

Code of Professional Ethics of the Appraisal Institute

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Table of Contents

DEFINITIONS.....	3
EXCEPTIONS TO ETHICAL RULES.....	8
CANON 1: A Member Must Refrain from Conduct that is Detrimental to the Appraisal Institute, the Profession, and the Public.....	9
CANON 2: A Member Must Assist the Appraisal Institute in Fulfilling Its Role Relating to Member Qualifications and Member Compliance with Ethics and Standards	11
CANON 3: In Providing Services (Appraisal, Appraisal Review, Appraisal Consulting, or Real Property Consulting), A Member Must Develop and Report Unbiased Analyses, Opinions, and Conclusions.....	14
CANON 4: A Member Must Not Violate the Confidential Nature of the Member-Client Relationship	17
CANON 5: A Member Must Not Advertise or Solicit in a Manner that is Misleading or Otherwise Contrary to the Public Interest.....	19
EXPLANATORY COMMENTS TO CANON 1	20
EXPLANATORY COMMENTS TO CANON 2	25
EXPLANATORY COMMENTS TO CANON 3	29
EXPLANATORY COMMENTS TO CANON 4	34
EXPLANATORY COMMENTS TO CANON 5	36

DEFINITIONS

1 The following definitions apply to the Code of Professional Ethics. Each Member must know and
2 understand each defined term in the Code of Professional Ethics. Where a definition in the Code of
3 Professional Ethics is used verbatim or adapted from a definition in the Uniform Standards of
4 Professional Appraisal Practice (USPAP), such source is noted. Since the Code of Professional Ethics
5 applies to Members of the Appraisal Institute, whereas USPAP applies solely to appraisers as defined by
6 USPAP, some references in USPAP definitions to “appraiser” have been changed to “Member.” Further,
7 because the Code of Professional Ethics also applies to real property consulting, some USPAP
8 definitions have been adapted to incorporate real property consulting where appropriate.

9 **Admissions Matter**

10 Any action relating to a requirement for admission to Appraisal Institute Affiliate, Associate, or
11 Designated Membership.

12 **Appraisal** (Source: adapted from USPAP definition of “appraisal” as a noun)

13 The act or process of developing an opinion of value; an opinion of value. Also known as valuation.

14 Comment: An appraisal must be numerically expressed as a specific amount, as a range of numbers, or
15 as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark
16 (e.g., assessed value, collateral value).

17 **Appraisal Consulting** (Source: USPAP)

18 The act or process of developing an analysis, recommendation, or opinion, where an opinion of value is a
19 component of the analysis leading to the assignment results.

20 Comment: An appraisal consulting assignment involves an opinion of value but does not have an
21 appraisal or an appraisal review as its primary purpose.

22 **Appraisal Review** (Source: Adapted from USPAP)

23 The act or process of developing and communicating an opinion for a client about the quality of another
24 appraiser’s work.

25 Comment: The subject of an appraisal review assignment may be all or part of an appraisal report,
26 workfile, or a combination of these.

27 **Assignment**

28 An appraisal, appraisal review, or appraisal consulting service provided for a client.

29 **Assumption** (Source: USPAP)

30 That which is taken to be true.

DEFINITIONS (continued)

31 **Biased**

32 Not reasonably supported, and favoring or promoting the cause or interest of the client, one's self, or
33 another.

34 Comment: A Member may never develop, prepare, use, or report a biased analysis, opinion, or
35 conclusion.

36 Evidence that a Member developed, prepared, used, or reported a biased analysis, opinion, or
37 conclusion may include, but is not limited to, deviation from reasonable appraisal, appraisal review,
38 appraisal consulting, or real property consulting practices resulting in an analysis, opinion, or conclusion
39 that is not reasonably supported and that favors or promotes the client's, the Member's, or another's
40 interest or cause. Many of these reasonable practices are outlined in the Standards of Professional
41 Appraisal Practice of the Appraisal Institute, Guide Notes to the Standards of Professional Appraisal
42 Practice, and Appraisal Institute courses, seminars, and textbooks such as *The Appraisal of Real Estate*.
43 The intended use of the analysis, opinion, or conclusion is relevant in determining the direction of a
44 client's interest.

45 **Client** (Source: Adapted from USPAP)

46 The party or parties who engage a Member (by employment or contract) in a specific service.

47 Comment: The client identified by the Member in an appraisal, appraisal review, appraisal consulting
48 service (or in the service workfile), or real property consulting service is the party or parties with whom
49 the Member has a relationship in the related service, and may be an individual, group, or entity.

50 **Committee**

51 Any Board, Committee, Subcommittee, Council, or Panel formed pursuant to the Bylaws or Regulations
52 of the Appraisal Institute.

53 **Confidential Information** (Source: Adapted from USPAP by changing "appraiser" to "Member")

54 Information that is either:

- 55 • identified by the client as confidential when providing it to a Member and that is not available
56 from any other source; or
- 57 • classified as confidential or private by applicable law or regulation*.

58 *NOTICE: For example, pursuant to the passage of the Gramm-Leach-Bliley Act in November 1999, some
59 public agencies have adopted privacy regulations that affect Members. As a result, the Federal Trade
60 Commission issued a rule focused on the protection of "non-public personal information" provided by
61 consumers to those involved in financial activities "found to be closely related to banking or usual in
62 connection with the transaction of banking." These activities have been deemed to include "appraising
63 real or personal property." (Quotations are from the Federal Trade Commission, Privacy of Consumer
64 Financial Information; Final Rule, 16 CFR Part 313.)

DEFINITIONS (continued)

65 **Consulting**

66 See appraisal consulting and real property consulting.

67 **Extraordinary Assumption** (Source: Adapted from USPAP)

68 An assumption, directly related to a specific service, which, if found to be false, could alter the
69 Member's opinions or conclusions.

70 Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical,
71 legal, or economic characteristics of the subject property; or about conditions external to the property,
72 such as market conditions or trends; or about the integrity of data used in an analysis.

73 **Hypothetical Condition** (Source: USPAP)

74 That which is contrary to what exists but is supposed for the purpose of analysis.

75 Comment: Hypothetical conditions assume conditions contrary to known facts about physical, legal, or
76 economic characteristics of the subject property; or about conditions external to the property, such as
77 market conditions or trends; or about the integrity of data used in an analysis.

78 **Intended Use** (Source: Adapted from USPAP)

79 The use or uses of a Member's reported appraisal, appraisal review, appraisal consulting, or real
80 property consulting service analyses, opinions, and conclusions, as identified by the Member based on
81 communication with the client at the time of the service.

82 **Intended User** (Source: Adapted from USPAP)

83 The client and any other party as identified, by name or type, as users of the appraisal, appraisal review,
84 appraisal consulting, or real property consulting report by the Member on the basis of communication
85 with the client at the time of the service.

86 **Know or Knowingly**

87 The Member realizes what he or she is doing, is aware of the nature of his or her conduct, and is not
88 acting through mistake or accident.

89 Knowledge can be inferred from the Member's conduct and from all the facts and circumstances
90 surrounding the case. The determination of "knowingly" should be made in the context of the Member's
91 training, background, and other relevant experience. A Member will be deemed to have acted (or failed to
92 act) "knowingly" if he or she acted in disregard of the requirements of the Code of Professional Ethics or
93 Standards of Professional Appraisal Practice or the recognized methods and techniques such as those
94 set forth in Appraisal Institute courses, seminars, textbooks, and other publications. The term
95 "knowingly" includes not only what the Member knew, but also what the Member reasonably should have
96 known given all the facts and circumstances of the case and the Member's training, appraisal
97 background, and experience.

98 **Member**

99 A Designated Member, Associate Member, or Affiliate Member of the Appraisal Institute.

DEFINITIONS (continued)

100 **Peer Review Committee**

101 The Professional Ethics and Counseling Committee, the Ethics Appeals Panel, the Ethics Administration
102 Division, any Grievance Committee, or any Hearing Committee duly constituted under Regulation No. 6 of
103 the Appraisal Institute.

104 **Peer Review Proceeding**

105 All actions taken pursuant to Regulation No. 6 of the Appraisal Institute to determine whether a Member
106 may have violated or did violate the requirements of the Standards of Professional Appraisal Practice or
107 Code of Professional Ethics of the Appraisal Institute and to take appropriate remedial or disciplinary
108 measures. The term “peer review proceeding” also applies to actions taken pursuant to this Regulation
109 to determine whether a Member has failed to comply with the terms of suspension; has been convicted
110 of a crime committed prior to becoming a Member; or has knowingly made false statements, submitted
111 false information, or failed to fully disclose information requested in an application for admission to
112 membership, candidacy, or affiliate status and to take appropriate disciplinary action.

113 **Real Property Consulting**

114 The act or process of developing and reporting an analysis, recommendation, or opinion concerning real
115 property, where an opinion of value is not a component of the analysis, recommendation, or opinion.

116 **Report** (Source: Adapted from USPAP)

117 Any communication, written or oral, of an appraisal, appraisal review, appraisal consulting, or real
118 property consulting service that is transmitted to the client.

119 Comment: Most reports are written and most clients mandate written reports. Oral report requirements
120 (see the Record Keeping section of the Ethics Rule of USPAP) are included to cover court testimony and
121 other oral communications of an appraisal, appraisal review, appraisal consulting, or real property
122 consulting service.

123 **Service**

124 Work that a Member performs for a client that is subject to the Code of Professional Ethics and
125 Standards of Professional Appraisal Practice of the Appraisal Institute. Services include appraisal,
126 appraisal review, appraisal consulting, and real property consulting.

127 **Value** (Source: USPAP)

128 The monetary relationship between properties and those who buy, sell, or use those properties.

129 Comment: *Value* expresses an economic concept. As such, it is never a fact but always an opinion of the
130 worth of a property at a given time in accordance with a specific definition of value. In appraisal practice,
131 value must always be qualified—for example, market value, liquidation value, or investment value.

DEFINITIONS (continued)

132 **Workfile** (Source: Adapted from USPAP)

133 Documentation necessary to support a Member's analyses, opinions, and conclusions. A workfile must
134 include at a minimum the following:

- 135 • the name of the client and the identity, by name or type, of any other intended users;
- 136 • true copies of any written reports, documented on any type of media;
- 137 • summaries of any oral reports or testimony, or a transcript of testimony, including the Member's
138 limiting and hypothetical conditions, and the Member's signed and dated certification; and
- 139 • all other data, information, and documentation necessary to support the Member's analyses,
140 opinions, and conclusions and to show compliance with the Code of Professional Ethics and
141 Standards of Professional Appraisal Practice of the Appraisal Institute, or references to the
142 location(s) of such other documentation accessible to the Member.

EXCEPTIONS TO ETHICAL RULES

143 If any part of an Ethical Rule is contrary to the law or public policy of any jurisdiction, such part shall be
144 void and of no force or effect in such jurisdiction.

145 When a Member violates an Ethical Rule due to an event beyond the Member's control, such as an act
146 of God or illness, the peer review committee(s) (or any member or duly authorized agent thereof)
147 reviewing the Member's conduct should consider such event and all the relevant facts about the case to
148 avoid an inequitable result.

149 **A Member Must Refrain from Conduct that is**
150 **Detrimental to the Appraisal Institute, the**
151 **Profession, and the Public**

152 **Ethical Rules**

153 **E.R. 1-1**

154 It is unethical to knowingly:

- 155 (a) act in a manner that is misleading or fraudulent;
- 156 (b) use, or permit an employee or third party to use, a misleading analysis, opinion, conclusion, or
157 report;
- 158 (c) communicate, or permit an employee or third party to communicate, any analysis, opinion,
159 conclusion, or report in a manner that is misleading;
- 160 (d) contribute to or participate in the development, preparation, or use of an appraisal, appraisal review,
161 appraisal consulting, or real property consulting analysis, opinion, or conclusion that reasonable
162 appraisers would not believe to be justified; or
- 163 (e) contribute to or participate in the preparation or delivery of a report containing an appraisal,
164 appraisal review, appraisal consulting, or real property consulting analysis, opinion, or conclusion
165 that reasonable appraisers would not believe to be justified, whether or not such report is signed or
166 delivered by the Member.

167 **E.R. 1-2**

168 It is unethical to engage in misconduct of any kind that leads to a conviction of a crime involving fraud,
169 dishonesty, or false statements or a crime involving moral turpitude.

170 **E.R. 1-3**

171 It is unethical to fail to properly identify the issue to be addressed and have the knowledge and
172 experience to complete the service competently prior to agreeing to perform any service, or alternatively,
173 to:

- 174 (a) disclose the lack of knowledge and/or experience to the client before agreeing to perform the
175 service;
- 176 (b) take all steps necessary or appropriate to complete the service competently; and
- 177 (c) describe the lack of knowledge and/or experience and the steps taken to complete the service
178 competently in the report.

CANON 1 (continued)

179 **E.R. 1-4**

180 It is unethical in the performance of a service to knowingly fail to:

181 (a) identify the appropriate Standards to be applied;

182 (b) disclose in any report the Standards applied; or

183 (c) take all steps necessary or appropriate to understand the Standards applied.

184 A Member Must Assist the Appraisal Institute in
185 Fulfilling Its Role Relating to Member Qualifications and
186 Member Compliance with Ethics and Standards

187 Ethical Rules

188 **E.R. 2-1**

189 It is unethical:

190 (a) for a Member to knowingly violate the Member’s confidentiality obligations set forth in the Bylaws,
191 Regulations, policies and procedures of the Appraisal Institute.

192 (b) for a Member who has made a referral initiating a peer review proceeding, or who has any knowledge
193 of the existence of such referral or any subsequent screening or review of the matter, to fail to treat
194 such knowledge confidentially.

195 **E.R. 2-2**

196 It is unethical to accept an appointment to, or to fail to immediately resign from, an Appraisal Institute
197 committee dealing with an admissions matter or peer review proceeding if the Member is unable or
198 unwilling to fulfill the responsibilities of a member of said committee.

199 **E.R. 2-3**

200 It is unethical to knowingly:

201 (a) make false statements or submit misleading information to the Appraisal Institute, an Appraisal
202 Institute committee or member thereof, or one of their duly authorized agents;

203 (b) fail or refuse to promptly submit any relevant documentation or information that is or should be in
204 the possession or control of such Member when requested to do so by the Appraisal Institute, an
205 Appraisal Institute committee or member thereof, or one of their duly authorized agents;

206 (c) fail or refuse to promptly answer all relevant questions when requested to do so by the Appraisal
207 Institute, an Appraisal Institute committee or member thereof, or one of their duly authorized agents;

208 (d) fail or refuse to appear for a personal interview or participate in an interview conducted by telephone
209 when requested to do so by the Appraisal Institute, an Appraisal Institute committee or member
210 thereof, or one of their duly authorized agents;

211 (e) fail to comply with the terms of a summons issued by a duly authorized Hearing Committee;

212 (f) fail or refuse to cooperate with the Appraisal Institute, an Appraisal Institute committee or member
213 thereof, or one of their duly authorized agents; or
214

CANON 2 (continued)

215 (g) fail or refuse to fulfill each of the Member's obligations under the Bylaws, Regulations, policies and
216 procedures of the Appraisal Institute.

217 **E.R. 2-4**

218 It is unethical to fail to prepare a workfile for each service (appraisal, appraisal review, appraisal
219 consulting, or real property consulting). The workfile must be prepared for each service prior to the
220 issuance of an oral or written report.

221 **E.R. 2-5**

222 It is unethical to fail to preserve each workfile for:

223 (a) a period of five years from the date of preparation of such workfile;

224 (b) a period of two years following final disposition of a proceeding in which the Member gave testimony
225 pertaining to the subject matter of the workfile;

226 (c) a period commencing upon notification that a service is the subject of a peer review proceeding
227 under Regulation No. 6 until notification by the Appraisal Institute of final disposition of such peer
228 review proceeding;

229 (d) a period commencing upon a request from Admissions relating to a service (appraisal, appraisal
230 review, appraisal consulting, or real property consulting) until notification by the Appraisal Institute of
231 the completion of review by Admissions; or

232 (e) a period of two years following the final disposition of a review of a service (appraisal, appraisal
233 review, appraisal consulting, or real property consulting) by a state licensing and/or certification
234 board,

235 whichever period shall be the last to expire.

236 **E.R. 2-6**

237 It is unethical to enter into a contract that:

238 (a) places one or more obligations on the Member that are inconsistent with the requirements of the
239 Code of Professional Ethics, Standards of Professional Appraisal Practice, Bylaws, or Regulations of
240 the Appraisal Institute; or

241 (b) does not provide that the Member will develop and report a service (appraisal, appraisal review,
242 appraisal consulting, or real property consulting) in conformity with and subject to the requirements
243 of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal
244 Institute.

245 **E.R. 2-7**

246 It is unethical to fail to sincerely and demonstrably seek other employment if:

247 (a) the Member's employer prevents such Member from complying with the requirements of the Code of
248 Professional Ethics or Standards of Professional Appraisal Practice of the Appraisal Institute; or

249 (b) the Member knows that the Member's employer fails to comply with the Code of Professional Ethics
250 or Standards of Professional Appraisal Practice of the Appraisal Institute.

251 In Providing Services (Appraisal, Appraisal Review,
252 Appraisal Consulting, or Real Property Consulting),
253 A Member Must Develop and Report Unbiased Analyses,
254 Opinions, and Conclusions

255 Ethical Rules

256 **E.R. 3-1**

257 It is unethical to knowingly contribute to or participate in the development, preparation, use, or reporting
258 of an analysis, opinion, or conclusion that is biased.

259 **E.R. 3-2**

260 It is unethical to knowingly permit an entity that is wholly or partially owned or controlled by a Member to
261 contribute to or participate in the development, preparation, use, or reporting of an analysis, opinion, or
262 conclusion that is biased.

263 **E.R. 3-3**

264 It is unethical to agree to provide or provide a service (appraisal, appraisal review, appraisal consulting,
265 or real property consulting) that is contingent upon reporting a predetermined analysis, opinion, or
266 conclusion.

267 **E.R. 3-4**

268 It is unethical to agree to or accept compensation for an appraisal, appraisal review, or appraisal
269 consulting assignment when such compensation is contingent on the analysis, opinion, or conclusion
270 reached, the attainment of a stipulated result, or the occurrence of a subsequent event, unless:

- 271 (a) it is appropriate to perform the assignment under the International Valuation Standards;
- 272 (b) contingent fee arrangements are customary for the assignment and are permitted by appropriate
273 national Standards; and
- 274 (c) the Member clearly and conspicuously discloses the existence and basis of any contingent fee in
275 reporting the results of the assignment.

276 **E.R. 3-5**

277 It is unethical to agree to or accept compensation for a real property consulting service when such
278 compensation is contingent on the analysis, opinion, or conclusion reached or the occurrence of a
279 subsequent event, unless:

- 280 (a) the Member is not acting in a disinterested manner and would not reasonably be perceived as
281 performing a service that requires impartiality; and
- 282 (b) the Member clearly and conspicuously discloses the existence and basis of any contingent fee in
283 reporting the results of the service.

CANON 3 (continued)

284 E.R. 3-5 does not apply to a Member when providing real property consulting services that are subject to
285 the requirements of another licensed occupation or profession.

286 **E.R. 3-6**

287 It is unethical to agree to provide or provide a service (appraisal, appraisal review, appraisal consulting,
288 or real property consulting) that includes a hypothetical condition, unless:

289 (a) use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable
290 analysis, or for purposes of comparison;

291 (b) use of the hypothetical condition results in a credible analysis; and

292

293 (c) the Member complies with the applicable disclosure requirements set forth in USPAP for
294 hypothetical conditions.

295 **E.R. 3-7**

296 It is unethical to agree to provide or provide a service (appraisal, appraisal review, appraisal consulting,
297 or real property consulting) that includes an extraordinary assumption unless:

298 (a) the extraordinary assumption is required to properly develop credible opinions and conclusions;

299 (b) the Member has a reasonable basis for the extraordinary assumption;

300 (c) use of the extraordinary assumption results in a credible analysis; and

301 (d) the Member complies with the applicable disclosure requirements set forth in USPAP for
302 extraordinary assumptions.

303 **E.R. 3-8**

304 It is unethical to agree to provide or to provide a service (appraisal, appraisal review, appraisal
305 consulting, or real property consulting) if a Member has any direct or indirect, current, or prospective
306 personal interest in the subject or outcome of the service or with respect to the parties involved in the
307 service, unless:

308 (a) prior to agreeing to provide the service, the Member carefully considers the facts and reasonably
309 concludes that his or her judgment will not be affected and reasonable persons, under the same
310 circumstances, would reach the same conclusion;

311 (b) such personal interest is fully and accurately disclosed to the client prior to the Member agreeing to
312 provide the service; and

313 (c) such personal interest is fully and accurately disclosed in each report resulting from such service.

314 **E.R. 3-9**

315 It is unethical, during the period that commences at the time that a Member is contacted concerning a
316 service (appraisal, appraisal review, appraisal consulting, or real property consulting) and expires a

CANON 3 (continued)

- 317 reasonable length of time after the completion of such service, to knowingly acquire an interest in
318 property or assume a position that could possibly affect the Member's judgment or violate the Member's
319 responsibilities to the client unless, prior to such acquisition or change of position,
320 (a) the Member carefully considers the facts and reasonably concludes that the proposed acquisition or
321 change of position will not affect the Member's judgment or violate the Member's responsibilities to
322 the client;
- 323 (b) the Member makes full disclosure to the client and obtains from the client a written statement
324 consenting to or approving such acquisition or change of position;
- 325 (c) at the time of such disclosure, the Member gives the client the right to terminate the service without
326 payment of any fee or other charge; and
- 327 (d) the facts concerning such acquisition or change of position are fully and accurately described in
328 each report resulting from the service.

329 **A Member Must Not Violate the**
330 **Confidential Nature of the Member-Client Relationship**

331 Ethical Rules

332 **E.R. 4-1**

333 It is unethical to disclose confidential information or an analysis, opinion, or conclusion specific to a
334 service (appraisal, appraisal review, appraisal consulting, or real property consulting) to anyone other
335 than:

- 336 (a) the client and those persons specifically authorized by the client;
- 337 (b) third parties, when and to the extent that the Member is legally required to do so by statute,
338 ordinance, or court order; and
- 339 (c) the duly authorized committees of the Appraisal Institute.

340 **E.R. 4-2**

341 If a Member is furnished confidential information by a client and a third party subsequently requests a
342 service (appraisal, appraisal review, appraisal consulting, or real property consulting) that will be
343 materially affected by the use of, or the failure to use, such confidential information, it is unethical to
344 agree to provide such subsequent service, unless:

- 345 (a) the source that provided such confidential information permits the information to be used in the
346 subsequent service; or
- 347 (b) such information has subsequently been made public or is available from another source and
348 therefore is no longer confidential.

349 **E.R. 4-3**

350 It is unethical for a current or former Appraisal Institute committee member to discuss or disclose
351 confidential information, analyses, opinions, conclusions, or factual data derived through committee
352 activities with anyone other than:

- 353 (a) the Member whose report or workfile contains the confidential information, analyses, opinions,
354 conclusions, or factual data;
- 355 (b) such Member's client and those persons specifically authorized by that client to receive the
356 confidential information, analyses, opinions, conclusions, or factual data;
- 357 (c) third parties, when and to the extent that the committee member is legally required to do so by
358 statute, ordinance, or court order; and

CANON 4 (continued)

- 359 (d) committee members and their duly authorized agents within the scope of the Bylaws and
360 Regulations of the Appraisal Institute.

361 **A Member Must Not Advertise or Solicit in a Manner that is**
362 **Misleading or Otherwise Contrary to the Public Interest**

363 Ethical Rules

364 **E.R. 5-1**

365 It is unethical to utilize misleading advertising. Further, it is unethical to knowingly permit a business
366 entity that is wholly or partially owned or controlled by a Member to utilize misleading advertising.

367 **E.R. 5-2**

368 It is unethical to use or refer to the Appraisal Institute or its membership designations in a manner that
369 is misleading, or to use or display the registered designations, logos, or emblems of the Appraisal
370 Institute in a manner contrary to Regulation No. 5.

371 **E.R. 5-3**

372 It is unethical to solicit services (appraisal, appraisal review, appraisal consulting, or real property
373 consulting) in a misleading manner. Further, it is unethical to knowingly permit an entity wholly or partially
374 owned or controlled by a Member to solicit services in a misleading manner.

375 **E.R. 5-4**

376 It is unethical to fail to disclose the payment by the Member, or by an entity wholly or partially owned or
377 controlled by the Member, of a fee, commission, or thing of value for the procurement of a service
378 (appraisal, appraisal review, appraisal consulting, or real property consulting). The disclosure of fees,
379 commissions, and things of value paid in connection with the procurement of a service must appear in
380 the certification of any resulting written report and in any transmittal letter in which an analysis, opinion,
381 or conclusion is stated.

382 Intra-company payments to employees or partners for business development are not deemed to be a
383 “fee, commission, or thing of value” for the purpose of this Rule. E.R. 5-4 does not apply to a Member
384 when providing real property consulting services that are subject to the requirements of another licensed
385 occupation or profession.

386 **E.R. 5-5**

387 It is unethical to prepare or use in any manner a resume or statement of qualifications that is
388 misleading.

389 **CANON 1 COMMENT**

390 Public confidence and trust in the Appraisal Institute, Members, and the profession is essential to the
391 well being of our society and the global economy. The Appraisal Institute serves a vital public need by
392 educating and training professionals concerning real property, by conferring professional membership
393 designations on individuals who meet stringent requirements, and by conducting peer review that
394 enhances the quality of Members' work product, and disciplines and deters unethical conduct. In turn,
395 the services of Appraisal Institute Members foster economic growth and stability. If a Member engages
396 in conduct that is detrimental to the Appraisal Institute, the profession, or the public, the Member
397 undermines the public confidence and trust that is necessary for the Appraisal Institute, Members, and
398 the profession to perform their vital roles in our society and the global economy.

399 **E.R. 1-1(a) Comment**

400 If an Appraisal Institute Member knowingly acts in a misleading or fraudulent manner when providing a
401 service or when engaged in an activity unrelated to a service, the Member harms the reputation of the
402 Appraisal Institute, its Members, and the profession, thereby undermining the confidence and trust that
403 the public and clients must have in the integrity of the Appraisal Institute, Members, and the profession.
404 Therefore, the prohibition in Ethical Rule 1-1(a) against acting in a misleading or fraudulent manner
405 applies to all activities of a Member, including appraisal, appraisal review, appraisal consulting, and real
406 property consulting, as well as activities unrelated to such services.

407 For example, if a Member prepares a report that includes information that the Member knows or should
408 know will lead the intended users of the report to an improper conclusion, the Member acts in a manner
409 that is misleading, in violation of Ethical Rule 1-1(a).

410 A second example is that if a Member acts in a misleading or fraudulent manner while engaged in real
411 estate brokerage, such Member violates Ethical Rule 1-1(a). Any such misleading or fraudulent conduct
412 will be contrary to the public interest, and will reflect adversely upon the Member, the Appraisal Institute,
413 Members generally, and the profession.

414 A third example is that if a Member misleads the Appraisal Institute, by an act of omission or
415 commission, as to the Member's eligibility for a particular membership status or category, the Member
416 violates Ethical Rule 1-1(a). Such conduct undermines the confidence that the public and clients must
417 have in the integrity of the Member's services, Members generally, the Appraisal Institute, and the
418 profession. If a Member acts in a misleading or fraudulent manner in activity unrelated to a service, the
419 public and clients can legitimately question whether such a lack of personal integrity will impact the
420 services a Member provides.

421 **E.R. 1-1(b) Comment**

422 A misleading analysis, opinion, conclusion, or report harms the public interest and undermines the
423 confidence of the public and clients in Members, the profession, and the Appraisal Institute.
424 Furthermore, because the public and clients rely on a Member's expertise and integrity, they will give
425 credibility to any analysis, opinion, conclusion, or report that a Member uses, or permits an employee or
426 third party to use, even if it is misleading. Therefore, Ethical Rule 1-1(b) prohibits a Member from
427 knowingly using an analysis, opinion, conclusion, or report that is misleading. Further, to the extent that
428 such Member is in a position to control such use, Ethical Rule 1-1(b) prohibits a Member from knowingly
429 permitting an employee or third party to use a misleading analysis, opinion, conclusion, or report. A

430 Member cannot avoid ethical responsibility by doing indirectly that which the Member cannot do directly.
431 Further, a Member who uses, or permits an employee or third party to use, a misleading analysis,
432 opinion, conclusion, or report, but who does not take the appropriate steps to ascertain whether such
433 analysis, opinion, conclusion, or report is in fact misleading, is responsible for the use of the misleading
434 analysis, opinion, conclusion, or report under this Ethical Rule.

435 One example of a violation of Ethical Rule 1-1(b) is if in the performance of an appraisal a Member
436 knowingly develops a misleading analysis of comparable sales.

437 A second example is that if a Member knowingly develops a misleading opinion concerning the
438 appropriate depreciation for an industrial building and provides the opinion to another appraiser to use in
439 developing a conclusion as to the value of the industrial building, such Member violates Ethical Rule 1-
440 1(b) even though the Member did not develop the final conclusion.

441 A third example is that if a Member incorporates a misleading conclusion prepared by the Member's
442 partner into a report prepared by the Member, such Member is in violation of Ethical Rule 1-1(b) if the
443 Member found or should have found the misleading conclusion given the Member's training and
444 background, as well as all of the relevant facts and circumstances.

445 **E.R. 1-1(c) Comment**

446 A misleading analysis, opinion, conclusion, or report harms the public interest and undermines the
447 confidence of the public and clients in Members, the profession, and the Appraisal Institute.
448 Furthermore, because the public and clients rely on a Member's expertise and integrity, they will give
449 credibility to any analysis, opinion, conclusion, or report that a Member communicates, or permits an
450 employee or third party to communicate. Therefore, Ethical Rule 1-1(c) prohibits a Member from
451 knowingly communicating an analysis, opinion, conclusion, or report in a manner that is misleading.
452 Further, to the extent that such Member is in a position to control such use, Ethical Rule 1-1(c) prohibits
453 a Member from knowingly permitting an employee or third party to communicate an analysis, opinion,
454 conclusion, or report in a manner that is misleading. A Member cannot avoid ethical responsibilities by
455 doing indirectly that which the Member cannot do directly. Further, a Member who communicates, or
456 permits an employee or third party to communicate, an analysis, opinion, conclusion, or report in a
457 manner that is misleading, but who does not take the appropriate steps to ascertain whether such
458 analysis, opinion, conclusion, or report is in fact communicated in a manner that is misleading, is
459 responsible for the communication of the misleading analysis, opinion, conclusion, or report under this
460 Ethical Rule.

461 Under this Ethical Rule, a Member must pay particular attention to a client's request for permission to
462 quote all or a portion of an analysis, opinion, conclusion, or report to ensure that the client will not
463 communicate the analysis, opinion, conclusion, or report in a misleading manner.

464 **E.R. 1-1(d) Comment**

465 A Member must use the Member's expertise to develop, prepare, and use analyses, opinions, and
466 conclusions that are justified. To do otherwise harms the public interest and undermines public and
467 client confidence in the Member, Members generally, the Appraisal Institute, and the profession.
468 Therefore, Ethical Rule 1-1(d) prohibits a Member from knowingly contributing to or participating in the
469 development, preparation, or use of an appraisal, appraisal review, appraisal consulting, or real property
470 consulting analysis, opinion, or conclusion that reasonable appraisers would not believe to be justified.
471 This Ethical Rule applies to a Member regardless of whether the Member is publicly identified with the
472 analysis, opinion, or conclusion because the ethical issue is the same in either situation.

473 The test under Ethical Rule 1-1(d) is whether reasonable appraisers would believe the analysis, opinion,
474 or conclusion to be "justified," rather than "misleading." Members can and do differ as to the
475 appropriate solutions to a real property issue. If, however, reasonable appraisers conclude that an
476 analysis, opinion, or conclusion is not reasonably supported, then such analysis, opinion, or conclusion
477 would not be "justified" under this Ethical Rule. Evidence that a Member did not develop, prepare, or use
478 an analysis, opinion, or conclusion that reasonable appraisers would believe to be justified may include,
479 but is not limited to, deviation from reasonable appraisal, appraisal review, appraisal consulting, or real
480 property consulting practices such as those outlined in the Standards of Professional Appraisal Practice
481 of the Appraisal Institute, Guide Notes to the Standards of Professional Appraisal Practice, and Appraisal
482 Institute courses, seminars, and textbooks such as *The Appraisal of Real Estate*.

483 One example of a violation of Ethical Rule 1-1(d) is if a Member knowingly develops an opinion that is not
484 reasonably supported and the Member provides such opinion to another appraiser to use in the
485 performance of an appraisal service, even if the Member does not sign the final report.

486 A second example is if in the performance of an appraisal service that requires a sales comparison
487 approach, a Member knowingly makes inappropriate adjustments to the sales comparables resulting in a
488 conclusion that is not reasonably supported, the Member violates Ethical Rule 1-1(d).

489 **E.R. 1-1(e) Comment**

490 A Member must utilize the Member's expertise to prepare or deliver reports that contain analyses,
491 opinions, and conclusions that are justified. To do otherwise harms the public interest and undermines
492 public and client confidence in the Member, Members generally, the Appraisal Institute, and the
493 profession. Therefore, Ethical Rule 1-1(e) prohibits a Member from knowingly contributing to or
494 participating in the preparation or delivery of an appraisal, appraisal review, appraisal consulting, or real
495 property consulting analysis, opinion, or conclusion that reasonable appraisers would not believe to be
496 justified. This Ethical Rule applies to a Member regardless of whether the Member signs or delivers the
497 report because the ethical issue is the same in either situation.

498 The test under Ethical Rule 1-1(e) is whether reasonable appraisers would believe the analysis, opinion,
499 or conclusion to be "justified," rather than "misleading." Members can and do differ as to the
500 appropriate solutions to a real property issue. If, however, reasonable appraisers conclude that an
501 analysis, opinion, or conclusion is not reasonably supported, then such analysis, opinion, or conclusion
502 would not be "justified" under this Ethical Rule. Evidence that a Member did not develop, prepare, or use
503 an analysis, opinion, or conclusion that reasonable appraisers would believe to be justified may include,
504 but is not limited to, deviation from reasonable appraisal, appraisal review, appraisal consulting, or real

505 property consulting practices such as those outlined in the Standards of Professional Appraisal Practice
506 of the Appraisal Institute, Guide Notes to the Standards of Professional Appraisal Practice, and Appraisal
507 Institute courses, seminars, and textbooks such as *The Appraisal of Real Estate*.

508 One example of a violation of Ethical Rule 1-1(e) is if a Member knowingly develops an opinion of the
509 highest and best use of a property that is not reasonably supported and the Member provides such
510 opinion to another appraiser to use in a report, even if the Member does not sign the final report.

511 A second example is if a Member prepares an appraisal report that contains a sales comparison
512 approach that is not reasonably supported because the Member knowingly makes inappropriate
513 adjustments to the sales comparables, the Member violates Ethical Rule 1-1(e).

514 **E.R. 1-2 Comment**

515 The public and clients must have confidence in the personal honesty and integrity of Members, whom
516 they entrust with matters of critical personal, corporate, and public importance. If a Member fails to
517 comply with the Member's legal obligations to society in all activities, not just in the services the
518 Member performs, the public and clients will lose confidence and trust in the honesty and integrity of the
519 Member, Members generally, and those who practice the profession. The public and clients will also lose
520 confidence and trust in the Appraisal Institute. As a consequence, the ability of Members, the
521 profession, and the Appraisal Institute to perform their vital roles in our society and the global economy
522 will be adversely affected. If a Member fails to comply with the Member's obligations to society,
523 particularly those relating to fraud, dishonesty, false statements, or moral turpitude, the public and
524 clients can legitimately question whether such Member will fail to comply with the Member's obligations
525 under the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal
526 Institute when providing services. Therefore, a Member must not engage in misconduct of any kind that
527 leads to conviction of a crime involving fraud, dishonesty, false statements, or moral turpitude. The types
528 of crimes referred to in E.R. 1-2 are not limited to felonies.

529 For the purposes of E.R. 1-2, "moral turpitude" means an act of baseness, vileness, or depravity in
530 private and social duties which a person owes to other people, or to society in general, an act contrary to
531 accepted and customary rules of right and duty between people, in essence contrary to justice, honesty,
532 or good morals.

533 One example of a violation of Ethical Rule 1-2 is if a Member prepares a fraudulent appraisal as part of a
534 "flipping scheme" resulting in a conviction of the Member of a crime. A second example is if a Member
535 knowingly underreports income received for work as a general contractor that leads to a conviction of the
536 Member of a crime, such Member violates Ethical Rule 1-2.

537 Under the Regulation No. 6 of the Appraisal Institute, a violation of Ethical Rule 1-2 will result in
538 automatic expulsion from membership in the Appraisal Institute subject to the right of appeal.

539 **E.R. 1-3 Comment**

540 Ethical Rule 1-3 generally relates to the competency that a Member must have or obtain to accept and
541 perform a service. While a similar requirement appears in the Competency Rule of USPAP, the Appraisal
542 Institute has adopted this requirement as an Ethical Rule in its Code of Professional Ethics because a
543 Member's failure to comply with its requirements constitutes a lack of integrity and so that violation can
544 result in disciplinary action.

545 **CANON 2 COMMENT**

546 The Appraisal Institute serves a vital public need by conferring professional membership designations on
547 individuals who meet stringent requirements and by conducting peer review that enhances the quality of
548 Members' work product, and disciplines and deters unethical conduct. As a result of these programs,
549 the public associates Appraisal Institute membership with a high degree of personal integrity and a
550 commitment to professionalism. To facilitate these critical objectives and maintain the reputation of the
551 Appraisal Institute and its Members, a Member must preserve confidentiality in admissions matters and
552 peer review proceedings, fulfill committee responsibilities, cooperate with appropriate committees,
553 prepare and preserve their workfiles, and ensure that they do not place themselves in a position where
554 they cannot comply with the Code of Professional Ethics and Standards of Professional Appraisal
555 Practice of the Appraisal Institute.

556 **E.R. 2-1 Comment**

557 Confidentiality encourages Associate Members to advance their qualifications through the admissions
558 process, encourages peer review to occur, fosters candid and valuable interchange on the issues of
559 qualifications and the quality of services, ensures that the consequences of an admissions matter or
560 peer review proceeding are proper and proportionate, and ensures that the Appraisal Institute can govern
561 itself effectively. Therefore, each Member who has contact with or is involved in an admissions matter or
562 peer review proceeding must scrupulously observe the rules governing the confidentiality of those
563 functions. If a Member fails to observe such confidentiality rules, the judicial protection given to the
564 Appraisal Institute with respect to admissions matters and peer review proceedings may erode, thereby
565 impairing the ability of the Appraisal Institute to carry out these critical functions. Such a result would
566 harm the public, the Appraisal Institute, its Members, and the profession. Further, each Member must
567 scrupulously observe any other Bylaws, Regulations, policies and procedures regarding confidentiality of
568 governance and other matters.

569 **E.R. 2-2 Comment**

570 While the Appraisal Institute recognizes that Members who serve on committees dealing with
571 admissions matters and peer review proceedings are volunteers, such Members must fulfill their
572 responsibilities diligently, objectively, and completely for the Appraisal Institute to effectively fulfill the
573 vital functions of admissions and peer review. If after appointment to a committee dealing with an
574 admissions matter or a peer review proceeding, a Member is unable or unwilling to fulfill any of the
575 Member's responsibilities on such committee, the Member must immediately resign from the
576 committee.

577 **E.R. 2-3 Comment**

578 For the Appraisal Institute to effectively fulfill the vital functions of admissions, peer review, education,
579 other programs, and governance, Members must fully adhere to the Bylaws, Regulations, policies and
580 procedures of the Appraisal Institute.

581
582 Members must honestly and fully cooperate with the Appraisal Institute, its committees, and their
583 authorized agents, such cooperation includes but is not limited to Members fulfilling the obligations they
584 have under the Bylaws and Regulations of the Appraisal Institute, submitting full and accurate
585 documentation and information promptly upon request and when otherwise required, participating in
586 requested interviews, responding fully and honestly to any questions, and fully complying with the terms
587 of a summons issued by a Hearing Committee. Members may not mislead any Appraisal Institute
588 committee, or member or authorized agent thereof.

589

590 Therefore, for example, a Member violates Ethical Rule 2-3 if the Member submits a continuing
591 education log to the Appraisal Institute representing that the Member took a course that the Member did
592 not in fact take or represents that the course provided a greater number of hours of continuing education
593 than it actually did. As another example, a Member violates Ethical Rule 2-3 if the Member fails or
594 refuses to submit relevant information in the Member's possession about the status of litigation related
595 to a peer review file, when requested to do so by a peer review committee or authorized member or
596 agent thereof.

597

598 A Member violates Ethical Rule 2-3 if the Member fails to promptly comply with a request for information
599 or documentation that the Member was required to preserve under Ethical Rule 2-5, even if such
600 information is not physically in the Member's possession or control. As used in Ethical Rule 2-3,
601 "relevant information" means information the appropriate committee (or member or agent thereof)
602 reasonably believes may be relevant in fulfilling its responsibilities. As used in Ethical Rule 2-3, "relevant
603 question" means a question that the appropriate committee (or member or duly authorized agent
604 thereof) reasonably believes may be relevant in fulfilling its responsibilities.

605

606 Ethical Rule 2-3 also uses the phrase "Appraisal Institute, an Appraisal Institute committee or member
607 thereof, or one of their duly authorized agents." The Articles of Incorporation, Bylaws, and Regulations of
608 the Appraisal Institute provide the authority for the Appraisal Institute and the establishment, powers,
609 and duties of various committees. As a corporate entity, the Appraisal Institute will carry out its functions
610 and exercise its authority through various agents. Committees of the Appraisal Institute will sometimes
611 fulfill their powers and duties as committees of the whole, but such committees may also carry out some
612 powers and duties through individual members of the committees and authorized agents. For the
613 Appraisal Institute to effectively carry out critical functions, including, but not limited to, peer review,
614 admissions, and continuing education, Members' obligations under Ethical Rule 2-3 extend not only to
615 the Appraisal Institute and its committees, but to their authorized agents as well. Authorized agents of
616 the Appraisal Institute and its committees include but are not limited to appropriate Appraisal Institute
617 staff such as the Director of Ethics and Standards Counseling, a paralegal in the Professional Practice
618 Department, the Director of Experience Screening and Review, or a member of the Products and Services
619 Department staff.

620

621 Under Regulation No. 6 of the Appraisal Institute, a violation of Ethical Rule 2-3(b), (c), or (d) will result in
622 automatic expulsion from membership in the Appraisal Institute subject to the right of appeal.

623

624 Members also must strictly adhere to the Bylaws, Regulations, policies and procedures of the Appraisal
625 Institute when participating in governance of the organization. Failure to do so can make governance
626 ineffective and harm the interests of the Appraisal Institute. Therefore, for example, a Member involved
627 in governance must adhere strictly to any confidentiality obligations set forth in the Bylaws, Regulations,
628 policies and procedures of the Appraisal Institute. As another example, a Member must adhere strictly to
629 the Appraisal Institute antitrust policy.

630

631 **E.R. 2-4 Comment**

632 The Appraisal Institute has promulgated the Code of Professional Ethics and Standards of Professional
633 Appraisal Practice in part to establish requirements that will help ensure that Members will develop and
634 report credible analyses, opinions, and conclusions. Such requirements also give the public and clients

EXPLANATORY COMMENTS TO CANON 2

635 confidence that Members' analyses, opinions, and conclusions are based on sound data and reasoning,
636 and that such analyses, opinions, and conclusions are not predetermined or mere speculation.

637 Ethical Rule 2-4 requires that Members prepare a workfile for each service and that Members prepare
638 such workfile prior to the issuance of an oral or written report. This Ethical Rule helps ensure that
639 Members have sound bases for their analyses, opinions, and conclusions prior to issuance of a report.
640 The Rule also ensures that Members can provide support for their analyses, opinions, and conclusions
641 to clients, courts, the Appraisal Institute, regulatory agencies, and others. By providing such support
642 when needed or requested, the public and clients will have greater confidence in Members' analyses,
643 opinions, and conclusions, and the rules to which Members are subject can be enforced. A Member's
644 workfile provides evidence of whether the Member complied with the Code of Professional Ethics and
645 Standards of Professional Appraisal Practice.

646 **E.R. 2-5 Comment**

647 For the Appraisal Institute to effectively fulfill the vital functions of admissions and peer review,
648 appropriate committees, as well as members and authorized agents thereof, must have access to
649 relevant workfiles of the Members. Therefore, the Appraisal Institute not only has adopted Ethical Rule 2-
650 4 requiring Members to prepare a workfile for each service, but it also has adopted Ethical Rule 2-5
651 requiring Members to preserve their workfiles for specified periods of time.

652 Members have a responsibility to consider and correctly apply the factors that can affect the retention
653 period for a workfile before disposing of such workfile. For example, if a Member prepares an appraisal
654 on April 30, 2002, the Member must initially maintain the workfile relating to that appraisal until at least
655 April 30, 2007. If, however, the Member then gives testimony on April 15, 2005 in a judicial proceeding
656 concerning the appraisal and the judicial proceedings are not completed until May 30, 2006, the
657 retention period changes and the workfile must be maintained until at least May 30, 2008.

658 **E.R. 2-6 Comment**

659 As a condition of membership in the Appraisal Institute, Members agree to comply with the Bylaws,
660 Regulations, Code of Professional Ethics, and Standards of Professional Appraisal Practice of the
661 Appraisal Institute. Members cannot avoid this obligation by entering into a contract that is inconsistent
662 with their agreement with the Appraisal Institute. Therefore, Ethical Rule 2-6(a) prohibits Members from
663 entering into any contract that places one or more obligations on the Member that are inconsistent with
664 the Bylaws, Regulations, Code of Professional Ethics, or Standards of Professional Appraisal Practice of
665 the Appraisal Institute. Ethical Rule 2-6(b) places an affirmative obligation on Members to include in their
666 written contracts for services a statement that they will develop and report their services in conformity
667 with and subject to the requirements of the Code of Professional Ethics and Standards of Professional
668 Appraisal Practice of the Appraisal Institute. For oral agreements for services, Members must ensure
669 that their clients understand and agree that the Members will develop and report their services in
670 conformity with and subject to the requirements of the Code of Professional Ethics and Standards of
671 Professional Appraisal Practice of the Appraisal Institute.

672 **E.R. 2-7 Comment**

673 As a condition of membership in the Appraisal Institute, Members agree to comply with the Code of
674 Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. Further,
675 the Code of Professional Ethics and Standards of Professional Appraisal Practice serve the public
676 interest by establishing requirements for the ethical and competent provision of services. Because of
677 this agreement and the importance of each Member's resulting obligations, Ethical Rule 2-7 requires a
678 Member to seek other employment if the Member's employer prevents the Member from complying with

EXPLANATORY COMMENTS TO CANON 2 (continued)

679 the requirements of the Code of Professional Ethics or Standards of Professional Appraisal Practice. A
680 Member cannot avoid responsibility for his or her failure to comply with such requirements because the
681 Member's employer prevents the Member from complying. Therefore, for example, a Member must
682 demonstrably seek other employment if the Member's employer mandates that the Member not identify
683 extraordinary assumptions necessary in an assignment.

684 Because the Code of Professional Ethics and Standards of Professional Appraisal Practice elevate the
685 quality of services provided in the marketplace and enhance confidence of the public and clients in the
686 profession, Ethical Rule 2-7 also requires that a Member demonstrably seek other employment if such
687 Member knows that the Member's employer fails to comply with the requirements of the Code of
688 Professional Ethics and Standards of Professional Appraisal Practice.

689 For example, if a Member sees an advertisement that the Member's employer plans to place and that
690 advertisement refers to an Appraisal Institute designation in a misleading manner, the Member must
691 demonstrably seek other employment if the employer proceeds to run the advertisement.

692 A second example is if a Member's employer implements a workfile retention policy that results in the
693 disposal of workfiles that must be retained under Ethical Rule 2-5 and the Record Keeping section of the
694 Ethics Rule of USPAP, the Member must demonstrably seek other employment.

695 Evidence that a Member sincerely and demonstrably sought other employment may include but not be
696 limited to a significant number of letters seeking employment with other companies, correspondence
697 received from potential employers, a log of calls made to potential employers, or documents indicating
698 the Member's efforts to form a new business.

699 **CANON 3 COMMENT**

700 Given the role that Members serve in our society and the global economy, the public interest demands
701 that each Member develop and report unbiased analyses, opinions, and conclusions. Therefore, Canon 3
702 and its associated Ethical Rules prohibit a Member from rendering an analysis, opinion, or conclusion
703 that is not reasonably supported and that favors or promotes the cause or interest of the client, the
704 Member, or another. The Ethical Rules associated with this Canon prohibit Members from developing
705 and reporting biased analyses, opinions, and conclusions and address how a Member must handle
706 issues that may offer an incentive to provide biased analyses, opinions, or conclusions or can create a
707 perception that analyses, opinions, or conclusions are biased. The Ethical Rules set forth requirements
708 concerning how a Member must address situations where a client requests a predetermined analysis,
709 opinion, or conclusion as a condition of engaging the Member; where the Member has a personal
710 interest in the subject or outcome of the service or with respect to the parties involved; and where the
711 Member acquires an interest in property or assumes a position that could possibly affect the Member's
712 judgment. The Ethical Rules also provide requirements relating to contingent fees, hypothetical
713 conditions, and extraordinary assumptions. Actual and perceived bias can undermine the confidence that
714 the public and clients must have in the integrity of Members.

715 **E.R. 3-1 Comment**

716 Ethical Rule 3-1 contains the basic prohibition on a Member from knowingly contributing to or
717 participating in the development, preparation, use, or reporting of an analysis, opinion, or conclusion that
718 is biased. Violation of Ethical Rule 3-1 is one of the most serious ethical violations a Member can
719 commit.

720 A Member may never develop, prepare, use, or report a biased analysis, opinion, or conclusion. A biased
721 analysis, opinion, or conclusion is: a) not reasonably supported; and b) favors or promotes the cause or
722 interest of the client, one's self, or another.

723 Evidence that a Member developed, prepared, used, or reported a biased analysis, opinion, or
724 conclusion may include, but is not limited to, deviation from reasonable appraisal, appraisal review,
725 appraisal consulting, or real property consulting practices resulting in an analysis, opinion, or conclusion
726 that is not reasonably supported and that favors or promotes the client's, the Member's, or another's
727 interest or cause. Many of these reasonable practices are outlined in the Standards of Professional
728 Appraisal Practice of the Appraisal Institute, Guide Notes to the Standards of Professional Appraisal
729 Practice, and Appraisal Institute courses, seminars, and textbooks such as *The Appraisal of Real Estate*.
730 The intended use of the analysis, opinion, or conclusion is relevant in determining the direction of a
731 client's interest.

732 For example, assume that a seller and a prospective buyer have a dispute as to the market value of
733 Blackacre on X-date. The seller would benefit from a high opinion of value. The seller retains a Member
734 to develop an opinion of the market value of Blackacre on X-date and requests that the value opinion be
735 "as high as possible." The intended use is to assist in establishing a sale price. The Member
736 subsequently delivers a report with a cover letter stating that "subject to the terms and conditions in the
737 report, the market value of Blackacre on X-date was \$1,000,000," with a footnote on page 97 of the
738 report stating that the Member's opinion of value is based upon the hypothetical condition that the
739 zoning allows development when, in fact, it does not. The hypothetical condition was not required for
740 legal purposes, for purposes of reasonable analysis, or for purposes of comparison. The hypothetical

741 condition had a substantial effect upon the Member's opinion of value. In this example, the Member
742 developed and reported a biased opinion of value in violation of Ethical Rule 3-1. The Member deviated
743 from recognized appraisal methods and techniques, resulting in an opinion of value that was not
744 reasonably supported and that deviated in a direction favoring the client's interest. This Member also
745 violated Ethical Rule 3-6 concerning extraordinary assumptions and Ethical Rule 1-1 (misleading opinion
746 that reasonable appraisers would not believe to be justified).

747 A Member can violate Ethical Rule 3-1 by signing a report that the Member has not read or has partially
748 read, and that contains a biased analysis, opinion, or conclusion. Not only is the Member responsible for
749 the report by signing it, but the Member has knowingly contributed to or participated in the use and
750 reporting of an analysis, opinion, or conclusion that is biased. The Member acted knowingly because the
751 Member acted in disregard of the requirements of the Code of Professional Ethics and Standards of
752 Professional Appraisal Practice of the Appraisal Institute, as well as recognized methods and techniques.
753 The Member reasonably should have known about the biased analysis, opinion, or conclusion given the
754 all the facts and circumstances and the Member's training, background, and experience.

755 **E.R. 3-2 Comment**

756 A Member cannot avoid ethical responsibility by doing indirectly that which the Member cannot do
757 directly. Therefore, Ethical Rule 3-2 prohibits a Member from knowingly permitting an entity that is wholly
758 or partially owned or controlled by a Member to contribute to or participate in the development,
759 preparation, use, or reporting of an analysis, opinion, or conclusion that is biased. The discussion in the
760 E.R. 3-1 Comment concerning an analysis, opinion, or conclusion that is biased also applies to Ethical
761 Rule 3-2.

762 **E.R. 3-3 Comment**

763 A Member must use the Member's expertise and independent judgment to develop and report a
764 reasonably supported analysis, opinion, or conclusion in accordance with the Code of Professional Ethics
765 and Standards of Professional Appraisal Practice of the Appraisal Institute. Therefore, a Member clearly
766 cannot accept or provide a service that is contingent upon reporting a predetermined analysis, opinion,
767 or conclusion. Doing so would undermine the trust and confidence that the public must have in Members
768 to provide unbiased and credible analyses, opinions, and conclusions.

769 Nothing in Ethical Rule 3-3 should be construed to prohibit a Member from accepting services in phases,
770 with the right to provide a subsequent service contingent upon the results of a prior service, as long as
771 the Member does not render an analysis, opinion, or conclusion that is biased and the Member complies
772 with the requirements of Ethical Rules 3-8 and 3-9, where applicable. Those Ethical Rules concern a
773 Member's personal interest and a Member assuming a position that could possibly affect the Member's
774 judgment or violate the Member's responsibilities to the client.

775 To illustrate the point involved, assume the following facts. A government agency makes an offer to a
776 property owner to purchase the owner's property in order to expand a roadway. The agency has not
777 begun condemnation proceedings at this point, but may in the future. The attorney working with the
778 property owner contacts a Member to obtain the Member's opinion as to whether the market value of
779 the property is more than the amount of the agency's offer. The Member prepares a Restricted Use
780 Appraisal Report, for the attorney's use only, in which the Member's value opinion is "not less than" the
781 amount of the offer. Subsequently, the attorney asks the Member to prepare a Self-Contained Appraisal

782 Report, for which the intended users will be both the government agency and the attorney for the
783 property owner, for purposes of the condemnation litigation. Note that these are two separate
784 assignments, with different, though related, intended uses and different intended users. If the Member
785 accepts these assignments, the Member will not violate Ethical Rule 3-3. The Member was required to
786 develop and report both the first and second service in an unbiased manner. The second service was in
787 essence contingent on the results of the first service, but was not contingent on a “predetermined”
788 analysis, opinion, or conclusion.

789 **E.R. 3-4 Comment**

790 Appraisers are participants in the global economy. In the global economy the norms for ethical practice
791 concerning specific conduct may differ depending on applicable national customs and standards. The
792 matter of contingent fee arrangements is an example of an area where the norms for ethical practice
793 differ. For example, USPAP prohibits contingent fee arrangements for valuation services. On the other
794 hand, the International Valuation Standards allow contingent fee arrangements for valuation services as
795 long as the appraiser’s fee does not depend on the predetermined outcome of any valuation or other
796 independent, objective advice contained in the valuation report, and the appraiser discloses whether the
797 fee is contingent upon any aspect of the report.

798 **E.R. 3-6 Comment**

799 The requirements set forth in Ethical Rule 3-6 concerning hypothetical conditions reflect those set forth
800 in USPAP. The Appraisal Institute has placed these requirements in the Code of Professional Ethics
801 because a Member’s failure to comply with such requirements constitutes a lack of integrity and so that
802 a violation can result in disciplinary action.

803 **E.R. 3-7 Comment**

804 The requirements set forth in Ethical Rule 3-7 concerning extraordinary assumptions reflect those set
805 forth in USPAP. The Appraisal Institute has placed these requirements in the Code of Professional Ethics
806 because a Member’s failure to comply with such requirements constitutes a lack of integrity and so that
807 a violation can result in disciplinary action.

808 **E.R. 3-8 Comment**

809 If a Member has a personal interest in the subject or outcome of a service or with respect to the parties
810 involved in the service, such interest may provide an incentive for the Member to render an analysis,
811 opinion, or conclusion that is biased, misleading, or otherwise unreliable. At a minimum, such a personal
812 interest may create an appearance that any resulting analysis, opinion, or conclusion may be biased,
813 misleading, or otherwise unreliable. An analysis, opinion, or conclusion that is biased, misleading, or
814 otherwise unreliable, or that may be perceived to be so, undermines the confidence and trust that the
815 public and clients must have in Members.

816 In deciding whether to accept a service when the Member has a direct or indirect, current or prospective
817 personal interest in the subject or outcome of the service or with respect to the parties involved in the
818 service, the Member must make a reasonable determination as to whether the Member’s judgment will
819 be affected. A Member’s determination is reasonable if reasonable persons in the same circumstances
820 would reach the same determination. If the Member concludes that the Member’s judgment will be
821 affected or if reasonable persons in the same circumstances would conclude that judgment will be

822 affected, the Member must refuse the proffered service. In appraisal review assignments, “parties
823 involved in the service” include the individual who prepared the report being reviewed.

824 Prior to accepting a service where the Member has a personal interest in the subject or outcome of a
825 service or with respect to the parties involved in the service, a Member must also fully and accurately
826 disclose the personal interest to the client so that the client can make an informed decision as to
827 whether to retain the Member. Should the Member ultimately accept the service, the Member must fully
828 and accurately disclose the personal interest in each report resulting from such service so that any
829 reader can consider any analyses, opinions, and conclusions in the context of the Member’s personal
830 interest.

831 **E.R. 3-9 Comment**

832 If a Member knowingly acquires an interest in property or assumes a position that could possibly affect
833 the Member’s judgment or violate the Member’s responsibilities to the client between the time the
834 Member is contacted concerning a service and expires when the Member completes the service, such
835 interest or change in position may provide an incentive for the Member to render an analysis, opinion, or
836 conclusion that is biased, misleading, or otherwise unreliable and harms the client. At a minimum, such
837 interest or change in position may create an appearance that any resulting analysis, opinion, or
838 conclusion may be biased, misleading, or otherwise unreliable and that the Member’s interest or
839 position is in conflict with the Member’s responsibilities to the client.

840 If a Member knowingly acquires an interest in property or assumes a position that could possibly affect
841 the Member’s judgment or violate the Member’s responsibilities to the client between the time the
842 Member completes a service and expires a reasonable length of time after the completion of such
843 service, such interest or change in position, if anticipated, may provide an incentive for the Member to
844 render an analysis, opinion, or conclusion that is biased, misleading, or otherwise unreliable and harms
845 the client. If acquiring such an interest or the change in position was not anticipated, the Member at a
846 minimum may create an appearance that the Member’s analysis, opinion, or conclusion may be biased,
847 misleading, or otherwise unreliable and that the Member’s interest or position is in conflict with the
848 Member’s responsibilities to the client.

849 An analysis, opinion, or conclusion that is biased, misleading, or otherwise unreliable, or that may be
850 perceived to be so, can undermine the confidence and trust that the public and clients must have in
851 Members, the profession, and the Appraisal Institute. Further, a Member who violates or appears to
852 violate the Member’s responsibilities to the client also undermines the confidence and trust that the
853 public and clients must have in Members, the profession, and the Appraisal Institute.

854 In deciding whether to acquire an interest in property or assume a position that could possibly affect the
855 Member’s judgment or violate the Member’s responsibilities to the client, the Member must make a
856 reasonable determination as to whether the Member’s judgment will be affected or will violate the
857 Member’s responsibilities to the client. A Member’s determination is reasonable if reasonable persons
858 in the same circumstances would reach the same determination. If the Member concludes that the
859 Member’s judgment will be affected or will violate the Member’s responsibilities to the client, or if
860 reasonable persons in the same circumstances would so conclude, the Member must not acquire the
861 interest in property or assume the position.

EXPLANATORY COMMENTS TO CANON 3 (continued)

862 Even if the Member reasonably concludes that the proposed acquisition or change of position will not
863 affect the Member's judgment or violate the Member's responsibilities to the client, the Member still
864 cannot go forward with such acquisition or change in position without fulfilling a number of other
865 requirements. The Member must make full and accurate disclosure to the client and give the client the
866 right to terminate the service without payment, and the client must provide written permission to the
867 Member consenting to or approving the acquisition or change of position. Finally, if the Member meets
868 all of these conditions and is able to proceed with the service, the Member must fully and accurately
869 describe the acquisition or change of position in the Member's report so that the analyses, opinions,
870 and conclusions can be understood in the context of such information.

871 **CANON 4 COMMENTS**

872 Confidentiality is a critical component of any relationship between a professional and a client. For a
873 Member providing services, confidentiality fosters full and candid disclosure of relevant information by
874 the client. Such disclosure enables the Member to provide credible analyses, opinions, and conclusions
875 to the client.

876 The client has a legitimate interest in controlling the disclosure of confidential information, analyses,
877 opinions, and conclusions in part because the client pays for services rendered and because the
878 disclosure of such information, analyses, opinions, and conclusions may harm the client. At the same
879 time, a Member must be able to use market data, and at the Member's option, provide other Members
880 and the profession with access to such data, to serve the public and clients generally.

881 To facilitate these objectives, the Appraisal Institute has adopted a definition of confidential information
882 and a series of Ethical Rules relating to and protecting the confidentiality of the Member-client
883 relationship.

884 **E.R. 4-1 Comment**

885 Ethical Rule 4-1 sets forth the general requirements relating to the confidentiality of the Member-client
886 relationship. It is unethical for a Member to disclose confidential information or an analysis, opinion, or
887 conclusion specific to a service except under specified circumstances. Confidential information is
888 defined as information that is either identified by the client as confidential when providing it to a Member
889 and that is not available from any other source; or is classified as confidential or private by applicable
890 law or regulation. Therefore, for example, information that is not confidential includes data secured from
891 public records and information a Member can obtain from a source other than the client. General
892 analyses, opinions, and conclusions about the community in which the subject property is located are
893 also not confidential.

894 One example of the application of Ethical Rule 4-1 is where a Member is provided with information about
895 the sale of a property from a client, who tells the Member that the information is confidential and the
896 information is not available from any other source. If the Member subsequently shares this information
897 with another appraiser seeking comparable data, the Member is in violation of this Ethical Rule.

898 Another example would be if a Member casually states at a social function that the Member appraised a
899 certain property for \$X. This Ethical Rule prohibits the disclosure of service results in such a manner
900 without the client's express permission.

901 **E.R. 4-2 Comment**

902 Ethical Rule 4-2 addresses the situation where a client requests a service that will be materially affected
903 by the Member's use of, or failure to use, confidential information the Member has received from
904 another client. A Member may only accept such service if the previous client permits the Member to use
905 such information or the information is no longer confidential.

906 **E.R. 4-3 Comment**

907 For the Appraisal Institute to effectively fulfill the vital functions of admissions and peer review,
908 appropriate Appraisal Institute committees must and will have access to confidential information
909 provided to Members by their clients. Clients understand and are on notice that appropriate Appraisal
910 Institute committees will have access to their confidential information, as well as confidential analyses,
911 opinions, and conclusions, because Members must inform their clients that their reports are subject to
912 review by the duly authorized representatives of the Appraisal Institute. Further, clients retain Appraisal
913 Institute Members because of the admissions and peer review functions of the Appraisal Institute and
914 such clients benefit from the resulting increased quality of the services that Members provide. At the
915 same time, Members who serve on committees relating to admissions and peer review functions must
916 not act in a manner that would harm a client or take advantage of serving in these important roles to
917 obtain professional advantage by discussing or disclosing confidential information, analyses, opinions,
918 conclusions, and factual data derived from such activities. Therefore, Ethical Rule 4-3 provides that it is
919 unethical for a Member to discuss or disclose confidential information, analyses, opinions, conclusions,
920 and factual data with limited exceptions. Since committee members must keep strictly confidential the
921 information, analyses, opinions, conclusions, and factual data derived through committee activities, the
922 client is protected.

923 **CANON 5 COMMENT**

924 To serve the public and clients effectively, members of a profession must not only offer their expertise,
925 but they must also properly and accurately inform the public and prospective clients about their
926 qualifications and the functions of the profession. In this way, prospective clients can make informed
927 decisions as to the type and extent of services they need and can identify competent and ethical
928 professionals to provide such services. Such information can also help clients evaluate a service and
929 help hiring parties evaluate potential employees or contractors. Advertising, solicitations, promotions,
930 resumes, and statements of qualifications that are misleading or are otherwise contrary to the public
931 interest undermine these important goals.

932 **E.R. 5-1 Comment**

933 Members of the Appraisal Institute may utilize advertising to inform the public and prospective clients of
934 the services they offer, the cost of such services, and their qualifications. However, Member advertising
935 must not be misleading or calculated to create unrealistic expectations in the minds of the parties to
936 whom the advertising is directed. In promoting their services, Members must take particular care not to
937 state or imply that they will develop, prepare, use, or report an analysis, opinion, or conclusion that is
938 biased or that they will deviate from the strict Standards and Ethical requirements that they have agreed
939 to comply with as Appraisal Institute Members.

940 A Member cannot avoid ethical responsibility by using a corporation, partnership, or other entity (or
941 multiple entities) to advertise services in a misleading manner. Therefore, a Member may not knowingly
942 permit an entity that is wholly or partially owned or controlled by such Member to utilize misleading
943 advertising, even if the name of a Member is not specifically mentioned in the advertisement.

944 **E.R. 5-2 Comment**

945 The Appraisal Institute has established the categories of Designated, Associate, and Affiliate
946 membership in part to help the public and clients understand the qualifications that Members hold and
947 the requirements to which they are subject. The different Appraisal Institute designations serve a similar
948 purpose.

949 The Appraisal Institute is the sole owner of its name, corporate logo, membership designations, and
950 emblems (“marks”), which are registered with the United States Patent and Trademark Office.

951 Based on these considerations, the Appraisal Institute has established rules for the use of its name,
952 corporate logo, designations, and designation emblems. The authorized or permitted uses of these
953 marks are set forth in the Bylaws, Code of Professional Ethics, Regulation No. 5, Trademark Usage
954 Manual, and various other Regulations of the Appraisal Institute, and are subject to federal law.

955 The general rule governing any reference to or use of the Appraisal Institute name, corporate logo,
956 membership designations, and designation emblems is that such reference or use must be authorized
957 or permitted and must not be misleading or deceptive.

EXPLANATORY COMMENTS TO CANON 5

958 Therefore, for example, under Ethical Rule 5-2, a Member may only use a membership designation and
959 its associated emblem if the Member currently holds such designation and is a Member in good
960 standing. A Member may not use such designation in a manner that suggests that a partnership,
961 corporation, or other organization holds such designation.

962 A second example is that under Ethical Rule 5-2, a Member may use or refer to the Appraisal Institute
963 name to convey membership, but must do so in a manner that clearly and accurately sets forth the type
964 of membership held. Therefore, for example, a General Associate Member can use the words “General
965 Associate Member, Appraisal Institute,” but cannot place those words under a heading entitled
966 “Professional Designations” or abbreviate those words to appear like a designation.

967 A third example is that the Appraisal Institute permits some Designated Members to use the Appraisal
968 Institute corporate logo under very limited circumstances to convey a very specific message to the
969 public. If a Member uses the corporate logo but does not meet the requirements for such use, the
970 Member misleads the public and potential clients, thereby violating Ethical Rule 5-2.

971 The Appraisal Institute name, corporate logo, membership designations, and designation emblems must
972 be used in a manner that preserves and respects the federal trademark rights of the Appraisal Institute
973 and interests therein. Appropriate use ultimately strengthens these marks, which benefits Appraisal
974 Institute Members. Therefore, for example, Designated Members who use the corporate logo and
975 designation emblems must use exact reproductions of the official versions in the appropriate colors and
976 in an appropriate size.

977 Finally, when a Member uses an advertisement or promotion that refers to the Appraisal Institute marks,
978 such use must be dignified, conservative, and in keeping with the highest professional standards.

979 **E.R. 5-3 Comment**

980 Members may solicit for services in a manner consistent with the public interest. Therefore, a Member
981 may not solicit for services in a manner that is misleading.

982 For example, a Member not may inform a prospective client that the Member has qualifications or
983 expertise that the Member does not possess. As another example, a Member may not state or imply
984 that the Member can develop, prepare, use, or report an analysis, opinion, or conclusion that is biased.

985 A Member cannot avoid ethical responsibility by using a corporation, partnership, or other entity (or
986 multiple entities) to solicit services in a misleading manner. Therefore, a Member may not knowingly
987 permit an entity that is wholly or partially owned or controlled by such Member to solicit services in a
988 manner that is misleading, even if name of a Member is not specifically mentioned in the solicitation.

989 **E.R. 5-4 Comment**

990 The primary basis for someone to refer a service to a Member should be the Member's qualifications,
991 rather than financial incentive. At the same time, federal law prohibits a professional organization from
992 prohibiting all referral fees. Therefore, a Member may pay a fee, commission, or thing of value to procure
993 a service, but the Member must disclose such payment in the certification of any resulting written report
994 and in any transmittal letter in which an analysis, opinion, or conclusion is stated. The intended user(s)
995 is (are) entitled to know that the Member paid a fee, commission, or thing of value to procure the service
996 and to consider such information in evaluating the service.

997 In construing this rule, disclosure is required only if the payment made is a condition of the referral. For
998 example, if the party to whom a referral is made subsequently invites the referring party to dinner as a
999 token of appreciation, this act would not be payment of a "thing of value" and disclosure would not be
1000 required.

1001 Ethical Rule 5-4 does not apply to a Member when providing real property consulting services that are
1002 subject to the requirements of another licensed occupation or profession. Therefore, for example, if a
1003 Member is licensed as a real estate broker and is acting in a capacity as a real estate broker, the
1004 Member's payment and disclosure of a fee, commission, or thing of value for procurement of a real
1005 property consulting service are governed by the laws and regulations governing real estate brokers,
1006 rather than Ethical Rule 5-4.

1007 **E.R. 5-5 Comment**

1008 Potential clients, parties hiring employees and contractors, as well as others, need clear and accurate
1009 information on which to evaluate Members' qualifications and work product. Therefore, a Member may
1010 not prepare or use in any manner a resume or statement of qualifications that is misleading.