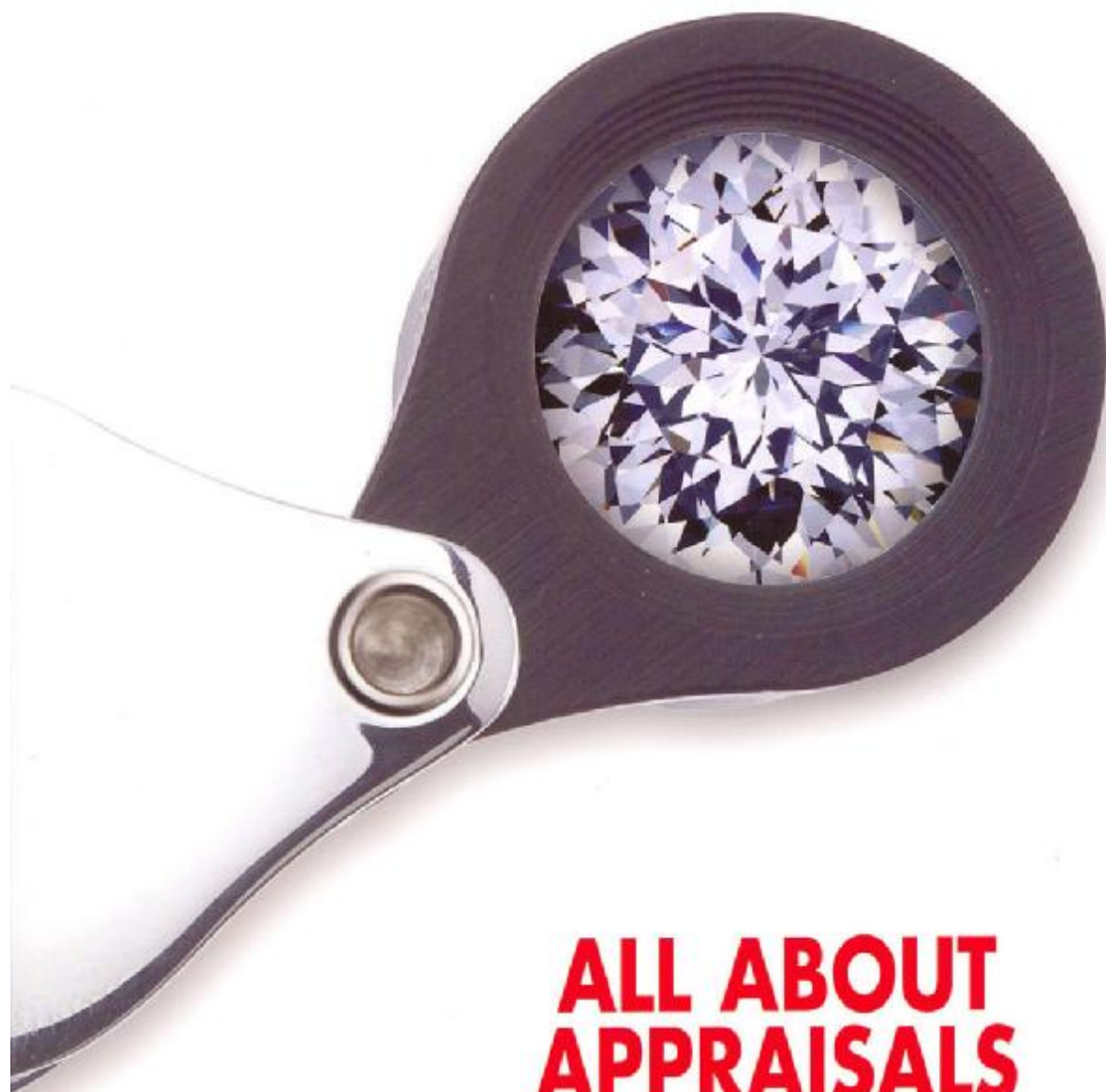


# **RAPAPORT**

Vol. 31 No. 22 June 6, 2008



**ALL ABOUT  
APPRAISALS**

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RAPAPORT DIAMOND REPORT

JUNE 6, 2008

*"The appraiser examines the markets and determines, for the kind of market the item was sold in, what its value would be in that market — in other words, the most common price in that market."*

*Nancy Stacy  
Jewels by Stacy Appraisals  
Wilbur Creek, California*



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An appraiser has to look beyond the obvious to determine the value of a piece of jewelry.



# PLAYING DETECTIVE

By PHYLLIS SCHILLER

**T**he challenge of appraisal work is assigning the proper value to an item. All too often, that involves “playing detective,” combining proper methodology and perseverance. To find out exactly how appraisers successfully do what they do, we consulted with a group of experts, all gemologists who have been trained and accredited by major appraisal organizations, including the Appraisers Association of America (AAA), American Society of Appraisers (ASA), National Association of Jewelry Appraisers (NAJA) and Accredited Gemologists Association (AGA).

There are different levels of the retail market, says Joseph Tenhagen, Joseph Tenhagen Appraisals, Inc., Miami, Florida. With a ring, he points out, “we look to see if it had

a trademark or a hallmark and what store it came from. If it came from a top-quality store, we would appraise it in that particular market. If it came from a discount store, we would appraise for that market.”

According to Nancy Stacy, Jewels by Stacy Appraisals, Walnut Creek, California, the most credible way to arrive at value is to compare an item to “other items that have been sold recently, do some adjustments for little differences and come to a market price.” If it’s a trademarked piece, she says, you can call the maker and see what it is selling it for.

#### RESEARCH IS KEY

“You need to seek information from whatever market you’re researching,” continues Stacy. “For cash values, you

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# PLAYING DETECTIVE

*(Continued from page 1)*

try to find actual transactions and that's hard, but not impossible. Most professional appraisers who have been working for a while have a network of dealers that they can call.

"For Fair Market Value, and all kinds of value, you need to find sales of comparable jewelry," Stacy points out. The key here is being able to define what is comparable. Unless it's a watch, most likely you won't find an identical piece of jewelry that has been sold. So, she points out, you need to identify what about this jewelry is giving it value. "Usually," she says, "there will be a few elements of value — in a diamond ring, it will be the quality characteristics of the diamond." But if you get into other kinds of jewelry, she explains, such as a brooch, you need to see if the value comes from the materials it's made of, the person who made it or the period it represents. Condition also has a big influence on value in that market. "And then," Stacy says, "you find other pieces that have similar elements. Once you find them, you analyze them and there are appraisal techniques that you can use to add to or subtract from the selling price of the comparable item to make it equivalent to the one you're appraising. That's part of the Sales Comparison Method of valuation, where you're looking at market data."

If it's a period piece from the 1920s or '30s or earlier, you have to look to the auction markets or the estate jewelry markets to see what similar types of pieces are selling for, says Charles Carmona, Guild Laboratories, Los Angeles, California. But if it's a modern piece, made by a modern manufacturer and still available on the market, and you are determining

replacement value, "you just look at the stones, add up their value at a wholesale level and determine the cost to manufacture the mounting and any other labor involved and that brings you to the wholesale value. And then you apply an appropriate markup to retail."

"If you have a modern platinum diamond line bracelet," says Robert Mark Bunda, Bunda Jewelry Appraisers, New York City, "that's basically cost — how much the

## To Cert or Not To Cert

Does having the certification for a piece make it easier to appraise? Not necessarily, says Nancy Stacy, an independent professional appraiser based in Walnut Creek, California. "Some appraisers prefer not to see the cert until they're all done and some like to look at it to see whether or not they agree with it. Either way, if you have a disagreement as to what the grade is, then you have to

deal with that. With some labs, like Gemological Institute of America (GIA), the American Gem Society (AGS), you might disagree with them some of the time, and with others, you may almost never agree. And the way I handle it is that I form my own opinion and use that for the valuation, but I will disclose the grade that the other lab

gave it and just state that my findings don't substantiate the lab's grading."

The value of the certificate, says Charles Carmona, Guild Laboratories, Los Angeles, California, depends upon who issued the cert. "If it comes from the GIA or AGS, I'll take it at face value because they're in the business of appraising. But if it's one of the other 'alphabet' labs, I basically discount it and look at the stone myself."

For Robert Mark Bunda, Bunda Jewelry Appraisers, New York City, "if the diamond already has the GIA certificate — which most diamonds do — then it's a done issue. But, on the other hand, if someone comes to me with a large diamond and it's poor quality, I basically can verify in-house that it's a diamond. If a stone without a certificate is coming down through the family, and they want an insurance value and it's high quality, I'd advise them to go get a certificate."



“If there is an insurance claim made on an item, all the outcome and satisfaction or dissatisfaction is hinging on the description of the jewelry that the appraiser put in the appraisal.”

Nancy Stacy  
*Jewels by Stacy Appraisals*

diamonds cost, how much the mounting costs, how much it costs to put it together. But if you have a diamond and platinum Art Deco bracelet, then that's a mix of cost and comparative market data. You would still cost it out for the diamonds that are in there but, because it's in an Art Deco mount, instead of it being worth \$800 a carat, a dealer might pay you \$1,500 a carat. So to me, that's a blend.”

The Cost Method, says Stacy, where you calculate what the cost to the consumer would be to make the item again, either in the jewelry shop or by the manufacturer, is one approach. There is another method, but, she says, it isn't used very much. Called the Income Method, “you treat the piece as if it's the equivalent of an apartment building — something that can make money — not in a sale, but if it's leased or rented out or authorized copies are made, like Jackie O's faux pearls. If it can produce a stream of income, then you use business analysis tools to figure out the present value of future income. We don't have to do that too often.”

“In contrast to Fair Market Value, Marketable Cash Value,” says Stacy, “is what you can expect to realize from the sale of the jewelry after any selling expenses are deducted. So if there were, for example, auction fees or broker fees or advertising fees or any of the expenses you could incur in selling, you would deduct those estimated expenses and come up with a cash-in-hand value.” That is what most estates choose, she says, when there are no tax consequences, rather than the “government way,” which requires a Fair Market Value appraisal. “It makes it easier to divide up the estate if the jewelry is on a cash basis.”

“We sell a lot of estate jewelry,” points out Rick Goodden, Gooden Jewellers, Inc., Kansas City, Missouri, “so we have a lot of basis for evaluating some of those pieces and I'll state it right in the report that it's our opinion that this is the price we might sell this item for in our store.”

“When you compare what we do in the jewelry industry to, say, real estate appraising, it's a totally different ball game,” says Alan Chappron, Gemological Consulting Services, Seattle, Washington. “With jewelry, there's definite spread, even locally between appraisers. The methodology might be different or their notion of what the prevailing markup for the industry might be in a given area, so it's always a challenge. If you err on the high side, you never hear

about it, but if you appraise something too low, you're always going to hear about it.”

Stacy agrees. “An appraiser has to do a good job of documenting exactly what the item is as far as its value characteristics. If there is an insurance claim made on an item, all the outcome and satisfaction or dissatisfaction is hinging on the description of the jewelry that the appraiser put in the appraisal. That is by far the most important part of the appraisal.”

What is not an appraiser's job, continues Stacy, is deciding whether or not somebody paid the right price. “An appraiser is supposed to report the market, not make judgments about it. Whereas there could be a lot of prices for the same thing, what the appraiser does is examine the markets and determine, for the kind of market the item was sold in, what its value would be in that market — in other words, the most common price in that market.”

#### IT'S A MYSTERY

One role an appraiser can play that really involves ferretting out clues, says Stacy, is that of an expert witness. “It's the really fun part,” she says. “It's like being a detective because there's always a mystery. Sometimes it's a crime but usually it's a tort — somebody is suing somebody else because somebody did something to their jewelry. They could have caused it to be stolen or damaged it. It could be any number of things,” she says.

Moreover, Stacy continues, “often you have to appraise jewelry you can't see.” One instance she recalls was in the aftermath of a fire, where jewelry that had been packed up by the salvage company was mistakenly taken to the dump. “So it is very interesting,” she sums up, “tracking down information and squeezing a little bit of information from here and a little bit of information from there. And helping people remember more information about the pieces.”

“Appraising is a simple field,” continues Stacy, “and until you actually study it, you have no idea how complex and interesting it is and we really need a lot more informed appraisers. It's challenging to get started — it's expensive and time-consuming and it can't be passed on by simply working with another appraiser; you have to study — but it's fascinating and it never gets dull!” ♦



A breakdown  
of the four  
major appraisal  
societies in  
the U.S. that  
handle  
accreditation.

The question I am asked most often is "What is the difference between all these appraisal organizations?" states John Brennan, director of research and technical issues at The Appraisal Foundation. Four major groups in the U.S. accredit appraisers, each of which has its own labyrinth of rules and standards that are continually being updated. Following is an overview of these groups.



#### **NAJA**

NATIONAL ASSOCIATION OF  
JEWELRY APPRAISERS

With 756 members, the **National Association of Jewelry Appraisers (NAJA)** is the largest gem and jewelry appraisal organization, and it is the only one in the U.S. that concentrates solely on the evaluation of gems, jewelry, silver flatware and hollowware. "You've got to have your finger on the pulse," remarks Gail Brett Levine, the association's executive director. "It still amazes me how many people do one-page appraisals. We do an intervention in those cases. The industry is beyond that now, but the most commonly used reference books don't really tell you how to construct a document." The organization prides itself on being accessible to all its members. "We answer the phones, and people are amazed," she laughs.

Perhaps because it is the nation's only for-profit appraisal organization, NAJA also recognizes the financial realities of the profession. "Rarely can our members support themselves solely on appraisals," Levine notes. The association offers classes teaching how to determine a fee that reflects the value of appraisal training. It also strives to keep membership

# WHAT'S *the* DIFFERENCE?

BY MARGO LEAB

dues as low as possible and events are carefully planned at locations across the country in an attempt to fairly distribute airfare expenses among the nationwide membership.

Membership requirements include:

- Take 16 continuing education hours per year,
- Agree to abide by NAJA's code of ethics,
- Supply two references from the trade,
- Pay dues of \$175 per year.

The highest title is certified master appraiser (CMA). Requirements include:

- Be a senior NAJA member,
- Complete the NAJA Appraisal/Value Theory Correspondence Course,
- Pass the NAJA final exam in Appraisal/Value Theory,
- Pass NAJA's practical examination,
- Have a "Gem Laboratory" accredited by NAJA, Accredited Gemologists Association (AGA) or American Gem Society (AGS).

Ideally, those interested in joining are already graduate gemologists (GG), but the association also accepts career changers as candidate members if they are working toward their GG certification.

**ASA**



The American Society of Appraisers (ASA), the country's oldest appraisal society, was founded in 1936 and represents all the disciplines of appraisal specialists. The society has about 5,000 members total, with 108 gem and jewelry appraisers and 47 master gemological appraisers (MGA®). Gary L. Smith, ASA's vice chair of gems and jewelry and chair of the MGA program, feels that the association's defining characteristic is its focus on education. "Every five years, MGAs must totally recertify with a three-day exam. It's like a lawyer retaking the bar. MGA is probably the pinnacle of titles in this industry," declares Smith. "I was an appraiser for 20 years before I joined. Then I learned how much I didn't know."

Membership requirements include:

- Pass ASA's ethics exam,
- Pass a test on the Uniform Standards of Professional Appraisal Practice (USPAP),
- Pay dues of \$500 per year if accredited or \$420 per year if a membership candidate.

The highest title is MGA. Requirements include:

- Achieve graduate gemologist (GG) status from the Gemological Institute of America (GIA) or fellow status (FGA) from the Gemmological Association of Great Britain (GemA),
- Have five years of documented appraisal experience,
- Pass the Farnsworth-Munsell 100-hue test for color discrimination,
- Complete ASA's MGA hands-on test,
- Take 120 hours of continuing education every five years,
- Recertify every five years.

**ISA**



Formed in 1979, the International Society of Appraisers (ISA) became nonprofit in 1994 and serves more than 930 members, about 400 of whom hold the title accredited member (AM) or certified member (CAPP). "When you are educated by ISA, you walk out the door with a process of how to find the proper value for the function and purpose of the appraisal," clarifies Judith Martin, the secretary of ISA's board of directors. "We choose not to certify product knowledge—we certify for methodology. We teach you the scope of work and how to get to the final value conclusion." With a group this focused on the nuts and bolts of appraisals, it shouldn't be too surprising that ISA-sanctioned reports adhere to a 42-item checklist.

Membership requirements include:

- Document three years of experience,
- Complete the ISA Core Course in Appraisal Studies,
- Complete the USPAP National Course,
- Obtain accredited member status within five years.

The highest title is CAPP. Requirements include:

- Complete a five-hour certification exam on theory, methodology, ethics and report writing standards,
- Demonstrate essential knowledge in your chosen field,
- Requalify every five years.



## WHAT'S *the* DIFFERENCE?



### AGS

Jewelers, manufacturers, suppliers and appraisers can all join the American Gem Society (AGS), a nonprofit trade society founded in 1934. Though AGS is not strictly an appraisal society, employees of AGS member stores can pursue appraiser accreditation. AGS counts 1,315 businesses as its members, which include approximately 2,400 accredited employees who take their recertification exam every year. Approximately 600 of them are appraisers.

Retail store membership requirements include:

- Be a storefront in business under the same ownership for two years,
- Enroll one full-time staff member in GIA education, with the minimum coursework consisting of Diamond Essentials, Colored Stone Essentials and the five-day Diamond Grading Lab,
- Pay dues based on annual sales volume of company.

The two AGS appraiser titles are certified gemologist appraiser (CGA) and independent certified gemologist appraiser (ICGA). CGA requirements include:

- Be an AGS certified gemologist (CG),
- Complete AGS's Appraisals 1 and 2 classes,
- Pass a CGA theory and a CGA practical exam,
- Complete a Colorvision test every four years,
- Recertify annually by passing the AGS Recertification Exam.

ICGA requirements include:

- Make appraisals your sole business,
- Have a dedicated office space for the business,
- Be in business for at least two years,
- Complete continuing education of 30 "points" every five years according to AGS's scoring system,
- Submit three complete appraisals — one for insurance replacement purposes, one for estate tax purposes and one for a specialty situation.

"Consumers are asking for ICGAs more and more, because they can feel comfortable that they have no vested interest in the outcome," remarks Diane Flora, director of education for AGS. More than 500 people from the 1,315 AGS member businesses take the CGA recertification exam every year and about 14 recertify as ICGAs.

"We urge any person who wants to do appraisals to join a society. All the societies interact and many people have plural memberships. We all associate," stresses Smith.

In the end, "All organizations agree on the law. How we express it is what makes us different," concludes Levine. ♦

### Appraisal Associations

#### American Gem Society (AGS)

8881 W. Sahara Avenue  
Las Vegas, Nevada 89117  
Phone: 866.805.6500  
Fax: 702.255.7420  
Email: dflora@ags.org  
Web: www.americangemsociety.org

#### American Society of Appraisers (ASA)

555 Herndon Parkway, Suite 125  
Herndon, Virginia 20170  
Phone: 800.272.8258  
Fax: 703.742.8471  
Email: asa@asaappraisers.org  
Web: www.appraisers.org

#### International Society of Appraisers (ISA)

230 East Ohio Street, Suite 400  
Chicago, Illinois 60611  
Phone: 888.472.4732  
Email: isa@isa-appraisers.org  
Web: www.isa-appraisers.org

#### National Association of Jewelry Appraisers (NAJA)

P.O. Box 18  
Rego Park, New York 11374-0018  
Phone: 718.896.1536  
Fax: 718.997.9057  
Email: naja.appraisers@netzero.net  
Web: najaappraisers.com





Determining the value of jewelry depends upon many circumstances and sometimes comes down to an educated opinion — which is where a trained appraiser comes in.

By PHYLLIS SCHILLER

# Opinion or FACT?



Exactly what is the appraiser's job? How do they make a judgment? To find out, we consulted with a group of experts, all gemologists and experienced appraisers who have been trained and accredited by major appraisal organizations, including the Appraisers Association of America (AAA), American Society of Appraisers (ASA), National Association of Jewelry Appraisers (NAJA) and Accredited Gemologists Association (AGA).

"The first thing an appraiser must do is identify what he's looking at," says Nancy Stacy, Jewels by Stacy Appraisals, Walnut Creek, California. And that means having expertise in the kind of jewelry being appraised and having the necessary equipment. The next step is

assessing its value. "And unlike real estate," Stacy continues, "personal property has many values, depending upon the market and the situation and the condition and so forth. An appraiser not only needs to know the purpose of the appraisal, but also have the expertise to match it with the appropriate definition of value."

"An appraisal is an informed opinion of value," agrees Charles Carmona, Guild Laboratories, Los Angeles, California. Moreover, says Joseph Tenhagen of the Miami-based firm bearing his name, the client needs to be assured that the appraiser is objective and unbiased.

## THE PROCESS

Part of an appraisal is an assessment of the components of the piece. "You have to test and weigh the metal, and

## Glossary of Terms

**AAA:** Appraisers Association of America  
**AGA:** Accredited Gemologists Association  
**ASA:** Accredited Senior Appraiser  
**ASA:** American Society of Appraisers  
**CGA:** Certified Gemologist Appraiser  
**CMA:** Certified Master Appraiser  
**FGA:** Fellow of the Gemmological Association of Great Britain  
**FGAA:** Fellow of the Gemmological Association of Australia

**FMV:** Fair Market Value, according to the federal government, is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts  
**GG:** Graduate Gemologist  
**ISA:** International Society of Appraisers  
**NAJA:** National Association of Jewelry Appraisers  
**RJ:** Registered Jeweler

then there are the stones that are set in it," says Carmona. "And you have to estimate the weight of the gems and estimate the quality, especially if they are buried deep in a piece of jewelry and you can't tell the color of a diamond. There's definitely art involved, as well as science."

"The most important thing I've always stressed, and what I was taught," says Rick Goodden, Goodden Jewelers, Inc. Kansas City, Missouri, "is to provide good details on the actual description of the piece — weight, color, clarity and all that. And then do the research on the Fair Market Value."

The veracity of the document you produce is the important thing, concurs Alan Chappron, Seattle-based Gemological Consulting Services. "You try to make it as accurate as possible given the equipment you have."

### PUTTING IT IN WRITING

"Most of us use the standard Gemological Institute of America (GIA) terminology and follow that for the color and clarity," says Tenhagen. "And then we also use proportions, and again GIA, American Gemological Laboratories (AGL), European Gemological Laboratories (EGL) all have their scales, and the International Gemological Institute (IGI) has one. You use whichever you feel is most appropriate." It's the 4Cs plus the other 'C' — how well it's cut, as well as the optical symmetry and optical brilliance, he points out.

"A report is going to say what kind of metal it is, what the trademark on it is, what it weighs, the dimensions of all the stones," adds Shane Denney, Denney's Jewelers, Springfield, Illinois, "and the method of construction, if you know something about it." In short, sums up Carmona, the report "has to have a sufficient description to justify the value. And to me, a good close-up photograph is the most important thing to illustrate the piece, in combination with a sufficient description."

Basically, says Stacy, there needs to be enough descriptive information to identify the value characteristics of the item and to document what contributes or subtracts from its value.

If a jeweler is doing an appraisal on something he sold, adds Stacy, he needs to give the best description he can of its value characteristics so somebody would be able to replace the piece at a later date. "And if you sold it for a certain price, there's really no reason to appraise it for a different price. If you feel you couldn't replace it at the same price, then you need to explain why there is a difference between the selling price and the appraised value. And you should disclose that you sold it for x amount — that's a material fact."

### TYPES OF APPRAISALS

"Most of what we see day to day," says Denney, "is someone has an engagement ring and needs to insure it." And then, explains Tenhagen, "if a couple is getting a divorce, you're going to do a Fair Market Value Appraisal for dissolution of marriage. If it's an estate and someone dies and

the jewelry is left to the heirs and they're going to divide it and sell it, then you do a Fair Market Value for the IRS or for the estate's value of the things. Or you might do an immediate Cash Liquidation Value if someone wants to convert that stone into cash." If it's for tax purposes, adds Carmona, "there is a whole different set of rules that the IRS sets up that you have to follow as far as valuing it in the second-hand jewelry market and not as new jewelry."

If there are no tax consequences, explains Stacy, then the estate has a choice. "It can use the Fair Market Value, which is what the government requires for its appraisals, or the Market Value or Marketable Cash Value. There are also trusts for estate planning and conservatorships, where people are disabled or incompetent or too old to look after themselves."

"And right now," says Stacy, "I am getting a lot of people coming in to find out what they can sell their jewelry for. Again, that would be either Market Value or Marketable Cash Value. There is very little difference between the two; it's basically just the fees involved. The Market Value would be what somebody pays and the Marketable Cash Value would be what the seller nets, after selling expenses. Fees can vary from 8 percent on eBay to 40 percent on consignment and, depending upon how big the estate is, up to 40 or 45 percent at auction."

People are also asking for appraisals for items purchased on the internet, says Stacy. "All of the reputable online vendors are very cooperative about outside appraisals and encourage them." ♦

## Updating an Appraisal

It used to be, points out Miami, Florida, appraiser Joseph Tenhagen, "that we considered having a piece reappraised every three years reasonable, but you might have to get it done a whole lot sooner if gold goes up significantly or diamonds take a jump or the market is in a spiral. It's no good to have an appraisal from three years ago when gold was \$700 an ounce, or \$650, if gold is now \$900 something or the price of the diamond is 20 percent higher. Then people end up losing money and they get very upset. But it's the owners' responsibility to request an update."

Anytime the value changes is time for a new appraisal, agrees West Coast appraiser Nancy Stacy, Jewels by Stacy Appraisals. "An appraisal is only good for one day at a time. It's like a balance sheet — it's a snapshot in time. You don't know what something will be worth tomorrow. An appraiser can only tell you what something's worth now or what it was worth previously at some specified date. But these days, with the value of the dollar still dropping and times being unstable, people need to at least call their appraiser and see if the values are still adequate in terms of insurance appraisals."



A

ppraisers' fundamental tools of the trade are knowledge and honesty. Their clients rely on them to be unbiased in their watchdog role. But what exactly are their ethical obligations to the public? To start, every appraiser is required to conform to the applicable sections of the Uniform Standards of Professional Appraisal Practice (USPAP). If the appraiser is accredited by a society, he or she also must abide by the ethical rules of that organization.

The first stop when it comes to appraisal ethics is The Appraisal Foundation, a nonprofit educational organization established in 1987. During the savings and loan crisis, when it became apparent that lending institutions needed unbiased appraisals, a group of eight American and one Canadian appraisal organizations formed the Ad Hoc Committee on USPAP. The U.S. members agreed on USPAP, a generally accepted set of guidelines for appraisals, and established The Appraisal Foundation to implement them. With the 1989 enactment of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), Congress charged the foundation's Appraisal Qualifications Board (AQB) with establishing and maintaining minimum standards for state licensing and certification of the nation's appraisers. Now, more than 80 organizations, corporations and government agencies are affiliated with the foundation.

John Brennan, director of research and technical issues at the foundation, feels that one of the most important aspects of USPAP is its ethics rule, which is divided into sections on conduct, confidentiality, management and record keeping. Brennan recognizes that the rules are "broad and overarching," and deliberately so, because appraisal assignments vary so tremendously. However, he stresses that it clearly establishes that impartiality is a cornerstone of USPAP.

Conduct, simply put, refers to the fact that appraisers should be impartial, independent and objective. The USPAP states that appraisers should not engage in criminal conduct or communicate their assignment results in a misleading manner.

Confidentiality explains that an appraiser must always act in good faith in the interest of the assignment and should not disclose appraisal results to anyone other than the client.

Management deals with truth in advertising, as appraisers should not solicit assignments in a manner that is false or exaggerated and they should always disclose any commission fees in connection with their assignments.

Record keeping covers the requirement of retaining a workfile on each appraisal for at least five years.

#### TRUST

While USPAP lays the ethical groundwork for the appraisal industry, appraisal associations are on the cutting edge of industry ethics, disseminating rules and determining the methodologies that best reflect the intention of USPAP, all in the name of preserving the public's trust. Ironically, only one of the four accrediting societies — the International Society of Appraisers (ISA) — keeps its ethical guidelines posted on its website for the public to read. When asked, though, all groups were happy to share their ethical codes. The rules mirror, and often restate, the concepts found in USPAP — the difference is that the societies fill in the details and, in some instances, raise the bar on ethical standards.

# TO TELL *the* Truth

BY MARGO LEAB



## AGS

As part of its mission, The American Gem Society (AGS) "embraces ethical business practices protecting the consumer and the consequent success of the jeweler." The integrity of AGS's grading standards is high priority.

"I don't know of another grading system that is monitored by a board. I know everyone says they have grading standards, but how do you know?" asks Diane Flora, AGS's director of education. Because AGS licenses its name to AGS Laboratories, the society's Grievance and Review Committee oversees complaints, not only about its members, but also regarding its grading standards and reports.

In the group's membership manual, the eight-page AGS Minimum Appraisal Standards and Report Guidelines serve as rules for members. Verbal opinions can be given, but members must clarify that oral estimates do not constitute an appraisal, which must be written. Reports must be designed to prevent fraudulent alteration or misuse. Appraisals must be written in a narrative style that is understandable to the layman. Complaints against members accused of violating the guidelines are always made in writing and handled by the Grievance and Review Committee. Members are given at least ten days to respond to any charges brought against them.

## NAJA

The National Association of Jewelry Appraisers (NAJA) has a one-page Code of Professional Ethics to ensure its members maintain their integrity. Notably, while other groups' ethical guidelines focus solely on the rights of the jewelry consumer, NAJA includes a rule designed to protect its members. The society states, "An appraisal represents a considerable outlay of professional service and skill and this counsel entitles the appraiser to a fair and reasonable fee."

Of course, NAJA appraisers take on plenty of responsibilities, as well. NAJA members are required to have all pertinent facts regarding the item being appraised before deciding on its value, even before giving a preliminary opinion to a client.

Every NAJA member's appraisal must include a statement that the appraisal was prepared in conformity with generally accepted standards and NAJA's Code of Professional Ethics. Members should be willing to testify and support their conclusions in a court of law.

NAJA members sign an agreement stating that, in the event of membership cancellation, they will return their certificates, literature, stationary and anything bearing the NAJA seal. The society's ethical issues chair handles complaints, which must be submitted in writing.

"It's a long and arduous process," explains Gail Brett Levine, the group's executive director. "We react to every complaint that comes in. The member gets a chance to refute the claim and then we go back to the person who complained. But definitely, it has teeth."

## ASA

The American Society of Appraisers (ASA) ethics guidelines cover its members' moral obligations in almost any situation. Members who know of ethical violations have the duty to report them to the society.

The guidelines also require that an appraisal report from its members must contain a statement of the appraiser's "disinterestedness," meaning that the writer has no present or future interest in the outcome, assuring an unbiased result. The report must also state whether or not the member is in compliance with ASA's mandatory recertification program for senior members.

ASA retains a compliance officer, who trolls eBay and other websites on the lookout for falsified reports and inappropriate use of the society's titles. Ethics complaints are brought before a review board. Anyone who wants to check a member's accreditation can visit ASA's website for title verification — click on "About ASA," then select "Search for a Member."

What constitutes an ethical appraisal is not just a matter of opinion. The Appraisal Foundation and industry organizations have it all spelled out.

## ISA

The four-page Code of Ethics and Professional Conduct guides members of the ISA. Among the rules is one stating that members are not allowed to accept gifts from current or prospective clients. Members are required to safeguard reports from unauthorized scrutiny or seizure — unless legally required — and must make themselves reasonably available during all stages of the appraisal. Accusations of members violating the code must be submitted in writing and ISA investigates every complaint.

"We don't take it lightly," stresses Judith Martin, the secretary of the ISA board of directors. "We have to be a self-policing society." The Ethics Hearing and Discipline Panel decides on disciplinary action on a case-by-case basis.

All organization spokespersons stress that ethical guidelines are not designed to catch appraisers in the act of unethical practices, put them on the defensive or take up time in their busy days. Though the specifics may vary, these rules aim to give clients the utmost confidence in their appraiser. As an ever-increasing number of savvy consumers demand principled business practices, appraisers who are proactive on these issues will have an advantage. ♦



ALL ABOUT  
APPRAISALS

Every appraiser's career should begin with education in the field's unique legal standards and requirements.

*I*f you don't have the expertise or the equipment, you better think long and hard before you take on the risks of doing appraisals," declares Cecilia Gardner, president, chief executive officer (CEO) and general counsel of the Jewelers Vigilance Committee (JVC).

Though there are no laws specific to the trade, there are legal standards based on court precedent — called case law — and generally accepted trade practices that appraisers must follow if they want to protect themselves. Since appraising is so closely involved with property ownership, appraisers have a critical role in the legal system. That's why methodology has become so carefully defined and regulated. "If you perform an appraisal, you are considered to have special knowledge, and you will be liable if you make a mistake," explains Gardner.

#### THE NUMBER ONE RULE

John Brennan, director of research and technical issues for The Appraisal Foundation, singles out the competency rule of the Uniform Standards of Professional Appraisal Practice (USPAP) as the single most important standard for jewelry appraisers. USPAP is an imposing two-inch-thick book that details the standards for all U.S. appraisers. Depending

# APPRAISAL and the *Law*

BY MARGO LEAB

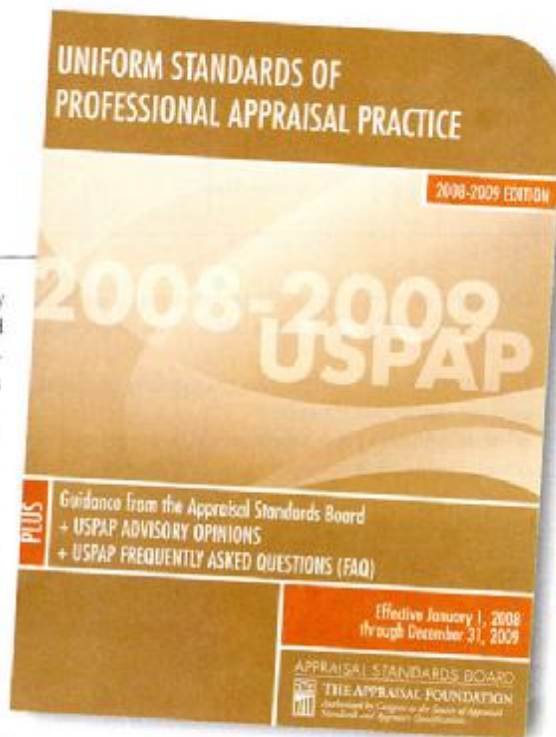
on the state in which an appraiser practices his specialty and many other factors, an appraiser may be legally required to follow some or all of these standards. The book's content is slanted toward the needs of real estate appraisers simply because they greatly outnumber jewelry appraisers. Luckily, the competency rule is just one page and it is abundantly clear in its wording. In short, it requires an appraiser to disclose any lack of knowledge on a subject before accepting an assignment. Then, if the appraiser accepts the work, he or she is responsible for taking the steps necessary to complete the job competently. This could include allowing time for consulting with an appraiser with expertise in the subject, if necessary, or for "personal study." USPAP also notes that facts uncovered during the course of research could cause an appraiser to discover that he or she lacks the required experience after accepting an assignment. In the book's "Frequently Asked Questions" section, the Appraisal Standards Board states that it is not sufficient for appraisers to maintain the skills and knowledge they possessed when they became appraisers. Under the Standards Rule 1-1(a), appraisers are expected to continuously increase their knowledge.

#### COMMUNICATION IS KEY

Understanding the competency rule doesn't mean you can skip over the rest of USPAP. Brennan notes that the most misunderstood aspect of the standards had to do with the departure rule, which was replaced in 2006 with the much simpler "scope of work" rule. The departure rule had both binding requirements, which always had to be followed, and specific requirements, which were meant to be followed only in certain situations. Understandably, this led to confusion. Now, "We don't have a lot of complaints in terms of 'I don't understand this,'" Brennan contends. The scope of work rule can be reviewed in detail in the current USPAP edition. Here is a summary.

The scope of work rule recognizes that for each appraisal, an appraiser must:

- Identify the problem to be solved,
- Determine and perform the scope of work necessary to develop credible assignment results,



- Disclose the scope of work in the report, which includes, but is not limited to, the extent to which the property is identified and inspected, the extent of data researched and the extent of analysis applied to arrive at conclusions.

Problem identification under the rule refers to gathering and analyzing information about assignment elements that are necessary to identify the appraisal problem to be solved. The assignment elements are:

- Client and any other intended users,
- Intended use of the appraiser's opinions and conclusions,
- Type and definition of value,
- Effective date of the appraiser's opinion and conclusions,
- Subject of the assignment and its relevant characteristics,
- Assignment conditions.

USPAP notes that communication is key to determining many of these factors, so appraisers have an obligation to discuss these issues with their clients, preferably at the time they accept items to be appraised. However, the obligation of determining relevant characteristics falls on the appraiser.



## APPRAISAL and the Law

The scope of work must include research and analysis. The scope of work is acceptable when it meets or exceeds:

- The expectations of parties who are regularly intended users for similar assignments,
- What an appraiser's peers' actions would be in performing a similar assignment.

Under the rule, an appraiser must not allow assignment conditions to limit the scope of work to such a degree that results are not credible. An appraiser must withdraw from the assignment if relevant information is not available because of limits on research opportunities, unless the appraiser can:

- Modify the assignment conditions,
- Use an extraordinary assumption about such information, if credible results can still be developed.

The rule also specifies that an appraiser must not allow the intended use of an assignment or client's objectives to cause the results to be biased. The rule has disclosure obligations that state the report must contain sufficient information to allow intended users to understand the scope of work performed.

### AN OUNCE OF PREVENTION

USPAP exists to protect consumers, but JVC strives to head off problems before they become expensive court cases that could be covered in the press and hurt the industry as a whole. Gardner says JVC fields about 400 complaints every year from the trade and consumers. "A large number are based on incompetent or fraudulent appraisals. Many fail to understand the liabilities associated with appraising," she observes. Complaints must be submitted in writing. Consumers must pay a processing fee of \$100. For members of the trade, JVC members pay a \$100 fee and nonmembers pay \$200. All fees are used to offset administrative costs. JVC then determines if the complaint contains sufficient information and if it falls under the committee's jurisdiction. The organization does not handle intellectual property or collections issues. They also won't get involved in a case that has already been sent to the courts.

If the complaint passes those hurdles, the mediation process

begins. Several people on JVC's staff are trained in mediation, so the group contacts both parties and negotiates toward a middle ground. In rare cases, a dispute can move into arbitration before a board. "If there are damages, we work at a number both parties can agree to. But not every case involves financial harm. Some just involve issues that have concerned people along the way," Gardner says. She stresses that even mediation is often an education process more than anything else, as JVC finds many appraisers learn about their legal obligations for the first time during this process. The group stresses knowledge as the best way to prevent legal trouble. "We are anxious to get people educated," declares Gardner. Aware that retail jewelers often do not have the time or resources to take multiday classes at remote locations, JVC developed a home study course called J-BAR, designed to teach appraisers about their many legal responsibilities and how they can protect themselves. The basic course is available for purchase on JVC's website for \$99.95.

Ultimately, continuing education is a big part of being an appraiser and those who aren't interested in a lifetime of learning won't succeed or enjoy the work. "These issues have been predominant for a long time," according to Gardner, and the profession's intimate association with property law means appraisers will always need to be attentive to their changing world. ♦

### To Learn More

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