

February 25, 2008

ASB/AQB “2008” Invitation to Comment
The Appraisal Foundation
1155 15th Street, NW, Suite 1111
Washington, DC 20005

The American Institute of Certified Public Accountants (AICPA) is pleased to offer comments on the Appraisal Standards Board (“ASB”) and the Appraisal Qualifications Board (“AQB”) December 17, 2007 Invitation to Comment on USPAP and USPAP Education. Specifically, representatives of the AICPA’s Business Valuation Committee developed this comment letter.

Following are our responses to your specific inquiries.

1. The goal of USPAP is to promote and maintain a high level of public trust in appraisal practice.

a. Is USPAP achieving its goal? – **Because we do not monitor, and have no way of monitoring, whether there is a high degree of public trust in appraisal practice, we cannot comment authoritatively on whether USPAP has achieved its goal. It may well be the case that USPAP has been more successful in achieving its objectives in real estate appraisal than in business appraisal.**

b. If not, why? Please provide examples or explanations.

c. Please describe USPAP modifications or other actions that would help in achieving the goal. **We hear anecdotal evidence that USPAP does not provide enough flexibility for many business appraisers. If this is true, they might seek other accreditations that are not bound by USPAP or even choose not to follow some USPAP guidance.**

2. The ASB strives to create understandable Standards for appraisers.

a. Which parts of USPAP do you think are clear? Why?

b. Which parts create confusion? Why?

c. Do you have suggestions on improving USPAP understandability for appraisers?

Our comments are limited to USPAP Standards 9 & 10, and in particular, with respect to the American Institute of Certified Public Accountants’ new *Statement on Standards for Valuation Services No. 1* (SSVS1).

With respect to only *business* appraisers governed by USPAP, we surmise that there is a tremendous overlap for individuals who have the ASA credential (governed by

USPAP) but are also governed AICPA SSVS1 (i.e., ASAs who are CPAs or non-CPAs employed by a CPA firm). SSVS1 has been or will be incorporated into the accountancy laws of most, if not all, states as a mandatory business valuation standard for licensed CPAs. Thus, congruence between USPAP and SSVS1 would be extremely helpful to, and welcomed by, those business appraisers having to adhere to both sets of standards.

We have noted numerous discrepancies, or areas requiring clarification, between USPAP and SSVS1. We will not address all of those differences here, but any changes to USPAP should consider the benefits of minimizing conflicts with SSVS1. Following are concerns we would like USPAP to address.

Lack of Common Terminology

Although we have not prepared an extensive analysis of all terminology differences between USPAP and SSVS1, one example is the use of “certification” in USPAP versus “representation” in SSVS1.

- Is the term “representation” an acceptable substitute for “certification” under USPAP? Because the term “certification” has a technical connotation for the CPA profession, use of “representation” is preferable.
- If the elements of the SSVS1 representation and the USPAP certification are combined into one “Representation in Satisfaction of the USPAP Certification Requirement,” will an appraiser be in compliance with USPAP?

Where there are other terminology differences, would it be acceptable for an appraiser to follow SSVS1 nomenclature, but present the corresponding USPAP term in a footnote?

“Extraordinary Assumption”

USPAP seems to be drawing a distinction between “extraordinary” assumptions and all other assumptions. While this distinction may be appropriate for other appraisers (real estate, hard assets, etc.), it is not appropriate for business valuation. Indeed, it causes confusion among those business appraisers bound by both SSVS1 and USPAP. SSVS1 does not maintain a distinction between “extraordinary” and other assumptions.

Please provide guidance on whether this definition is applicable to *business* appraisers and how one might practically distinguish between these two types of assumptions – extraordinary versus other. The current definition is simply not useful or meaningful to business appraisers.

SSVS1's "Calculation Engagement" vis-à-vis USPAP

While SSVS1 describes a "calculation engagement", no such discussion is part of USPAP. This has resulted in confusion among business appraisers: does USPAP apply to calculations engagements and, if so, are they allowed under USPAP?

- Is a "calculation of value" a "valuation service" and therefore not bound by USPAP? If so, please provide commentary to that effect in Standard 9 and/or 10.
- If a "calculation engagement" service is deemed an "appraisal practice" by TAF, we would like AQB and ASB to consider including a "calculation of value" concept and the related "calculation report" in USPAP.
- Is a "calculation of value" report a "restricted use report" under USPAP?

Based on the questions and concerns expressed to the AICPA by CPA/ASAs, we believe that there is a practical need for a "calculation engagement" and the resulting "calculation report," but one that is exempt from USPAP as it currently stands.

SSVS1's "Summary Report" vis-a-vis USPAP's "Appraisal Report"

SSVS1 allows a "summary report" – in essence, an executive summary, which can be used for parties other than the client.

- Does this qualify as an "appraisal report" under USPAP?
- If this is deemed a "restricted use report" under USPAP, must the appraiser so state that the report is not available for anyone's use beyond the client?
- What, if anything, is USPAP's equivalent to SSVS1's "summary report" – that is, an executive-summary type report that can be used by parties other than the client?

Litigation Support

SSVS1 allows for exceptions to adherence for certain types of litigation support engagements. For example, when calculating lost profit damages, SSVS1 does not apply. It is unclear that USPAP provides any compliance exceptions for those providing litigation support (non-business valuation) services. Please provide clarification as to which types of litigation support engagements are subject to USPAP.

Standards Rule 10-3

In our opinion, USPAP Standards Rule 10-3 fails to provide a clear definition of responsibility on the part of the signing appraiser; thus imposing an obligation on the appraiser that would be difficult, if not impossible, to satisfy. For instance, there is no definition for either the term "reasonable basis" or the procedures necessary to meet this obligation in the context of determining the competence of the individual.

Additionally, the last sentence essentially requires the signing appraiser to prove a negative, but, again, provides no guidance as to the steps or procedures necessary to meet this requirement. This ambiguity and lack of clear definition of responsibility would leave the appraiser open to claims that more could and should have been done.

We recommend that the ASB adopt language similar to that provided by SSVS1:

The valuation analyst should disclose (in the assumptions and limiting conditions report section) the level of responsibility the analyst assumes for the work of the third party specialists.

3. The PREAMBLE states that USPAP is also for users of appraisal services. **Because we have not surveyed, and have no way of surveying, whether the broad spectrum of users of appraisal services — from the most sophisticated to the casual, less knowledgeable — understand USPAP, we cannot comment on questions 3a-d.**

- a. Is USPAP understandable to users of appraisal services?
- b. Does it need to be? Why or why not?
- c. Can you show by using examples, the parts of USPAP that are understood by users and any parts that are not?
- d. Do you have suggestions on improving its understandability for users?

4. The AQB Criteria include USPAP education and continuing education requirements.

a. Are the USPAP education and continuing education requirements adequate, inadequate, too much? **Without conducting a formal survey of our membership as to their opinions as to the USPAP education and continuing education requirements, anecdotal evidence suggests that the current requirements are adequate.**

b. Are you receiving quality education? **Without conducting a formal survey of our membership as to their experiences with the educational offerings, anecdotal evidence suggests that current education is adequate.**

c. What should be added or changed to enhance the quality of USPAP education?

5. The ASB strives to create enforceable Standards. Please respond to the following questions if you have experience in enforcement or peer review. **We lack sufficient experience with enforcement and peer review to provide any comments to questions 5a-c.**

a. Can you give us examples of enforcement successes related to USPAP?

b. Which parts of USPAP present difficulties for enforcement authorities? Why?

c. What would you want to see changed in or added to USPAP to address enforcement challenges?

6. What methods can the AQB and ASB use to continue to enhance our ability to interact with a broad constituency of appraisers and users of appraisal services?

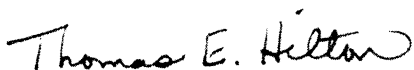
Include as Board members those appraisers who are subject, not only to USPAP, but also to compliance of other standards, such as SSVS1.

7. Are there other comments you would like to share? In the Comment to Standards Rule 10-3, USPAP states: When a signing appraiser(s) has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser(s) also must have no reason to doubt that the work of those individuals is credible. For many appraisals, this is not a reasonable request, especially in cases where the outside appraiser is selected by the client, who is willing to accept responsibility for the final results. Often the business appraiser is not technically capable of providing even negative assurances. **The AICPA would be happy to provide a CPA/ASA to work with AQB and ASB on these USPAP matters.**

We thank you for the opportunity to comment and appreciate your consideration.

Representatives of the AICPA are available to discuss this letter and other related matters with members of the Board or staff.

Sincerely,



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