

## STANDARD GUIDANCE

### (COP 28) Grading and Appraisal

#### A. Definitions and applicability

**Diamond Grading** is classifying a diamond's characteristics, in terms of cut, colour, clarity and carat weight.

Diamond grading is a process of classification of characteristics of gemstones, which can be carried out in independent laboratories or in-house. While a diamond can be weighed accurately and given an exact carat value, eg 1.17cts, the cut, colour and clarity of a diamond are classified and reported within a range. For example, an E colour diamond is one that is better than F but worse than D; similarly a VS1 clarity is better than VS2 but worse than VVS2. Standards and methodologies for diamond grading, and information contained in grading reports or certificates, vary depending on the laboratory.

A **Diamond Grading Report** is a report on the grading of a Diamond's physical characteristics, usually in terms of cut, colour, clarity and carat weight. If an opinion on monetary value is included in a Diamond Grading Report, it is also considered to be an Appraisal Report.

**Appraising** is generating an opinion of monetary value based on the identity, composition, and qualities of a jewellery item.

Appraising (or valuation) draws on the information generated by assaying and grading and assigns and documents a monetary value to a jewellery item. Guides, price lists and expertise are used by appraisers to identify composition and qualities, and put a value on gemstones or jewellery. Appraisals can be generated for insurance, probate or market assessment. Some appraisers offer independent services while others may work in, or own, a retail environment. The use of appraisals in retail sales may raise legal issues under consumer protection laws, which can vary significantly across jurisdictions.

An **Appraisal Report** is a documented opinion of monetary value based on the identity, composition, and qualities of a jewellery item.

#### B. Issue background

Grading and appraisal reports play an important role in the jewellery industry and can assist consumers in making purchasing decisions and in protecting and insuring their property. Information provided in grading and appraisal reports must therefore be transparent and not used in a manner that could be deceptive.

Both grading and appraisal involves expert judgement and opinion, and may at times be provided by persons who are not independent. If the grader or appraiser has any vested interest in the item being graded or appraised, it is essential that this interest be disclosed.

A diamond grading report, or grading certificate, normally includes the weight, colour, clarity and cut of an unmounted stone. The report may also include a statement regarding whether the diamond has been identified as natural, or if it is treated or synthetic, the shape and measurements, cut proportions and finish grade, fluorescence, comments on any identification marks, and place and date of issue.

Appraisals in the jewellery industry are frequently provided by retailers for insurance purposes. Applicable law and industry guidelines may draw an important distinction between such appraisals, which may be more accurately referred to as "insurance replacement cost estimates", and appraisals that are carried out by experts in accordance with recognised professional standards such as the International Valuation Standards Council and the Uniform Standards of Professional Appraisal Practice.

## C. Key regulations

### **International standards**

#### *Applicable to diamond grading:*

The International Diamond Council has established Rules for Grading Polished Diamonds, which were updated in 2009. The IDC rules have been recognised by CIBJO, and have become the reference point for clear diamond terminology aimed at benefiting consumer confidence in diamonds. The revised IDC rules include terminology that broadens the range of descriptors that can be used for gem-quality diamonds that have been created in laboratory or factory, and to date have been referred to as "synthetic."

ISO/IEC 17025:2005 sets out general requirements for the competence to carry out tests and/or calibrations. It is used for laboratories in developing their management system for quality, administrative and technical operations.

CIBJO Gemmological Laboratory Book provides guidance for gemmological laboratories in developing their management system for quality, administrative and technical operations including.

The CIBJO Diamond Book is designed to assist all those involved in the purchase or sale of diamonds, treated diamonds, synthetic diamonds and imitations of diamond to ensure the use of proper nomenclature.

#### *Applicable to appraisal:*

The International Valuation Standards Council (IVSC) develops technical and ethical standards for the conduct of valuations.

The Appraisal Foundation publishes the generally accepted standards of the valuation profession in the United States, through the Uniform Standards of Professional Appraisal Practice (USPAP).

### **National law**

Most countries have laws regulating trading and consumer marketing that make it unlawful to wrongly describe any material aspect of a good, including jewellery products. For example in the United States, the FTC Guide for Jewelry, Precious Metals, and Pewter Industries states in S 23.1 Deception (general) states:

*It is unfair or deceptive to misrepresent the type, kind, grade, quality, quantity, metallic content, size, weight, cut, color, character, treatment, substance, durability, serviceability, origin, price, value, preparation, production, manufacture, distribution, or any other material aspect of an industry product.*

EU Directives on Misleading and Comparative Advertising address misleading advertising, meaning any advertising which, in any way, either in its wording or presentation:

- deceives or is likely to deceive the persons to whom it is addressed or whom it reaches.
- by reason of its deceptive nature, is likely to affect their economic behaviour.
- or for those reasons, injures or is likely to injure a competitor.

Members must ensure they are aware of Applicable Law in all jurisdictions in which they operate.

## D. Suggested implementation approach

Use your approach to **Legal Compliance** to identify Applicable Law and any potential breaches of relevant international standards and regulatory requirements for grading and appraising.

- **COP 28.1: Detection of Synthetics or Treatments:** *Members that generate independent Diamond Grading Reports shall identify whether detection of Synthetics and/or any Treatments are part of the assessment.*

#### **Points to consider:**

- Grading reports generally include an identification of a diamond as natural diamond, treated diamond or synthetic diamond. However consumers may inaccurately assume that a

diamond grading laboratory will always conduct tests to determine whether a diamond is synthetic or treated.

- Members that generate independent Diamond Grading Reports should review the content of their reports to ensure that they clearly explain whether or not the assessment includes the detection of synthetics and/or treatments, and have systems in place to ensure that the proper disclosure is provided in all grading reports.

- ***COP 28.2: Purpose of appraisal report: Members that generate independent Appraisal Reports for end consumers shall include the name of the consumer to whom the report is given and a statement of the purpose of the appraisal.***

**Points to consider:**

- The provision of appraisals in the jewellery industry is a complex subject area and any person engaged in providing opinions of the value of jewellery products should ensure they are aware of their legal obligations.
- The Code of Practices does not aim to provide detailed standards for appraisers of jewellery products. Members that generate independent Appraisal Reports should do so in accordance with Applicable Law and professional standards. Most jurisdictions where Members operate have national professional organisations that provide codes of conduct and minimum standards for the provision of appraisal or valuation services.
- Appraisers and retailers who provide insurance replacement cost estimates, particularly those working in the United States, should be familiar with the Jewelers Vigilance Committee's *Appraisal Task Force Recommended Minimum Guidelines for Insurance Replacement Cost Estimate Documentation for Jewelers*. The Task Force recommends that sellers provide an insurance replacement cost estimate in lieu of an "appraisal" unless the documentation would at least qualify as an appraisal according to the USPAP standards.

- ***COP 28.3: Disclosure of any vested interest: Members that offer Diamond Grading Reports or Appraisal Reports to end consumers that might reasonably be construed to be independent shall disclose any relevant vested interests in the sale of the Jewellery Product held by the grader or appraiser.***

**Points to consider:**

- Policies and procedures should be in place to ensure proper disclosure is provided in the applicable grading report or appraisal report.
- Use of a 'manufacturers suggested list price,' or a suggested retail price by a branded diamond marketer, would not generally be considered deceptive because the information is being provided by a party who is not presenting themselves as independent.

- ***COP 28.4: Use of inflated independent appraisal reports as a selling tool: Members shall not use price-inflated independent Appraisal Reports as a strategy to mislead end consumers about the attractiveness of the selling price of Diamonds, Synthetics, Gold and/or Platinum Group Metals Jewellery Products.***

**Points to consider:**

- Members engaged in selling Diamonds, Synthetics, Gold and/or Platinum Group Metals Jewellery Products must not represent any appraisal documentation that has been prepared by the Member itself as 'independent'. It should be readily apparent to the customer that the Member prepared such documentation, if that is the case.
- If an independent Appraisal Report is used as part of the selling of Diamonds, Synthetics, Gold and/or Platinum Group Metals Jewellery Products, and the sale price is less than the independent appraisal, the reason for the difference must be explained to the consumer, in writing, in the sales documentation.
- Use of a 'manufacturers suggested list price,' or a suggested retail price by a branded diamond marketer, would not generally be considered deceptive because the information is being provided by a party who is not presenting themselves as independent.

**Check:**

- ✓ If you generate independent diamond grading reports, do you include an explanation of whether or not the assessment includes the detection of synthetics and/or treatments?
- ✓ If you generate independent appraisal reports for end consumers, do you identify the consumer for whom the report is prepared and the purpose of the appraisal in your reports?
- ✓ If you generate diamond grading reports or appraisal reports for end consumers that might be construed as independent, and you actually have a vested interest in the sale of the product/s, this must be disclosed.
- ✓ Do you have procedures in place to ensure that inflated 'independent' valuations are not used to deceive end consumers?

## **E. Further information**

The following websites have further information:

- European Commission – Misleading and Comparative Advertising  
[http://ec.europa.eu/consumers/cons\\_int/safe\\_shop/mis\\_adv/index\\_en.htm](http://ec.europa.eu/consumers/cons_int/safe_shop/mis_adv/index_en.htm)
- Government of Canada – Competition Bureau  
[www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/home](http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/home)
- International Society of Appraisers (ISA)  
[www.isa-appraisers.org/](http://www.isa-appraisers.org/)
- Jewellery Appraisal Guidelines (2010)  
[www.jewellersvigilance.ca/docs/Jewellery Appraisal Guidelines 2010.pdf](http://www.jewellersvigilance.ca/docs/Jewellery_Appraisal_Guidelines_2010.pdf)
- Jewelers of America (US)  
[www.jewelers.org](http://www.jewelers.org)
- The Appraisal Foundation  
[www.appraisalfoundation.org/s\\_appraisal/index.asp](http://www.appraisalfoundation.org/s_appraisal/index.asp)
- U.S Government - Federal Trade Commission - Guides for the Jewelry, Precious Metals, and Pewter Industries  
[www.ftc.gov/bcp/guides/jewel-gd.shtm](http://www.ftc.gov/bcp/guides/jewel-gd.shtm)