



Case Summary: 2022-10

Sanction Consent Agreement Implementation Date: August 15, 2022

General Summary:

File Opened: February 8, 2021

An inquiry raised concerns relating to appraisal reports being prepared for subject properties on the same date, with the same effective date, but with significantly different adjustments, comparable sales data and estimate of market value. The inquiry did not lead to the submission of a formal complaint.

A complaint file was opened by the AIC as an issue arising in accordance with AIC Consolidated Regulations 2020 in order to investigate conduct that may be deserving of a Sanction that may otherwise not have been submitted to the AIC.

A Candidate Member of the AIC, co-signed by an AACI-Designated Member, completed appraisal reports on the subject properties, the intended use was for first mortgage financing. In both cases, it appears that after a report was initially completed, another report was completed on the property with the same date of report, same effective date, and with either completely new market data or with the same market data but with significantly changed information in the Cost and Direct Comparison Approaches.

In both cases the estimate of market value was not the same, and in the case of the second property it was significantly different.

Issues Arising from the Review:

The issues arising uncovered as a result of the AIC review are:

- Unethical conduct and fraudulent behaviour
- Misleading Report a number of errors that in the aggregate create a misleading Report
- Member did not create a Workfile
- Scope of Work
- Misidentified property interest
- Inaccurate description of characteristics
- Inappropriate comparables
- No Cost Approach or, Cost Approach did not address depreciation
- Unsupported conclusion that a Reasonable Appraiser could not support/Reasoning
- No analysis of effect of leases on value

Sanction Consent Agreement Terms

Agreed Breaches of CUSPAP 2020:

Ethics Standard Requirements of Members

4.1.1 Members of the Institute pledge to conduct themselves in a manner that is not detrimental to the public, the Institute, or CUSPAP. A Member's relationships with other Members and the Institute shall portray courtesy and good faith and show respect for the Institute and its procedures.

4.1.2 A Member must not render Professional Services in a careless or negligent manner. This requires a Member to use due diligence and due care. The fact that the carelessness or negligence of a Member has not caused an error that significantly affects a Report's opinions or conclusions, and thereby does not seriously harm an Intended User, does not excuse such carelessness or negligence.

Ethics Standards Rule 4.2.1 It is unethical for a member to knowingly fail to comply with Bylaws, Regulations, Standards, policies and Professional Liability Insurance Program of the Institute;

Ethics Standards Rule 4.2.2 It is unethical for a member to knowingly engage in conduct that would prejudice their professional status, the reputation of the Institute, CUSPAP, or any other Member;

Ethics Standards Rule 4.2.3 It is unethical for a member to knowingly act in a manner that is misleading;

Ethic Standard Comment 5.2 Misleading Report

5.2.2 A misleading Report can be caused by omission or commission and may result from a single large error or a series of small errors that, when taken in aggregate, lead to a Report that is deemed to be misleading.

Ethics Standards Rule 4.2.4 It is unethical for a member to act in a manner that is fraudulent;

Ethics Standard Comment 5.1 Conduct

5.1.1 A Member must perform Assignments ethically, objectively and completely in a meaningful manner in accordance with these Standards.

5.1.4 A Member acting as a Co-signer must provide the Member seeking designation with adequate and reasonable supervision and advisory services.

Ethics Standard Rule 4.2.9 It is unethical for a Member to fail to create a work-file for each Assignment;

Ethics Standard Comment 5.7 Records

5.7.1 - A Member must prepare a Work-file in hard copy and/or electronically, for each Assignment. The Work-file must include:

5.7.1.ii - true copies of any written Reports including drafts documented on any type of media;

5.7.1.v - all other data, information and documentation necessary to support the Member's opinions, analysis and conclusions and to show compliance with this rule and all other applicable Standards, or references to the location(s) of such other documentation.

Reporting Standard Rule 6.2.4 In the Report the Member must define the Scope of Work necessary to complete the Assignment;

Reporting Standard Comment 7.5 Scope of Work

7.5.1 Scope of Work refers to the amount and type of information researched and the analysis applied and includes:

7.5.1.ii - research into physical, legal, social, political, economic and/or other factors that could affect the property;

7.5.1.iii - data research and verification, and Inspection of comparable data;

7.5.1.iv documents relied upon and their availability for review by the client or an intended user;

7.5.1.v - analysis applied; and

7.5.1.v - any limitations to the assignment.

7.5.2 The Scope of Work applied must be sufficient to result in analyses, opinions and conclusions that are credible in the context of the Intended Use of the Report. The Member has the burden of proof to support the Scope of Work decision and the level of information included in a Report.

Real Property Appraisal Standard Rule 8.2.2 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must identify the interest appraised;

Real Property Appraisal Standard Comment 9.2 Characteristics of the Property

9.2.1 The characteristics of the property must be adequately described and analyzed. The Report must include:

9.2.1.ii the interest to be valued;

Real Property Appraisal Standard Rule: 8.2.3 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must identify the property and describe its location and characteristics;

Real Property Appraisal Standard Rule: 8.2.4 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must identify and analyze land use controls;

Real Property Appraisal Standard Comment 9.3 Land Use Controls

9.3.1 Land Use Controls, including zoning, must be identified and their effect on use and value analyzed, together with any reasonably probable modifications of such regulations in light of economic demand, the physical adaptability of the property, and market area trends.

Real Property Appraisal Standard Rule: 8.2.7 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must describe and analyze all data relevant to the Assignment;

Real Property Appraisal Standard Comments 9.6 - Describe and Analyze All Data Relevant to the Assignment

9.6.2 - In the process of collecting and verifying relevant information the Member must perform this function in a manner consistent with the "Reasonable Appraiser" test.

Real Property Appraisal Standard Rule 8.2.8 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must describe and apply the appraisal procedures relevant to the Assignment and provide reasoning for the exclusion of any of the relevant valuation procedures;

Real Property Appraisal Standard Comment 9.7 Appraisal Procedures

9.7.4 - When a Cost Approach is applicable, a Member must:

9.7.4.ii - analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and

9.7.4.iii - analyze such comparable data as are available to estimate the difference between cost new and the present worth of the improvements (accrued depreciation) if applicable.

Real Property Appraisal Standard Rules 8.2.9 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must detail the reasoning supporting the analyses, opinions and conclusions of each valuation approach;

Real Property Appraisal Standard Comment 9.8 – Reasoning

9.8.1 Reasoning requires the logical review, analysis and interpretation of data in a manner that will support the value conclusion, not be misleading to a reader, and conform with the “Reasonable Appraiser” standard.

Real Property Appraisal Standard Rule 8.2.10 When completing a Real Property Appraisal Report, a Member must comply with the Reporting Standard and must analyze the effect on value, if any, of the terms and conditions of the lease(s) when developing an opinion of the value of a leased fee, leasehold interest;

Real Property Appraisal Standard Comment 9.9 Leased Fee/Leasehold Interest

9.9.1 A Leased Fee/Leasehold Interest may be less than, equal to, or greater than the value of all interests in the property.

9.9.2 A Leased Fee/Leasehold Interest may be omitted when not relevant to the Assignment.

Agreed Discipline:

1. **Section 5.35.1: Reprimand:** A written warning calling the attention of a Member to a breach of the Institute By-Laws, Code of Conduct, Regulations, Policies, or CUSPAP.
2. **Section 5.35.2: Education:**

CPD 123: Adjustment Support in the Direct Comparison Approach and CPD 132: More than Just Form-Filling to be completed successfully at the Member’s expense not later than twelve (12) months after the date of implementation of the Sanction Consent Agreement

CPD 130: Residential Valuation Basics to be completed successfully at the Member’s expense not later than twenty-four (24) months after the date of implementation of the Sanction Consent Agreement
3. **Section 5.35.3: Peer Review:** A similar appraisal report not more than two (2) years old to be submitted within 30 days of the date of implementation of the Sanction Consent Agreement.
4. **Section 5.35.4: Fine:** a fine in the amount of \$2,500, to be paid within thirty days of the date of implementation of the Sanction Consent Agreement.

Costs (Section 5.38):

Costs in the amount of \$500 were levied.