

China Appraisal Society (2010) Notice No.7

(Original Chinese version released on the website of China Appraisal Society (www.cas.org.cn) on 25 Jan 2010.)

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Provinces, autonomous regions, municipalities directly under the Central Government, asset appraisal associations from municipalities with independent planning status (Institutes of Certified Public Accountants) and various appraising institutions of the securities industry:

On 31 December, 2009, the Ministry of Finance printed and distributed the *Guidance on Propelling Appraisal Firms to Become Bigger, Stronger and More Excellent by the Ministry of Finance* (Caiqi (2009) No.453, hereinafter referred to as the *Guidance*). We hereby forward it to you and notify you of the relevant requirements as follows:

1. The essence of the *Guidance* must be learned and comprehended earnestly. Appraisal associations and firms of various regions shall be organized to learn and comprehend the significant meaning, main contents and basic requirements of the *Guidance* so that awareness is raised and thought is unified. Starting from their development realities, various regions and institutions should design specific schemes to carry out the *Guidance*.
2. Appraisal associations of various regions should carry out foundation work and research work, and collect and classify the basic data of firms, personnel, revenue and expenditure so as to make preparations for encouraging appraisal firms to become bigger, stronger and more excellent. According to the local circumstances, they should carry out research work, understand any new conditions and problems arising in the restructuring and summarize them in time.
3. Various appraisal firms, especially those from the securities industry should actively explore ways and measures to become bigger, stronger and more excellent by adhering to the requirements of the *Guidance* and by complying with their conditions.

Any problems that occur during the enforcement of such should be reported to the China Appraisal Society.

Attached is the *Guidance on Propelling Appraisal Firms to Become Bigger, Stronger and More Excellent* by the Ministry of Finance.

15 January, 2010

Document of the Ministry of Finance

Caiqi (2009) No.453

Guidance on Propelling Appraisal Firms to Become Bigger, Stronger and More Excellent by the Ministry of Finance

Provinces, autonomous regions, municipalities directly under the Central Government and departments (bureaus) of finance from municipalities with independent planning status:

In order to carry out the spirit of “developing industry associations and market intermediary organizations in a normal way” of the party’s seventeenth conference and the requirements of the *Opinions on Speeding up Service Industry by the State Council* (Guofa (2007) No.7), speed up the cultivation of a larger, stronger and higher level of appraisal firms that are appropriate to the economic development of our country and encourage the appraisal industry to develop in a scientific manner, we hereby provide the following opinions:

1. The necessity of encouraging the appraisal firms to become bigger, stronger and more excellent.

(1) Bigger, stronger and more excellent appraisal firms are desirable of a developing market economy.

Asset assessment is the product of market economy development and it has, over the past two decades, played an important role in encouraging the restructuring of state-owned enterprises, standardizing the operations of the capital market and boosting economic and social development. At present, the valuation industry has become an indispensable expert intermediary service industry in our country’s market economy. However, due to its late start and backward background, the firms are relatively small both in size and in business, inappropriate either for the level and scope of our economic development or the process of economy globalization and our status in the international economy. As our country’s market economy is becoming enhanced, enterprises are growing bigger and bigger, and economic activities are expanding gradually both in scope and area, we are in desperate need of a larger contingent of stronger and higher level appraisal firms that can not only

meet the domestic requirements of economic development but also take part in international competition.

(2) Bigger, stronger and more excellent appraisal firms are major guarantees of safeguarding our country's economy and the interest of the general public.

The valuation industry assumes not only the mission of promoting economic development but also the task of safeguarding our country's economy and the interest of the general public. At present, China has carried out deeper reform and opening up to the outside world, strategically adjusted the layout and structure of the state-owned economy, implemented a strategy of intellectual property rights and restructured monopoly industries, the financial system and capital market. Therefore, the mission of safeguarding our country's economy and the interest of the general public is becoming more difficult than ever and we need bigger, stronger and higher level appraisal firms to undertake valuations of major domestic projects so as to ensure the safety of national economic information and the interest of the general public.

(3) Bigger, stronger and more excellent appraisal firms are inherent requirements of the self-development of appraisal firms.

The development of the market economy has not only provided broad space for valuation industry development but also created new requirements for it. As our country's market economy is constantly developing and gradually becoming enhanced, the service scope of valuation is getting broader, technologies used are more complex and competition is becoming more intense, new challenges and higher demands are arising in the industry and its personnel, technology, quality and management. Therefore, appraisal firms, by adhering to the effort of becoming bigger, stronger and more excellent, require high-quality talents, reinforced theory research and technology innovation, strict control of performance quality, strengthening of inner management, formulation of core competitiveness and further promoting the enforcement level and social trustworthiness.

2. Guidelines, principles and objectives of encouraging appraisal firms to become bigger, stronger and more excellent

(1) Guidelines

Guided by Deng Xiaoping Theory and the important principle of "Three Represents" and based on the development reality of the valuation industry,

we should completely carry out scientific development, implement a restructuring of the valuation industry, transform its development method, further perfect management systems by combining administrative monitoring with self-discipline, strengthen policy support, guide it to become bigger, be stronger and more excellent, promote its social trustworthiness and enhance sustainable development of the industry.

(2) Principles

The first is to emancipate the way of thinking and implement innovative theory. Efforts should be made to draw on the experience of other intermediary industries and foreign valuation industries by considering the need to benefit the market economy and valuation industry development, to carry out innovation of systems, mechanisms and structure and to resolve any outstanding problems that hinder the development of the industry.

The second is to provide policy support and market selection. Efforts should be made to formulate the relevant policies and measures and give full play to the same and to encourage and support the industry to select a development pattern that is in line with its own features.

The third is to explore positively and advance steadily. Efforts should be made to positively explore patterns, measures and ways to encourage the industry to become bigger, stronger and more excellent. It is encouraged to reinforce guidance, coordinate as a whole, summarize in time and advance orderly by means of merger, coalition and restructuring.

(3) Objectives

To encourage the valuation industry to become bigger, stronger and more excellent, we need to further improve its comprehensive service ability, promote its social trustworthiness and better adapt to the requirements of social economic development. The phrase “Become bigger” means that the industry should reach a larger scale in business revenue and number of personnel. “Become stronger” means that the industry must have better expert service ability and core competitiveness. “Become more excellent” means that the industry must have higher service quality and enforcement levels.

Efforts should be made in 3-5 years' time to develop 3-5 flagship valuation associations, each with an annual business income of more than 200 million yuan and 200 appraisers, possessing stronger comprehensive service ability and the ability to take part in international competitions; about 30 valuation

associations that have stronger core competitiveness and are equal to valuations of large domestic enterprises and listed companies with an annual business income of more than 30 million yuan and 50 appraisers; about 100 valuation associations have regional competitiveness and are qualified for regional economic development requirements with an annual business income of more than 5 million yuan.

Efforts should also be made in 3-5 years' time to cultivate 10 "master appraisers" who have advanced cultural theory, are leaders in valuation theory research and technology innovation, are good at training appraisers and are widely respected by society; 100 "star appraisers" who have strong vocational ethics, higher valuation theory level, firm technical competence and higher reputation; as a contingent of professional appraisers who are loyal to valuation undertaking, and abide by vocational ethics and are equal to valuation.

3. Measures and requirements of encouraging the appraisal firms to become bigger, stronger and more excellent

(1) Actively explore measures to become bigger, stronger and more excellent and realize great-leap-forward development.

Appraisal firms should consider their own conditions and actively explore measures to become bigger, stronger and more excellent according to the principles of equality and voluntariness. Appraisal firms are encouraged to join hands with other leading institutes or weak ones to realize trans-regional development in scope and brand by means of merger, coalition and restructuring. During the process of merger, coalition and restructuring, efforts should be made to properly handle issues such as shareholders' right change, personnel rearrangement, business connection, archive management, legal responsibility, practically integrated licensed resources, practice standards and management system, and complement each other's advantages.

(2) Adhere to valuation technology innovation and positively expand its business scope.

Appraisal firms should attach great importance to technology innovation, improve research productivity, establish research departments, and actively carry out research on new methods and technologies. The research fund of large appraisal firms should be no less than 3% of its annual business income.

Efforts should be made to establish information databases and actively participate in the subject study of the industry.

Appraisal firms should keep an eye on market demands, study policy trends and explore new business. The first step is to realize the diversification of the target of service by extension from state-owned enterprises to various collectively-owned enterprises, governmental departments, public institutions and individuals who have a certain amount of assets. The second is to realize the diversification of business by expanding from traditional lawful valuation business to valuation of enterprise value and intellectual property rights and relevant consulting business. The third is to realize the diversification of regions by extending to trans-regional service or international valuation.

(3) Perfect inner management structure and strengthen control of practice quality.

Appraisal firms should establish and perfect scientific advance and retreat mechanisms, encourage and restraint mechanisms, inner decision-making mechanisms and benefit distribution mechanisms for shareholders and partners, and gradually improve inner management.

Appraisal firms should strengthen inner system development and standardize practice standards, inner training systems, business contracting, quality control and practice flow. They should also reinforce inner financial management, establish practice risk guarantee systems according to stipulations, prevent financial risk, perfect accounting systems and strictly report business income.

Appraisal firms should perfect quality management mechanisms and establish chief appraiser systems. A chief appraiser is of course the partner or shareholder of the authority and is responsible for examining assessment reports and controlling inner quality.

(4) Establish talent training mechanisms and give priority to cultural development.

Appraisal firms should give priority to attract and train talents so as to lay a talent resource foundation for becoming bigger, stronger and more excellent. They should formulate their own talent training plan and draw an amount of education fund from business costs equal to 2.5% of total wages to cultivate various talents who can meet the requirements of industry development and that of internationalization. Efforts should be made to establish effective encourage and restraint mechanisms to give full play to such talents. In

addition, management of human resources should be strengthened and talent assessment mechanisms should be established.

With the aim to establish harmonious appraisal firms that give priority to trustworthiness, possess professional spirit and think highly of social responsibility, appraisal firms should constantly pay attention to cultural development, reinforce vocational ethics education, adhere to the theory of practice in good faith, strengthen cohesive forces and formulate a core value that is beneficial to the sound development of appraisal firms.

4. Policies and measures to perfect the encouragement of appraisal firms to become bigger, stronger and more excellent

(1) Reform the access system of the valuation market.

Approval and management measures of asset appraisal firms may be revised timely. The organizational forms of appraisal firms are standardized and they are allowed to be in the form of limited liability company, joint stock company, general partnership company, special general partnership company, etc.; the names of the firms are standardized and there are limitations in relation to multi-professional qualifications in the naming of firms. Investor qualifications of the firms are standardized so that the scope of investors is enlarged. Branch authority management should be reformed and its operating method perfected. Thus, appraisal firms with solid conditions can be selected to carry out group trials in accordance with the parent-subsidiary system. Efforts should be made to clarify the legal responsibility of the firms, carry out dynamic management of them, and perfect their retreat mechanism.

(2) Reinforce policy support.

Positive policies and measures should be implemented to support the development of the industry. We should give necessary support to foreign appraiser training organized by them and to the idea of establishing valuation subjects based in institutes of higher learning. Where the appraisal firms set up branches in foreign countries, explore foreign markets and undertake offshore outsourcing, they can apply for capital support according to the relevant stipulations. Efforts should be made to give policy support in international exchange and talent resettlement.

Considering the demand for social economic development, we should vigorously expand the industry's service scope. Large and powerful valuation firms with core competitiveness should be encouraged to provide more

professional service to administrative and institutional asset management, financial asset management, valuation of the financial reports of enterprises, valuation of intellectual property rights, tax base valuation, fiscal capital performance valuation, government procurement valuation, investment in foreign countries and foreign investment. Much effort should be made to promote the dynamic valuation of assets and equity value of listed companies. According to the need to transform governmental functions, governments of various levels should be encouraged to purchase professional valuation services.

(3) Create a sound practice environment.

Administrative barriers, industry limitations and local protections that hinder the development of appraisal firms should be broken practically and efforts should be made to strengthen exchange and coordination with departments and firms such as development and reform, auditing, commercial administration, housing and urban-rural development, territorial resources, financial monitoring, state-owned assets monitoring and securities monitoring, and effectively administer bad practices such as administrative interference, commercial bribes and second access in disguised form. Bid management of valuation projects should be standardized. Charge system reform of valuation should be deepened and monitoring of it should be reinforced so that a fair and open competitive environment is created.

(4) Strengthen industry service.

Constantly taking “serving the members” as its aim, the industry association should strengthen market analysis and new market research, speed up the development of basic data and informationalization, perfect the talent training system, perfect the member reward and commendation mechanism, and promulgate valuation results and industry management and development. Efforts should be made to strengthen international exchange and cooperation, positively promote mutual recognition of international firms, introduce international advanced appraising qualifications, and cultivate a contingent of international top talents so as to create the conditions for our firms to go global. Appraisal firms should give full play to communication platforms with supervisors, entrusting parties and departments in charge to report appeals of the industry in time and effectively resolve the common challenges.

5. Improve and strengthen the supervision of appraisal firms

(1) Standardize administrative permission and perfect administrative monitoring.

According to laws and regulations, efforts should be made to strictly supervise the setup and change of appraisal firms, strengthen follow-up supervision and prevent the practice of preferring approval to supervision. Communication and coordination mechanisms between the department of finance and other relevant departments and industry associations should be established and perfected to join forces in supervision and management. An examination system of practice quality and annual report and register system should be perfected. Any violations should be strictly punished and administrative permission of any appraisal firms failing to meet the setup requirements should be withdrawn as soon as possible. The licence of any authority that commits serious violations should be suspended and any such firms and individuals suspected of being involved in any violations should be transferred to judicial organs for treatment.

(2) Give play to associations and strengthen self-discipline management.

Self-discipline management of associations of various levels should be perfected and decentralized management of corporate members should be the norm. The China Appraisal Society directly undertakes the self-discipline management of securities appraisal firms whereas local associations assume self-discipline management of small and medium sized appraisal firms and branches that serve the local economy.

Industry associations should further improve the ability and level of self-discipline management, and perfect valuation norm systems, examination systems for practice quality, report and register systems for major projects, register system of appraisers and member management systems. Efforts should be made to establish and perfect member integrity archive systems, member integrity demonstration systems and integrity archive dynamic distribution systems. Comprehensive valuation of appraisal firms should be carried out and inner administration guidance in relation to them should be strengthened. Accountability systems of practice violation and low price bidding by firms and their appraisers should be established to strengthen self-discipline and punishment.

(3) Strengthen party building in the industry and provide political guarantees.

The industry associations should earnestly carry out the spirit of the party's seventeenth conference and that of the fourth session of the seventeenth conference and strengthen party building in the industry. Efforts should be made to speed up party organization construction in the firms and those with solid conditions should construct party organizations. Education and management of party members should be sped up and assessment systems of party members should be established. Efforts should be made to innovate the activity forms of party organizations and organically bond party building with appraisal firm construction. Efforts should also be made to pertinently and effectively strengthen party building and give full play to both the battle readiness of basic party organizations and the pioneering spirit of party members.

6. Organization and leadership of encouraging appraisal firms to become bigger, stronger and more excellent

The China Appraisal Society should strengthen coordination by positively carrying out and promoting the *Guidance* so as to ensure that the actual effect is obtained in encouraging appraisal firms to become bigger, stronger and more excellent. Provinces, autonomous regions, departments of finance from municipalities directly under the State Council and local associations should fully comprehend the important meaning of encouraging appraisal firms to become bigger, stronger and more excellent, earnestly carry out its relevant policies and measures, positively formulate specific measures and methods by considering their reality, and speed up the pace of local firms to become bigger, stronger and more excellent, thus contributing to the scientific development of the industry.

29 December, 2009

Subject terms: valuation, firm, opinion

Information disclosure option: active

Make a copy for: ministries and departments directly under the State Council, the Bureau of Finance of Xinjiang Production and Construction Corps, and enterprises under the Central Government.

General Office of the Ministry of Finance

Print and distribute 360 copies.

Issued on 31 December, 2009