



Joint Testimony
Presented by
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Hauppauge, New York

On Behalf of the

Appraisal Institute
American Society of Appraisers
American Society of Farm Managers and Rural Appraisers

Before the Committee on Banking, Housing and Urban Affairs
On

“Examining the Impact of the Sarbanes-Oxley Act and Developments Concerning
International Convergence”

September 24, 2004

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United States Senate

Chairman Shelby, Ranking Member Sarbanes and members of the Committee, I am Gary P. Taylor, MAI, SRA, President of Rogers and Taylor Appraisers, Inc., in Hauppauge, New York. I am the 2004 President of the Appraisal Institute and am pleased to be here today on behalf of the Appraisal Institute, the American Society of Appraisers and the American Society of Farm Managers and Rural Appraisers, three of the largest appraisal organizations in the United States, representing more than 25,000 appraisal and valuation professionals.

Thank you for this opportunity to testify on the impact of the Sarbanes-Oxley Act and the developments concerning international convergence of accounting standards. We see the provisions of the Sarbanes-Oxley Act and the concurrent activities of the Financial Accounting Standards Board as moving financial reporting in an important and healthy direction, a direction that will help restore investor confidence in our financial markets.

International convergence will help the flow of capital more generally, and insofar as it helps the United States move toward a value-based financial reporting structure, it helps address many of the faults inherent in the historic-cost model of accounting currently employed. The Sarbanes-Oxley Act creates critical and workable safeguards around the audit process and recognizes the need for true independence and objectivity in corporate management, financial disclosures and audit-related functions.

International Convergence

Both the accounting and audit sides of financial reporting are relying more on valuation (or appraisal) concepts, terminology and skills. We recognize that accounting and valuation are two separate but complementary knowledge sets, and believe that best practices in each should be established and recognized to achieve independence, objectivity and transparency. It is unnecessary and even detrimental to the development of well-supported financial reporting standards for the accounting profession to aspire to establish valuation best practices.

Valuation standards have long existed in market economies throughout the world, and domestic and international market demands have spurred widely accepted formalization of these standards. In the United States, for example, market value opinions have been a cornerstone of mortgage finance, purchase and sale of real and personal property assets, eminent domain, "fairness issues" and basic business valuation for many decades. Hundreds of thousands of practitioners and their clients, the courts and legislative bodies understand and rely upon professionally developed valuations, proven market value concepts and trusted market value methodologies. Most major institutional investors require market value valuations of real, personal and intangible property assets in their portfolios to be continually monitored and updated.

The International Accounting Standards Board and International Valuation Standards Committee (IVSC), of which the Appraisal Institute is a founder and supporting member and the American Society of Appraisers is a participant, already cooperate to ensure that international accounting and valuation standards are consistent and complementary. The IVSC's international standards were developed explicitly for financial reporting and later were expanded to ensure that the same standards were applied in all professional property valuation worldwide.

We urge this Committee to encourage FASB to work in a similar manner with organizations like The Appraisal Foundation and International Valuation Standards Committee so that these time-tested valuation principles, which are supported by case law and practiced by valuation professionals worldwide, can be fully recognized. We believe valuation and accounting standards should be consistent and should complement each other in their application.

This becomes particularly important as FASB delves further into issues of valuation, as evidenced in its recent *Proposed Statement of Accounting Standard: Fair Value Measurements*. Of particular concern to our organizations is FASB's development of a Fair Value model for financial reporting. Although we applaud their move toward a value-based financial reporting structure, we are concerned they might be inadvertently complicating an already difficult issue by proposing Fair Value instead of relying on Market Value. According to their recent exposure draft on Fair Value Measurements, FASB is concerned that Market Value is constrained by tax case law, which might not be relevant for matters of financial reporting, and therefore has resisted use of the term.

However, we believe that they have considered the issue too narrowly, as Market Value has a much broader history of application and support that goes beyond taxation and mortgage. The collective law and the wide public acceptance of Market Value in property markets provide a firmer footing for its application in financial reporting than untested and unfamiliar Fair Value concepts. In addition to its rich tradition as the "market's measure," Market Value is objective and independent of the reporting entity, and provides the best current reflection of the integrated financial health of a corporation.

Sarbanes-Oxley Act of 2002

The move toward establishing high quality accounting standards cannot be successful unless expressly supported by legislation and audit standards. To that end, the Sarbanes-Oxley Act of 2002 has set the stage for improved accountability, auditability and overall investor reliance on the financial information issued by companies conforming to US GAAP.

There are a number of provisions in the Act that establish particularly sound practices. We heartily support the continued separation of audit services as outlined in Section 201 of the Act. The independence of specialists allows for another check in the audit process, and helps to affirm the objectivity and independence of an auditor's final report

The Act further helps protect investors and U.S. securities markets by taking responsibility for auditor oversight out of the professional realm and entrusting it to the Public Company Accounting Oversight Board.

We have been pleased at the progress this new organization has made, with one exception. The PCAOB created its Standing Advisory Group in the spring of 2004 and despite our urging does not

appear to have included a professional with valuation experience. Although we realize the PCAOB will look to professionals outside this group on an informal basis, the increasing relevance of property valuation in the financial reporting sector makes the formal involvement of valuation professionals critical. For that reason, we urge you to encourage the PCAOB, as well as FASB, to establish dialogue between the accounting/audit and valuation communities, thereby improving the efficacy of the final audit standards, especially those that include or require valuation concepts or practices.

As previously mentioned, valuation professionals have specific professional standards to which they must adhere. Such standards are often mandated by governmental entities and may emanate from various professional affiliations. The *Uniform Standards of Professional Appraisal Practice* and the *International Valuation Standards* contain specific provisions pertaining to the reporting of appraisal information, for example. It is important that audit standards include language that acknowledges adherence to specialists' professional standards. Such professional standards increase the reliability of information provided by specialists for use in financial reporting.

We look forward to working with you to ensure trusted, independent and accurate valuations are performed for consumers in the financial markets. Thank you, Mr. Chairman and members of the Committee. That concludes my statement.

About the Organizations

As the leading organization for professional real estate appraisers, the Appraisal Institute represents more than 18,000 members worldwide. Members benefit from an array of professional education and advocacy programs, and may hold the prestigious MAI, SRPA, and SRA designations. Appraisal Institute members adhere to a strictly enforced Code of Professional Ethics and Standards of Professional Appraisal Practice. For more information regarding the Appraisal Institute, please visit www.appraisalinstitute.org.

The American Society of Farm Managers was founded on January 14, 1929, by a core of dedicated farm managers from Illinois, Iowa and Missouri who felt that farm management professionalism was critical to the future of farming. In 1936, the organization was expanded to include appraisers who specialized in determining the value of farms and other rural properties. At that time, the name was changed to the American Society of Farm Managers and Rural Appraisers (ASFMRA).

The American Society of Appraisers is an organization of appraisal professionals and others interested in the appraisal profession. International in structure, it is self-supporting and independent. The oldest and only major appraisal organization representing all of the disciplines of appraisal specialists, the society originated in 1936 and incorporated in 1952. ASA's headquarters is in the Washington, D.C., area.