terms as used in USPAP.
2. Adopt other terms that are distinct and more readily understood.
3. Develop a new SCOPE OF REPORTING RULE that is separate from the SCOPE OF WORK RULE but parallel in structure.

Given the difficulty of the first two options, we see No. 3 as the only viable course of action.

5. *Do the ETHICS RULE AND COMPETENCY RULE provide sufficient requirements for “other assignments” to justify public trust in that area of appraisal practice? Or, should the scope of work and/or record keeping requirements be expanded to cover all assignments?*

**Response:**

These RULES are sufficient to justify public trust. We see no need for expansion to cover all assignments. Appraisers providing services as part of appraisal practice are bound by the ETHICS RULE and the COMPETENCY RULE which protect public trust.

6. *Would there be any benefits and/or detriments caused by expanding the concept of scope of work to include reporting in the definition and throughout the SCOPE OF WORK RULE?*

**Response:**

Initial study of this question leads to a nearly intuitive tendency to expect that this inclusion would be logical and reasonable, however, if the ASB were to adopt a change such as this, the effects on the basic structure of USPAP would be dramatic. One of the fundamental concepts in USPAP is that the appraiser bears the ultimate responsibility for the Scope of Work decision. If reporting is added to Scope of Work, then that fundamental concept would no longer be true.

Reporting is driven by clients and other intended users, not by appraisers. Appraisers' knowledge, skill, training and experience should lead to credible assignment results. The needs of the clients drive report content. In fact, clients often mandate reports in a certain format (e.g. Fannie Mae forms).

If reporting is added to the definition of Scope of Work, then the Scope of Work decision is no longer within the purview of the appraiser and will be driven, at least in part, by the client. That is a fundamental shift that would require significant editing to USPAP, Advisory Opinions, and other communications.

The requirement to identify the appropriate scope of work is found in the development standards. If reporting is added to the definition of Scope of Work, development standards would then address reporting issues. Such fundamental conflicts in the structure of USPAP would be confusing and no longer in the best interest of public trust.

The SCOPE OF WORK RULE provides a good model for handling the reporting issue in USPAP. However, simply adding reporting to the existing SCOPE OF WORK RULE does not create a workable solution because the SCOPE OF WORK RULE was designed to address only development issues. We encourage ASB to develop a separate SCOPE OF REPORTING RULE as an alternative to this proposed change.

7. *If the definition of "Scope of Work" is left as-is, will there be any benefit and/or detriment caused by changing the Disclosure Obligations section to provide report acceptability standards and provide for greater appraiser reporting flexibility?*

**Response:**

We believe the solution is to create a Scope of Reporting Rule, not to add more requirements within the existing Scope of Work Rule.

8. *Should the SCOPE OF WORK RULE be expanded to include all assignments in which an appraiser develops and communicates assignment results?*

**Response:**

No. This was addressed previously.

9. *If the SCOPE OF WORK RULE were expanded as indicated above, would changes in the definition of "assignment results" be required?*

**Response:**

The definition of "assignment results" is satisfactory for its purpose. It would be helpful if appraisers were more conversant and comfortable with it.

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,



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