



THE APPRAISAL FOUNDATION

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APPRAISAL STANDARDS BOARD

TO: All Interested Parties

FROM: Margaret Hambleton, Chair
Appraisal Standards Board

RE: **Discussion Draft – Potential Areas of Change for the 2020-21 edition of the
*Uniform Standards of Professional Appraisal Practice***

DATE: January 30, 2018

The goal of the *Uniform Standards of Professional Appraisal Practice* (USPAP) is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. With this goal in mind, the Appraisal Standards Board (ASB) regularly solicits and receives comments and suggestions for improving USPAP. Proposed changes are intended to improve USPAP understanding and enforcement, and thereby achieve the goal of promoting and maintaining public trust in appraisal practice.

Based on feedback from a 2017 survey, prior exposure drafts, and other sources, the ASB is currently examining potential areas of change for the 2020-21 edition of USPAP. The ASB recognizes that changes to USPAP can have far-reaching impacts on appraisers, users of appraisal services, and others. To better enable us to consider the potential impact of changes on all stakeholders, we are asking for your help. Please review the attached Discussion Draft. It briefly discusses issues under preliminary consideration for the 2020-21 edition of USPAP. **All interested parties are encouraged to comment in writing to the ASB before the deadline of April 6, 2018.**

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 April 20, 2018. Please note that **no** specific changes to USPAP are being proposed at this time. Based on feedback received, in the months ahead the ASB will issue exposure drafts that will solicit comments on specific proposed changes.

Written comments on this Discussion Draft can be submitted by mail, email and facsimile.

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The Appraisal Foundation
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Washington, DC 20005

Email: asbcomments@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. Names may be redacted upon request.

The Appraisal Foundation reserves the right not to post written comments that contain offensive or inappropriate statements.

If you have any questions regarding the attached discussion paper, please contact Aida Dedajic, Standards Program Manager at The Appraisal Foundation, via e-mail at aida@appraisalfoundation.org or by calling (202) 624-3058.

Background

The ASB's current plan for the 2020-21 edition of USPAP includes examining the following areas of USPAP for potential revision:

- Reporting Options
- SCOPE OF WORK RULE
- Comments in Standards Rules
- DEFINITIONS
- Review of Advisory Opinions
- Other edits to improve clarity and enforceability of USPAP

The ASB believes it is fulfilling its work plan and addressing the needs of appraisers and users of appraisal services by introducing potential areas of change contained in this Discussion Draft for the 2020-21 edition of USPAP.

Of paramount importance to the Board when considering any potential revisions to USPAP is the issue of public trust. This umbrella of public trust, therefore, remains the primary consideration of the ASB in putting forth the concepts contained in this document.

The Board currently intends to adopt any revisions for the 2020-21 edition of USPAP at its public meeting in early 2019. Any such revisions to USPAP would become effective on January 1, 2020.

**Discussion Draft:
Potential Areas of Change
2020-21 edition of the *Uniform Standards of Professional Appraisal Practice***

**Issued: January 30, 2018
Comment Deadline: April 6, 2018**

Each section of this document identifies the area(s) of USPAP being considered for potential changes.

When commenting on various aspects of the discussion paper, it is very helpful to fully explain the reasons for concern or support, provide examples or illustrations, and suggest any alternatives or additional issues that the ASB should consider.

For ease in identifying the various issues being addressed, this Discussion Draft is presented in sections.

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Section 1: Reporting Options

Recognizing that there are many new forms and formats in which opinions of value can be communicated, the ASB is considering a review of the reporting requirements in USPAP. The goal is to ensure that USPAP continues to promote and maintain a high level of public trust in appraisal practice while keeping up-to-date with an ever-changing marketplace.

A September 2017 USPAP Survey requested comments about whether the *Appraisal Report* and *Restricted Appraisal Report* options are sufficient for written appraisal reports. While the various replies provided much useful input, there was little consensus. Some appraisers indicated that they never use *Restricted Appraisal Reports* and prefer a single report option, but others replied that *Restricted Appraisal Reports* are often useful and should not be eliminated. Some additional comments mentioned inconsistencies in the explanation of the distinctions between these two options. Others indicated dissatisfaction with the requirement to use specific terms in labeling reports. Still others brought up issues with *Restricted Appraisal Reports*' required warning language and also with their limitation of intended users to only the client.

Under USPAP, the *Restricted Appraisal Report* option currently limits the use of the report to the client(s) as the only intended user(s). The ASB is exploring expansion of the potential user pool of a *Restricted Appraisal Report* to include other named intended users. What are the benefits and/or potential dangers of doing so? In order to avoid providing a potentially misleading appraisal report, would the appraiser be required to confirm that all intended users have a similar level of understanding of the property being appraised? Also, would the identity of the client and other intended users have to be known and stated in the report (not withheld and/or identified by "type" of user)?

Section 2: SCOPE OF WORK RULE

Although the SCOPE OF WORK RULE applies to the *development* aspects of an assignment, the Rule also includes some reporting obligations. Specifically, the appraiser is required to disclose the scope of work in the report, which must include sufficient information to allow intended users to understand the scope of work performed. Since the ASB is examining the issue of *reporting*, the Board may also need to consider whether any such changes might have an impact upon the SCOPE OF WORK RULE.

In addition, some comments that were provided to the ASB indicate that Standards Rules may not be flexible enough on certain topics and that some issues could be better addressed in the SCOPE OF WORK RULE.

Some key questions for consideration include:

1. Would it be appropriate for the SCOPE OF WORK RULE to include a provision for additional communication (disclosure) flexibility if there are changes to USPAP reporting options?

2. If the examination of reporting options should lead to proposing a single report option, should the Board consider adding a more robust reporting section to the SCOPE OF WORK RULE?
3. Should there be an effort to eliminate duplication between the development requirements for the Standards Rules and the SCOPE OF WORK RULE?

The ASB is seeking feedback on questions such as:

1. Is the SCOPE OF WORK RULE relevant as currently written?
2. Would the flexibility reflected in some of the Standards Rules be better addressed in the SCOPE OF WORK RULE rather than in the Standard Rules?
3. If changes were to be made to the reporting options, should the Disclosure Obligations section of the SCOPE OF WORK RULE be expanded?
4. What benefits and/or drawbacks, if any, do you see in making such changes to the SCOPE OF WORK RULE?

Section 3: Review of Comments in Standards Rules

An argument has been made that Comments to the Standards Rules should not include additional requirements but rather such requirements should either be part of the Standards Rules or be eliminated.

In response, the Board is considering a review of the Comments in the Standard Rules. Such a review would include consideration of the appropriateness of each Comment by addressing such questions as:

- Does the Comment specify additional requirements? If so, should the Comment be incorporated into the Standards Rule, become a separate Standards Rule, or left as-is?
- Could that Comment be more useful elsewhere in USPAP, or be incorporated into an existing Advisory Opinion?
- Is it a requirement or commentary that already appears elsewhere? If so, should it be eliminated altogether or replaced with a footnote?
- Does it include exceptions to the Standards Rule? In other words, should the rules be more absolute?

The ASB is seeking input on:

1. The concept of examining each Comment in the Standards Rules.
2. The appropriateness of the criteria listed above.
3. Any additional criteria the Board should consider in such a review.

At this time the Board is requesting input on the concept of including Comments in Standards Rules, but not the specific content of such Comments. The Board will solicit feedback on the content of Comments should it proceed with this examination.

Section 4: DEFINITIONS

The ASB is considering a review of the DEFINITIONS in order to:

1. Clarify why some terms are included and others excluded.
 - a. To help readers understand USPAP, it has been recommended that the DEFINITIONS should include all USPAP vocabulary that either cannot be found in popular English dictionaries or that may have a different meaning in USPAP. For example, while *date of value*, *approach to value*, or *premise of value* are terms familiar to appraisers, they are not always understood by users of appraisal services and cannot be found in most dictionaries.
 - b. A corresponding recommendation is to remove some currently defined terms if they are either not used in USPAP or if their USPAP meaning is no different from a common dictionary definition. Some examples are *feasibility analysis*, *intangible property*, and *personal property*.
2. Add more specificity to the general statement that precedes the DEFINITIONS to explain the rationale for USPAP-defined terms.
3. Consider whether it is appropriate and, if so, how to relocate the following two USPAP requirements so that the DEFINITIONS no longer contain any requirements:
 - a. Comment to the current definition of appraisal: “An appraisal **must** be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).” (Bold text added for emphasis.)
 - b. Comment to the current definition of value: “Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value **must** always be qualified - for example, market value, liquidation value, or investment value.” (Bold text added for emphasis.)

Section 5: Review of Advisory Opinions

Numerous suggestions have been made related to updating Advisory Opinions. The ASB is considering review of the following:

1. Update AO-2: *Inspection of Subject Property* with some new illustrations and perhaps add “inspection” to the defined terms in USPAP to help appraisers and users of appraisal services understand what is meant by “inspection.”

2. Depending upon the outcome of the ASB’s proposed review of reporting options, revision may be needed to AO-11: *Content of the Appraisal Report Options of Standards Rules 2-2, 8-2, and 10-2* and AO-12: *Use of the Appraisal Report Options of Standards Rules 2-2, 8-2, and 10-2*.
3. Some Advisory Opinions that are written for real property may also have applicability and be helpful for personal property appraisers. For example, AO-23: *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment* might be expanded to include illustrations of relevant characteristics such as a fractional interest in personal property, copyright restrictions, or other limitations on ownership rights.
4. Depending upon the outcome of the ASB’s proposed review of the DEFINITIONS, some Advisory Opinions that explain terminology may need to be updated for clarity and consistency. (Some examples are AO-3: *Update of a Prior Appraisal*, which includes a section entitled, “Clarification of Terminology,” and AO-7: *Marketing Time Opinions*, which explains the difference between marketing time and exposure time.)
5. It has been observed that AO-4: *Standards Rule 1-5(b)* is the only AO that lacks a descriptive title. The ASB may add a title that describes the topic.
6. And, finally, it has been pointed out that the new chart in AO-21: *USPAP Compliance* mischaracterizes a “valuation engagement” as one with a narrow scope of work.

Section 6: Other Edits to Improve Clarity and Enforceability of USPAP

A number of the recent changes in USPAP have been made with the goal of improving the document’s readability and clarity. The addition of a professional index, the consistent division of each discipline’s requirements into development and reporting standards, and the introduction of a searchable digital edition are some of the steps taken to help make USPAP more easily accessible for all readers.

With the same goal in mind, the ASB is considering edits to remove the phrase “accepting an assignment” in the ETHICS RULE, the COMPETENCY RULE, and in the Certifications. According to the 2018-19 DEFINITIONS an *assignment* now refers solely to a valuation service that an appraiser “provides” or “performs.” Previously the term *assignment* also included a second meaning that referred to an order, contract or engagement agreement that an appraiser could “accept.”

To be consistent with the new definition, the ASB may reword the legacy phrase “accept an assignment” since an appraiser “provides” or “performs” but does not “accept” a valuation service. The contemplated minor revisions are intended to remove ambiguity and help make USPAP simpler to read. While current appraisers understand the legacy language, it may sound awkward and be unclear for non-appraisers and future readers.

Specific proposals will be presented in an Exposure Draft and, if adopted, will also require some administrative edits for consistency in the Advisory Opinions and Frequently Asked Questions.