

Review Competency with a Review of Advisory Opinion 24

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USPAP's Competency Rule provides that an appraiser or reviewer must determine, prior to agreeing to perform an assignment, that he or she can perform the assignment competently. Competency requirements include the technical skills, experience, and knowledge specific to an assignment, in order to complete the assignment competently.

It has been a longstanding misconception that ASA holders of the "full ARM" (non-discipline specific) designation were considered to be qualified to review any appraisals, even in disciplines outside of their *normal course of business*.¹ Whereas ARM education provides an understanding of the requirements and methodology for preparing and reporting an appraisal review, ARM education alone does not provide the technical knowledge necessary to perform all appraisal reviews, in every discipline. ARM candidates, Accredited Members, and Accredited Senior Appraisers are reminded that key elements of review assignments are sufficient technical knowledge of the specific appraisal discipline's methodology, development and reporting requirements that are taught in the Principles of Valuation courses for Business Valuation, Real Property, Personal Property, Machinery & Technical Specialties, and Gems & Jewelry.

See the new **ARM Competency Statement** in the Q3FY19-20 edition of *The ARM Journal—Within ARM's Reach* for an explanation of applying, and complying with, the USPAP Competency Rule. The ARM Committee's new Statement includes *Real World Review Examples* that detail scenarios in each discipline, because no single course or group of courses provide automatic qualification to reviewers, for reviewing reports in all disciplines.

The United States Congress passed legislation in 2006 that included an explanation for a 'qualified appraisal' and a 'qualified appraiser'². Publication 561 of the Internal Revenue Service states information for providing a qualified appraisal, that includes a list of required content expected in an ASA credentialed appraiser's report, along with specific date requirements. The legislation includes a definition for a 'qualified appraiser' that states, *A qualified appraiser is an individual with verifiable education and experience in valuing the type of property for which the appraisal is performed.*

The definition continues with examples of education and designations that individuals may accomplish from generally recognized professional appraiser organizations. It further explains minimum education requirements from professional or college-level coursework, and two or more years of experience. See the Publication for more details.

In compliance with the Competency Rule, including ARM education, reviewers must have competency in the same appraisal area as the work under review, and should not review appraisals beyond that area in which they typically work in their *normal course of business*.

Advisory Opinion 24 explains and reminds appraisers about "normal course of business", "scope of work" and "appraiser peers". Pertinent excerpts are as follow.

Standards Rules 1-5 and 7-5 require an appraiser to analyze certain information about the subject property if the information is available to the appraiser in the normal course of business. How does one determine the "normal course of business" for a given assignment?

The analysis that is required in Standards Rule 1-5 and 7-5 promotes a certain degree of due diligence on the part of the appraiser. Appropriate due diligence increases public trust in the appraisal profession. The intent is to ensure that the research of past sales and current listings, options, or

¹ USPAP 2020-21 Advisory Opinion 24

² IRS Publication 561, revised February 2020

agreements of sale of the subject property is sufficient to promote public trust, without creating undue hardship on the appraiser. The availability of the data necessary to comply with the requirements in Standards Rule 1-5 and 7-5 varies greatly. In some situations, this data is available from multiple sources. In other instances, sales and listing data is not readily available. The “normal course of business” is controlled to a large degree by the scope of work in a specific assignment. Differences in intended use, intended users, the type and definition of value, or other factors can dramatically alter the scope of work. Therefore, the “normal course of business” for one assignment might not be the “normal course of business” for a seemingly similar assignment.

The “normal course of business” is determined by the actions of an appraiser’s peers and by the expectations of parties who are regularly intended users for similar assignments; it is not any one appraiser’s practices or any one appraisal firm’s policies. To fully understand this concept, one must examine the definitions of “Scope of Work” and “Appraiser’s Peers.” “Scope of Work” is addressed in the SCOPE OF WORK RULE, Standards Rules 1-2(h) and 7-2(h), and is defined in USPAP as:

the type and extent of research and analyses in an appraisal or appraisal review assignment.

Researching the subject’s sales history is an aspect of the scope of work. The Comment to the Scope of Work Acceptability section in the SCOPE OF WORK RULE states:

The scope of work is acceptable when it meets or exceeds:

- the expectations of parties who are regularly intended users for similar assignments; and*
- what an appraiser’s peers’ actions would be in performing the same or a similar assignment.*

Therefore, it is not the work habits of an individual appraiser that define the “normal course of business” in an assignment. Rather, it is the requirements of the Standards Rules measured against the actions of the appraiser’s peers and the expectations of parties who are regularly intended users for similar assignments.

“Appraisers Peers” is defined as:

other appraisers who have expertise and competency in a similar type of assignment.

In addition to the concept of “normal course of business” in an assignment, an appraiser has the obligation to perform research and analysis appropriate to the intended use of the assignment. Standards Rules 1-1(b) and 7-1(b) state:

In developing a[n]...appraisal, an appraiser must:

not commit a substantial error of omission or commission that significantly affects an appraisal...

The Comments to these Standards Rules state, in part:

Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.

For Illustrations, depicting various scenarios with detailed explanations, see the full content of AO-24 on pages 127 and 128, USPAP edition 2020-21.

While ARM education provides methodology and the requirements for preparing and reporting an appraisal review, ARM education is not expected to educate appraisers on technical knowledge of each appraisal discipline. Each ASA discipline offers sufficient, advanced education programs to produce well informed, well advised and very well credentialed professionals in appraisal practice. The ARM education provides an additional layer of skills, experience and knowledge for reviewers to build upon their appraisal expertise. Accredited reviewers are relied upon, by the public, for offering compliant, competent appraisal reviews, which include producing credible results for every review assignment.