

ICAI VALUATION STANDARDS 2018



ICAI REGISTERED VALUERS ORGANISATION

AND

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF INDIA**

INTRODUCTION



- ✓ The Institute of Chartered Accountants of India (ICAI), recognising the need to have the consistent, uniform and transparent valuation policies and harmonise the diverse practices in use in India, constituted the Valuation Standards Board (VSB) on 28th February, 2017.
- ✓ The main function of the VSB is to formulate Valuation Standards so that such standards can be adopted by the Registered Valuers Organisations in India, the Government and other regulatory bodies.



INTRODUCTION

- ✓ The VSB has also been entrusted with the responsibility of propagating the Valuation Standards and of persuading the concerned parties to adopt them in the preparation of valuation reports. The VSB will provide interpretations and guidance on issues arising from Valuation Standards.
- ✓ The VSB will also review the Valuation Standards at periodical intervals and, if necessary, revise the same.

INTERNATIONALLY PROMINENT VALUATION BODIES



- ✓ International Valuation Standards Council (IVSC),
- ✓ The Appraisal Foundation (TAF),
- ✓ The Royal Institution of Chartered Surveyors (RICS),
- ✓ The CFA Institute, the American Society of Appraisers (ASA) and
- ✓ The Canadian Institute of Chartered Business Valuators (CICBV).

WHICH INTERNATIONAL STANDARDS TO BE FOLLOWED BY ICAI VALUERS



- ✓ International Valuation Standards issued by IVSC
- ✓ Red Book by Royal Institute of Chartered Surveyors (RICS)
- ✓ USPAP EVS
- ✓ European Standards

- Actual Status of valuation profession and practice is fragmented and not so consistent from global prospective.
- Many of the countries use their Local Standards



APPROACH FOLLOWED BY VSB

Studied international valuation standards such as:

- ✓ IVS – 2013 series (old)
- ✓ IVS – 2017 series (new)
- ✓ European Valuation Standards – 8th edition (latest edition of 2016) as issued by TEGOVAUS PAP (Uniform Standards of Professional Appraisal Practice as adopted by USA's Congress)



APPROACH FOLLOWED BY VSB

Considered the-

- ✓ best valuation practices followed globally as well as in India
- ✓ uniqueness of Indian conditions
- ✓ current practices followed in India alongwith their advantages and disadvantages
- ✓ various purposes for which valuations might be required over and above the requirements of Companies Act



APPROACH FOLLOWED BY VSB

- ✓ Devised the framework and structure of valuation standards
- ✓ Prepared each individual valuation standards

Noted specific points which need not be captured in standards as the valuation standards **but education material / guidance notes may be issued in future**

OBJECTIVE OF FORMULATION OF VALUATION STANDARDS



Objective

To standardise the various principles, practices and procedures followed by registered valuers/ valuation professionals in valuation of assets and liabilities

Background

- ✓ VSB of ICAI has formulated the Draft ICAI Valuation Standards
- ✓ Exposed for public comments on 22nd April, 2018 upto 12th May 2018
- ✓ Comments considered by VSB at its meeting on 14th May, 2018.
- ✓ Approved by Council at its 375th meeting on 24th to 26th May, 2018
- ✓ Adopted by ICAI Registered Valuers Organisation under Rule 8 of Companies (Registered Valuers and Valuation) Rules, 2018 on 31st May, 2018

STATISTICS OF COMMENTS RECEIVED



- ✓ Around 750 suggestions on the Exposure Draft.
- ✓ The comments were received from the Valuers organisation like IVSC, Grant Thornton, ICON Valuation LLP, Duff and Phelps, WIRC of ICAI, E&Y, Baroda Branch of WIRC of ICAI, SIRC of ICAI, Chartered Accountants, Chartered Accountant Firms, FICCI, Chamber of Tax Consultant
- ✓ All the comments have been considered.
- ✓ The comments relating to guidance for valuation will be considered through educational material.



VALUATION STANDARDS

- ✓ Rules 8 of Companies (Registered Valuers and Valuation) Rules, 2018 specifies the following:
- The registered valuer shall, while conducting a valuation, comply with the valuation standards as notified or modified under rule 18:

Provided that until the valuation standards are notified or modified by the Central Government, a valuer shall make valuations as per-

- (a) internationally accepted valuation standards;
- (b) valuation standards adopted by any registered valuers organisation.



APPLICABILITY

- ✓ For valuation reports under Companies Act (Section 247) : ICAI-RVO adopted standards
 - in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities.

- ✓ Compliance is **mandatory** for the valuation reports issued on or after 1st July, 2018

- ✓ For all other valuation reports – **Recommendatory** initially from 1st July 2018.



ICAI VALUATION STANDARDS

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OBJECTIVE OF VALUATION STANDARDS

Valuation Standard	Name of the Standard	Description
	Preface to the ICAI Valuation Standards	Formation of valuation Standards Board, its objectives, Functions, Scope, Procedure for Issuing Valuation Standards
	Framework for the Preparation of Valuation Report in accordance with the ICAI Valuation Standards	The framework sets out the concepts that underlie the preparation of valuation reports in accordance with the ICAI Valuation Standards for its users.



Objective of Valuation Standards

Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard - 101	Definitions	The objective of this valuation standard is to prescribe specific definitions and principles which are applicable to the ICAI Valuation Standards, dealt specifically in other standards. The definitions enunciated in this Standard shall guide and form the basis for certain terms used in other valuation standards prescribed herein.



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Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard 102	Valuation Bases	This Standards (i) defines the important valuation bases; (ii) prescribes the measurement assumptions on which the value will be based; and (iii) explains the premises of values.
ICAI Valuation Standard-103	Valuation Approaches and Methods	This Standard: (i) defines the approaches and methods for valuing an asset; and (ii) provides guidance on use of various valuation approaches/methods.



Contd...

Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard - 201	Scope of work, Analyses and Evaluation	<p>This Standard prescribes the basis for:</p> <ul style="list-style-type: none">✓ determining and documenting the scope/terms of a valuation engagement, responsibilities of the <i>valuer</i> and the client;✓ the extent of analyses and evaluations to be carried out by the <i>valuer</i>; and✓ responsibilities of the <i>valuer</i> while relying on the work of other experts.



Contd...

Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard – 202	Valuation Report and Documentat ion	This Standard provides the: <ul style="list-style-type: none">✓ minimum content of the valuation report;✓ basis for preparation of the valuation report; and✓ basis for maintaining sufficient and appropriate documentation.



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Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard - 301	Business Valuation	<p>✓ This Standard provides guidance for business valuers who are performing business valuation or business ownership interests valuation engagements.</p> <p>✓ The objective of this Standard is to establish uniform concepts, principles, practices and procedures for valuers performing valuation services.</p>



Contd...

Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard - 302	Intangible Assets	✓ The objective of this Standard is to prescribe specific guidelines and principles which are applicable to the valuation of intangible assets that are not dealt specifically in another Standard.



Contd...

Valuation Standard	Name of the Standard	Description
ICAI Valuation Standard - 303	Financial Instruments	<p>This Standard establishes principles, suggests methodology and considerations to be followed by a valuer in performing valuation of financial instruments.</p> <p>This Standard supplements the other ICAI Valuation Standards by providing specific principles and considerations in relation to financial instruments.</p>

Preface to ICAI Valuation Standards

Main objective of the Valuation Standards Board



- ✓ To formulate Valuation Standards to be recommended by ICAI to the Government and other regulatory bodies
- ✓ While formulating the Valuation Standards, the VSB will take into consideration the applicable laws, customs, usages and business environment prevailing in India.



COMPOSITION OF BOARD

- ✓ Nominee of the Central Government representing the Ministry of Corporate Affairs on the Council of the ICAI
- ✓ Representatives of CII, CBDT, RBI, IRDAI, SEBI, IIM, IBA and C&AG.
- ✓ Eminent Professionals co-opted by the ICAI
- ✓ Representative(s) of any other body, as considered appropriate by the ICAI



Valuation Reports

While performing its function and at the time of formulation of the Valuation Standards, the VSB will:

- ✓ keep in view the purposes and limitations of valuation reports and the responsibilities of *valuer*.
- ✓ make possible efforts to explain the basic concept to which valuation principles should be oriented and state the valuation principles to which the practices and procedures should conform.
- ✓ clarify the terms commonly used in valuation reports and suggest improvements in the terminology wherever necessary.

The responsibility for the preparation of valuation report in compliance with the Valuation Standards and for adequate disclosure of information that supports the conclusion is that of the valuer.



Scope of Valuation Standards

The Valuation Standards

- ✓ by their very nature cannot and do not override the local regulations which govern the preparation of valuation report in the country.
- ✓ however, the government may determine the extent of disclosure to be made in the valuation report.
- ✓ are intended to apply only to items which are material.
- ✓ Any limitations with regard to the applicability of a Valuation Standard and the date from which a particular Standard will come into effect will be specified in the respective Standard.

Procedure for issuing Valuation Standards



- ✓ The VSB will consider the preliminary draft on the basis of deliberations in the committee / group.
- ✓ Exposure Draft of the proposed Standard will be issued for comments by the members of the Institute and the public
- ✓ After taking into consideration the comments received, the draft of the proposed Standard will be finalised by the VSB and submitted to the Council of the ICAI.
- ✓ The Council of the ICAI will consider the final draft of the proposed Standard and approve the same

COMPLIANCE WITH VALUATION STANDARDS



- ✓ The Valuation Standards will be mandatory from the respective date(s) mentioned in the Valuation Standard(s). The mandatory status of Valuation Standard implies that while preparing the valuation report, it will be the responsibility of the *valuer* to comply with the Valuation Standard.
- ✓ Valuation Report cannot be described as complying with the Valuation Standards unless they comply with all the requirements of each relevant Valuation Standard, to the extent applicable

Framework



SCOPE

Deals with

- ✓ the objective of the valuation report
- ✓ the qualitative characteristics that determine the usefulness of information in valuation report
- ✓ the fundamental ethical principles to be observed by the valuers.

ICAI Valuation Standards are to be applied for the valuation of **assets, liabilities** as well as **business**



USERS OF VALUATION REPORT

- ✓ The Framework is concerned with the valuation report prepared for the intended users.
- ✓ The intended users of valuation may be present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public.

They require valuation report for their specific purpose and the requirements **may vary** depending on the intended user.



FRAMEWORK

Qualitative Characteristics of Valuation Report

- ✓ Understandability
- ✓ Relevance
- ✓ Materiality
- ✓ Reliability
- ✓ Faithful Representation
- ✓ Substance Over Form
- ✓ Neutrality (free from bias)
- ✓ Prudence
- ✓ Completeness
- ✓ Balance between benefit and cost



VALUER

- ✓ The term *valuer* as used in this Framework means the registered valuer registered with the Registering Authority under Section 247 of the Companies Act 2013 and Rules made thereunder for carrying out valuation of assets belonging to a class or classes of assets.
- ✓ The term *valuer* also includes a *valuer* undertaking valuation engagement under other Statutes like Income Tax, SEBI, FEMA, RBI etc.



PROFESSIONAL JUDGEMENT

- ✓ The *valuer* plans and performs a valuation assignment in order to obtain sufficient appropriate information. The *valuer* considers materiality, risk, and the quantity and quality of available information when planning and performing the valuation assignment, in particular when determining the nature, timing and extent of evidence-gathering procedures.

PROFESSIONAL SKEPTICISM



- ✓ The *valuer* plans and performs a valuation assignment with an attitude of professional skepticism recognising that circumstances may exist that cause the information used or contained in the valuation report to be materially misstated.
- ✓ An attitude of professional skepticism means the *valuer* makes a critical assessment, with a questioning mind, of the validity of information obtained and is alert to information that contradicts or brings into question the reliability of documents or representations by the responsible party.

VALUATION REPORT



- ✓ Written valuation report containing the minimum requirements as per Valuation Standards.
- ✓ The *valuer* considers other reporting responsibilities, including communicating with those charged with governance when it is appropriate to do so.

ICAI Valuation Standard 101

Definitions



OBJECTIVE

- ✓ Definition of key terms used in Valuation Standards
- ✓ 48 Terms defines

ICAI Valuation Standard I 02

Valuation Bases

OBJECTIVE



This Standard:

- ✓ defines the important valuation bases;
- ✓ prescribes the measurement assumptions on which the value will be based;
- ✓ explains the premises of values; and
- ✓ prescribes the measurement assumptions in a valuation or the fundamental assumption on which the value will be based and explains the premises of values.



SCOPE

This Standard **does not** apply in cases where a *valuer* is required to adopt valuation bases that are prescribed:

- ✓ by a Statute, or Regulations; or
- ✓ in an agreement/ arrangement between the parties.

In such cases, the prescribed bases shall apply and adequate information should be disclosed appropriately in the report, that enables users of the valuation reports to understand the valuation bases.



VALUATION BASES AND PREMISES

Four Valuation Bases defined

Fair value	Participant specific value
Liquidation value	Relative Values to be considered for mergers, demergers, etc.

Five Valuation premises

Highest and best use	Going concern value
As is where is basis	Orderly liquidation

Forced transaction



SIGNIFICANT ELEMENTS

- ✓ an actual/ possible transaction;
- ✓ valuation date; and
- ✓ the parties (actual or likely) to the transaction

A valuer is responsible for selecting the appropriate valuation base considering the terms of engagement and the intended purpose of the valuation.



SELECTION OF BASE : CRITERIA (not limited to)

- ✓ nature of the asset to be valued;
- ✓ scope and purpose of the valuation engagement;
- ✓ valuation date/ measurement date;
- ✓ intended purpose of the valuation;
- ✓ applicable standard of value;
- ✓ applicable premise of value;
- ✓ assumptions and limiting conditions; and
- ✓ applicable governmental regulations



OTHER CONSIDERATIONS

✓ Participants Specific Considerations

✓ Synergies

✓ Integrations Costs

✓ Assumptions

✓ Transaction Costs



OTHER CONSIDERATIONS

- ✓ In transactions of the nature of –merger or amalgamation of companies or merger or demerger of businesses, the consideration is often discharged primarily by issue of securities in the nature equity of the acquirer or transferee entity with reference to an exchange ratio or entitlement ratio, considering the **relative values**.
- ✓ Such relative values are generally arrived at by applying an appropriate valuation approach or a **combination** of valuation approaches.
- ✓ If a combination of valuation approaches or methodologies is adopted, appropriate weightages are assigned to arrive at a single value.
- ✓ Relative values are usually derived by **using similar valuation approaches**, methodologies and weightages. Use of differing methodologies or approaches may be justified in some circumstances, e.g., merger of a listed company and an unlisted company where market price method would be relevant only for the listed company.

ICAI Valuation Standard I 03

Valuation Approaches and Methods



OBJECTIVE

To provide guidance on various valuation approaches/methods that can be adopted while valuing an asset.

Defines the approaches and methods for valuation

Defines the approaches and methods for valuation

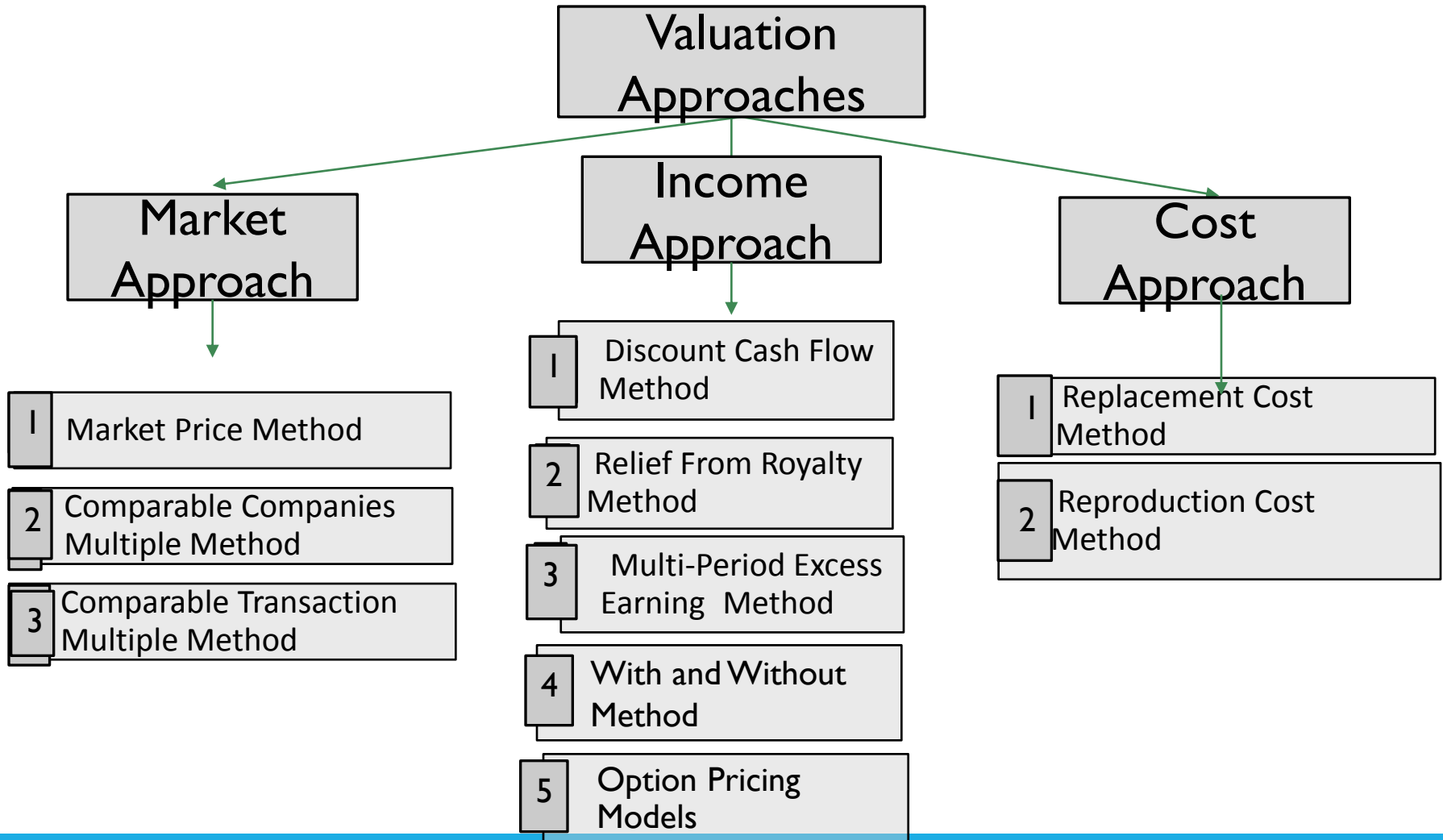
Standard provides to use combination of methods and give weightages

Key factors driving choice of valuation method/approach

- ✓ Nature of asset to be valued
- ✓ Availability of adequate inputs/information and its reliability
- ✓ Strengths and weakness of each valuation approach/method
- ✓ valuation approach/method considered by market participants



APPROACHES AND METHODS





KEY FACTORS

The appropriateness of a valuation approach for determining the value of an asset would depend on valuation bases and premises. In addition, some of the key factors that a *valuer* shall consider while determining the appropriateness of a specific valuation approach and method are:

- ✓ nature of asset to be valued;
- ✓ availability of adequate inputs or information and its reliability;
- ✓ strengths and weakness of each valuation approach and method; and
- ✓ valuation approach/method considered by market participants.

A *valuer* shall be **responsible** to select the appropriate valuation approach(es) and method(s) as there may not be a single approach/method that is best suited for valuation in every situation.



SELECTION OF APPROACH

- ✓ A *valuer* may consider adopting one distinct valuation approach/method **or** multiple valuation approaches/methods as may be appropriate to derive a reliable value.
 - When evaluating a value resulting from use of multiple valuation approaches/methods, a *valuer* shall consider the reasonableness of the range of values.

- ✓ If the values under different approaches and/or methods **significantly differ from each other**, it would **not** be appropriate to derive the final value merely by weightages accorded to differing values.
 - The *valuer* shall consider the factors given in above slide to determine **whether the chosen** approaches and methodologies are appropriate or not.

- ✓ The valuation approaches and methods shall be selected in a manner which would **maximise** the use of relevant observable inputs and minimise the use of unobservable inputs.
 - The price information gathered from an **active market** is generally considered to be a strong indicator of value.

ICAI Valuation Standard 201

Scope of Work, Analyses and Evaluation



COVERAGE

- ✓ Scope of Work/Terms of Engagement
- ✓ Contents of Engagement Letter
- ✓ Analyses and Evaluations
- ✓ Reliance on the work of other Experts
- ✓ Subsequent events not to be considered generally unless indications of such events existed as at the Valuation Date.
- ✓ Information required for valuation
 - non-financial information;
 - ownership details;
 - financial information; and
 - general information.



OBJECTIVE

This Standard prescribes the basis for:

- ✓ determining and documenting the scope/terms of a valuation engagement, responsibilities of the *valuer* and the client;
- ✓ the extent of analyses and evaluations to be carried out by the *valuer*; and
- ✓ responsibilities of the *valuer* while relying on the work of other experts.

Provides that valuer may obtain management representations



SCOPE OF VALUATION ENGAGEMENTS

- ✓ arriving at an estimate of / providing an **opinion of value**;
- ✓ **fairness opinion** which involves opining on the fairness of the price at which a transaction has taken place or on the fairness of the value conclusion of another valuer;
- ✓ **valuation review**, where the work of another *valuer* is reviewed. As part of a valuation review, the reviewer may perform certain valuation procedures and/or providing an opinion of value.



KEY ELEMENTS OF THE ENGAGEMENT

- ✓ Scope;
- ✓ Responsibility;
- ✓ Authority;
- ✓ Confidentiality;
- ✓ Limitations;
- ✓ Reporting; and
- ✓ Compliance with ICAI Valuation Standards.

The terms of the valuation assignment shall be documented in writing in an engagement letter



CONTENTS OF ENGAGEMENT LETTER

- ✓ Details of the client;
- ✓ Details of **any other user/s** of the valuation report apart from the client, if any;
- ✓ Details of the *valuer*;
- ✓ **Purpose** of the valuation;
- ✓ Identification of the subject matter of valuation;
- ✓ **Valuation date**;
- ✓ **Basis and premise** of valuation;
- ✓ **Responsibilities** of the client and the *valuer*;
- ✓ Confidentiality obligations of the client and the *valuer*;
- ✓ Scope/ **Limitations**;
- ✓ Fees ;
- ✓ Details of **third party expert**, if any, and their scope of work, scope limitations, and responsibilities.

CONFIDENTIALITY OF THE REPORT



The engagement letter **shall contain a condition** that the valuation report should not be used, reproduced, distributed or circulated whether in whole or part, other than for the purpose agreed in the scope of work/terms of engagement, **without the prior written consent** of the client or *valuer* as the case may be unless there is a statutory or a regulatory requirement to do so.



ANALYSES

If the *valuer* relies on the information available in **public domain**, the *valuer* should assess the **credibility/reliability** of such information taking into account, *inter-alia*, the purpose of valuation, and materiality *vis-à-vis* the valuation conclusion.

The type, availability, and significance of such information may vary with the asset to be valued. Such information shall include:

- ✓ non-financial information;
- ✓ ownership details;
- ✓ financial information; and
- ✓ general information.



SUBSEQUENT EVENTS

- ✓ Subsequent events are indicative of the conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date.
- ✓ Generally, a *valuer* would consider only circumstances existing at the valuation date and events occurring up to the valuation date.
- ✓ However, events and circumstances occurring subsequent to the valuation date, may be relevant to the valuation depending upon, inter alia, the basis, premise and purpose of valuation. Hence the valuer should apply its professional judgement, to consider any of such circumstances / events which are relevant for the valuation. Such circumstances / events could be relating to, but not limited to, the asset being valued, comparables and valuation parameters used.

In the event such circumstances / **events are considered** by the valuer the same should be **explicitly disclosed** in the valuation report.

RELIANCE ON THE WORK OF OTHER EXPERTS



- ✓ **A valuer shall evaluate the skills, qualification, and experience of the other expert in relation to the subject matter of his valuation.**
- ✓ **A valuer must determine that the expert has sufficient resources to perform the work in a specified time frame and also explore the relationship which shall not give rise to the conflict of interest.**
- ✓ **If the work of any third party expert is to be relied upon in the valuation assignment, the description of such services to be provided by the third party expert and the extent of reliance placed by the valuer on the expert's work shall be documented in the engagement letter.** The engagement letter should document that the third party expert is solely responsible for their scope of work, assumptions and conclusions.
- ✓ **A valuer shall specifically disclose the nature of work done and give sufficient disclosure about reliance placed by him on the work of the third party expert in the valuation report.**



INFORMATION AND ANALYSES

- ✓ **A *valuer* shall obtain sufficient appropriate data, information, explanations and perform appropriate analyses based on his professional judgment to enable him to draw reasonable conclusions on which to base his opinions or findings.**
- ✓ **The factors affecting the professional judgement include the possible errors and their materiality and the risk of occurrence of such errors.**

ICAI Valuation Standards 202

Report and documentation



OBJECTIVE

This Standard provides:

- ✓ minimum content of the valuation report;
- ✓ basis for preparation of the valuation report; and
- ✓ basis for maintaining sufficient and appropriate documentation

Provides that valuer may obtain management representations

Documentation to be maintained at least for eight years



SIGNIFICANT ELEMENTS

- ✓ **The form and content of the valuation report depends on the-**
 - **nature of the engagement; and**
 - **purpose of the valuation.**

- ✓ *A valuer* shall document matters which are important in providing evidence that the valuation assignment was carried out in accordance with the ICAI Valuation Standards and support his assessment or the valuation report submitted by him.

- ✓ *A valuer* shall prepare the valuation report with due professional care

CONTENTS OF VALUATION REPORT



- background information of the asset being valued;
- purpose of the valuation and appointing authority;
- the identity of the *valuer* and any other experts involved in the valuation;
- disclosure of the *valuer's* interest or conflict, if any;
- date of appointment, valuation date and date of the valuation report;
- inspections and/or investigations undertaken;
- nature and sources of the information used or relied upon;
- procedures adopted in carrying out valuation and valuation standards followed;
- valuation methodology used;
- restrictions on use of the valuation report, if any;
- major factors that were taken into account during the valuation;
- conclusion; and
- caveats, limitation and disclaimers to the extent they explain or elucidate the limitations faced by *valuer*, which shall not be for the purpose of limiting his responsibility for the valuation report.



MANAGEMENT REPRESENTATION

- ✓ A *valuer* may obtain written representations from the management/ client regarding information for performing the valuation assignment. The decision to obtain a representation letter is a matter of judgment by the *valuer*. A written representation obtained from the management or those charged with governance becomes part of the evidence obtained by the *valuer* which forms a basis for his valuation report.
- ✓ Wherever a *valuer* obtains written representations from the management/ client regarding information which is the base for the valuation assignment, **the *valuer* shall mention the fact of such representation and the reliance placed on the same.**

The existence of a management representation letter **shall not preclude the *valuer* from exercising reasonable skill and care** with respect to the information obtained regarding the valuation.



DOCUMENTATION

A *valuer* shall maintain documentation which provides:

- ✓ sufficient and appropriate record of the basis of the valuation report; and
- ✓ evidence that the valuation assignment was **planned and performed** in accordance with the ICAI Valuation Standards and applicable legal and regulatory requirements, as the case may be.



MINIMUM DOCUMENTATION

- ✓ engagement or appointment letter which appoints the *valuer* to undertake the valuation;
- ✓ tabulation of data obtained during the course of valuation;
- ✓ workings undertaken to arrive at the value;
- ✓ copies of relevant circulars, extracts of legal provisions;
- ✓ the base/s, approach/es, and method/s, or a combination thereof, used to arrive at the value;
- ✓ assumptions, a change in which, may materially affect the value;
- ✓ a copy of the signed valuation report issued; and
- ✓ management/client representation letter or such communication received, if any.

ICAI Valuation Standards 30 I

Business Valuation



OBJECTIVE

This Standard :

- ✓ provides guidance for business *valuers* who are performing business valuation or business ownership interests valuation engagements.
- ✓ establishes uniform concepts, principles, practices and procedures for *valuers* performing valuation services.



PURPOSE

Valuations of businesses, business ownership interests may be performed for a wide variety of purposes including the following:

- ✓ financial transactions such as acquisitions, mergers, leveraged buyouts, initial public offerings, employee stock ownership plans and other share-based plans, partner and shareholder buy-ins or buy-outs, and stock redemptions;
- ✓ dispute resolution and/ or litigation/pending litigation relating to matters such as marital dissolution, bankruptcy, contractual disputes, owner disputes, dissenting shareholder and minority ownership oppression cases, employment disputes, etc;
- ✓ compliance oriented engagements, like financial reporting; and tax matters such as corporate reorganisations, purchase price allocations etc
- ✓ Insolvency and Bankruptcy Code.



SIGNIFICANT ELEMENT

When valuing a business or business ownership interest, a *valuer* may express either an exact number or a range of values. There could be different benchmarks at which the estimate of value of an entity could be expressed by the *Valuer*. For example:

- ✓ Enterprise Value: Value attributable to the equity shareholders plus the value of debt and debt like items, minority interest, preference share less the amount of non-operating cash and cash equivalents.

- ✓ Business Value: Value of the business attributable to all its shareholders

- ✓ Equity Value: Value of the business attributable to equity shareholders



STEPS OF VALUATION

- ✓ Define the premise of the value;
- ✓ Analyse the asset to be valued and collect the necessary information;
- ✓ Identify the adjustments to the financial and non-financial information for the valuation;
- ✓ Consider and apply appropriate valuation approaches and methods;
- ✓ Arrive at a value or a range of values; and
- ✓ Identify the subsequent events, if any



VALUE UNDER LIQUIDATION

- ✓ **Liquidation value is the amount that will be realised on sale of an asset or a group of assets when an actual/hypothetical termination of the business is contemplated/assumed.**
- ✓ The value under liquidation would be relevant in case the basis of valuation is liquidation value
- ✓ In the event of valuation of ownership interest under the premise of liquidation, it may be relevant to consider the realisable values of assets of the entity after considering transaction costs.

RULE OF THUMB OR BENCHMARK VALUE



- ✓ **Rule of thumb or benchmark indicator is used as a reasonable check against the values determined by the use of other valuation approaches in a valuation engagement.**
- ✓ Rule of thumb may provide insight into the value of a business or business ownership interest. Some of the examples of rule of thumb or benchmark valuation would be value based on transaction multiples for capacity or turnover.
- ✓ It shall not be used as the only method to determine the value of the asset to be valued.



OTHER CONSIDERATIONS

- ✓ Adjustment to information from financial statements
- ✓ Treatment of non-operating assets and inter-company investments
- ✓ Consideration of the Capital Structure of company



VALUE

In arriving at the value, the valuer shall:

- ✓ assess the reliability of the results under the different approaches and assign weights to value indications reached on the basis of various methods;
- ✓ the selection of and reliance on appropriate methods and procedures depends on the judgment of the *valuer* and not on any prescribed formula. One or more approaches may not be relevant to a particular situation, and more than one method under an approach may be relevant;
- ✓ the *valuer* must use informed judgment when determining the relative weight to be accorded to indications of value reached on the basis of various methods, or whether an indication of value from a single method shall be conclusive. In any case, the *valuer* shall provide the rationale for the selection or weighting of the method or methods relied on in reaching the conclusion;
- ✓ in assessing the relative importance of indications of the value determined under each method, or whether an indication of value from a single method shall be the value, the *valuer* shall consider factors such as:

ICAI Valuation Standard 302

Intangible Assets Valuation



OBJECTIVE

Prescribes specific guidelines and principles which are applicable to the valuation of intangible assets.

Deals with-

- ✓ Intangible assets
- ✓ Goodwill
- ✓ Categories of Intangible Assets
- ✓ Valuation Approaches and Methods
- ✓ Tax Amortization Benefits
- ✓ Discount Rates



INTANGIBLE ASSETS

Areas of Intangible Assets Valuation:

- ✓ purchase price allocation for accounting and financial reporting under Ind AS 103 *Business Combination*;
- ✓ impairment testing under Ind AS 36 *Impairment of Assets*;
- ✓ transfer pricing when an intangible asset is being transferred/licensed in/out between geographies/companies;
- ✓ taxation by way of a purchase price allocation for claiming tax deductions when a business is transferred by a slump sale;
- ✓ transaction (merger & acquisition) when the subject is the intangible itself, such as a brand/telecom license or for carrying out a pre-deal purchase price allocation to assess the impact of the deal on financials;
- ✓ financing, when an intangible is used as a collateral;
- ✓ litigation, when there has been a breach of contract/right and the compensation has to be determined;
- ✓ bankruptcy / restructuring, etc;
- ✓ insurance, such as determining the personal worth of a celebrity/football franchise/cricket franchise; or
- ✓ issuance of sweat equity shares which are generally issued against technical knowhow/ technical expertise/intellectual property.



SIGNIFICANT CONSIDERATIONS

- ✓ To determine the purpose and objective of the overall valuation assignment;
- ✓ To consider the legal rights of the intangible asset to be valued, for example, a registered trademark may have a higher value as compared to an unregistered trademark. However, an unpatented technology (as not in public domain) may have a higher value than a patented technology;
- ✓ To evaluate the highest and best use considerations;
- ✓ To assess the history and development of the intangible asset;
or
- ✓ To consider any specific laws or regulations guiding the intangible asset valuation in the country, for example, royalty payments in India are regulated.



SCOPE

- ✓ Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film.
- ✓ For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as tangible asset. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.
- ✓ In determining whether an asset that incorporates both intangible and tangible elements should be treated as a tangible asset, or as an intangible asset under this Standard, the *valuer* uses judgement to assess which element is more significant.



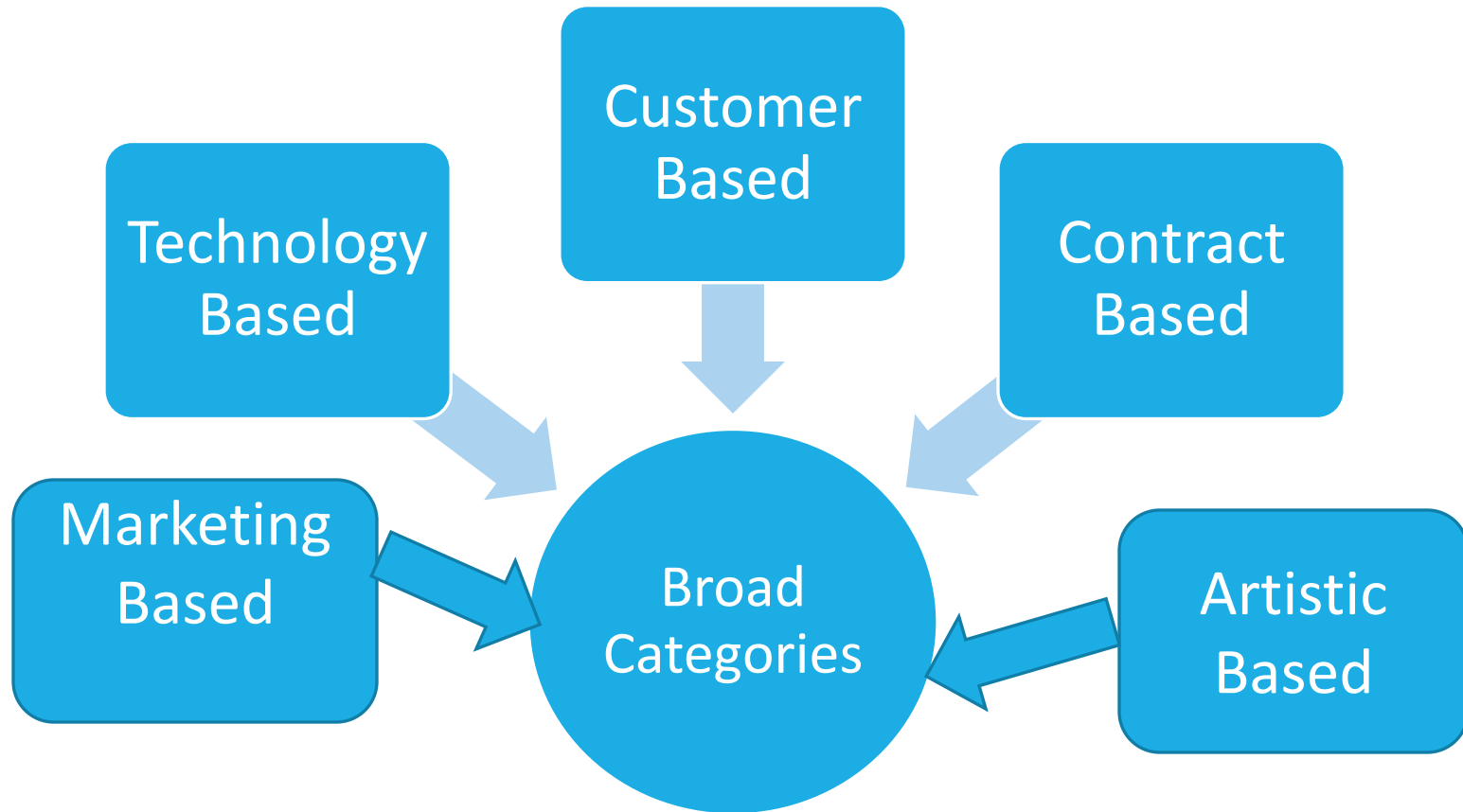
GOODWILL

- ✓ Goodwill is defined as an asset representing the future economic benefits arising from a business, business interest or a group of assets, which has not been separately recognised in another asset.





CATEGORIES OF INTANGIBLE ASSETS





MARKET APPROACH

Price/Valuation multiples/Capitalisation rates

- ✓ This method considers certain multiples/ capitalisation rates to arrive at the valuation of a comparable intangible asset. The multiples shall be adjusted appropriately to factor in any differences between the intangible asset to be valued and comparable intangible asset.

Guideline pricing method

- ✓ This method determines the value of an intangible asset by considering the price paid in an orderly transaction for a comparable intangible asset (called as the guideline intangible asset which is similar to the intangible asset to be valued).



INCOME APPROACH

Relief-from-royalty-method

- ✓ the value of an intangible asset is determined by estimating the value of total costs saved that would have otherwise been paid by the user as royalty payments, if had been taken on lease from another party. Alternatively, it could also indicate the value of an intangible asset that could have fetched cash flows in the form of royalty payments, had it been leased to a third party.

Multi Period Excess Earning Method

- ✓ the value of an intangible asset is equal to the present value of the incremental after-tax cash flows ('excess earnings') attributable to the intangible asset to be valued over its remaining useful life.



INCOME APPROACH

With and Without Method

The value of the intangible asset to be valued is equal to the present value of the difference between the projected cash flows over the remaining useful life of the asset under the following two scenarios :

Business with all assets in place including the intangible asset to be valued

Business with all assets in place except the intangible asset to be valued



INCOME APPROACH

Greenfield Method

- ✓ The basic assumption for valuation using this method is that the intangible asset to be valued is the only asset with all other tangible or intangible assets being created, leased or acquired.
- ✓ Instead of the contributory asset charge generally deducted from the cash flows, a *valuer* is required to subtract replacement cost of the asset that is required to be built or bought.
- ✓ This method is usually used to value franchise agreements and certain licenses.



INCOME APPROACH

Distributor Method

- ✓ This is a variation of MEEM and is adopted for valuation of customer-based intangible assets when MEEM is applied to value another intangible asset (considered to be more significant).
- ✓ The fundamental assumption used in this method is that cash flows of each segment of a particular business are expected to generate profits.



COST APPROACH

Reproduction Cost Method

- ✓ **Involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.**
- ✓ **Under this method, the value of an intangible asset is the total cost (based on current prices) to produce an exact replica of the intangible asset to be valued.**
- ✓ **Nevertheless, since intangible assets are generally not developed (other than certain assets like software), any intangible asset that can be hypothetically developed using the same function and utility, can provide a value base for the intangible asset to be valued.**



COST APPROACH

Replacement Cost Method

- ✓ **Involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence.**
- ✓ Under this method, the value of an intangible asset is the total cost (based on current prices) to produce an asset similar to the intangible asset to be valued.



TAX AMORTISATION BENEFITS

- ✓ **Tax Amortisation Benefit (TAB)** is a hypothetical benefit available to a market participant by way of amortisation of the acquired intangible assets, thereby reducing the tax burden.
- ✓ Tax amortisation benefits (TAB) can be computed and added to the overall value of the intangible asset based on nature of the asset and purpose of valuation, if appropriate. Intangible assets can be amortised based on tax jurisdictions and valuation methodology used.



DISCOUNT RATES

- ✓ The discount rate is the rate of return used in a discounted cash flow analysis to determine the present value of future cash flows.
- ✓ If cash flows are nominal, discount rate is also nominal. Currency of cash flows and discount rate in same currency plays a vital role.

ICAI Valuation Standard 303

Financial Instruments



OBJECTIVE

Establishes principles, suggests methodology and considerations to be followed by a valuer in performing valuation of financial instruments.

Deals with

- ✓ How value is determined
- ✓ Determination of Present Value
- ✓ Adjustments for Credit Risk
- ✓ Control Environment: Governance and control procedures of an entity



SCOPE

- ✓ Valuation of financial instruments is commonly carried out amongst other matters, for transactional pricing (i.e. buy or sell) and financial reporting purposes. In addition, valuation of financial instruments is also of particular importance in case of business combinations, share-based payments, off-market transactions, risk management, tax allocations, dispute resolution, purchase-price allocations, liquidation, etc.
- ✓ **Considering the multiple categorisation and different usages of a financial instrument valuation, detailed consideration of purpose of valuation and the features of the instrument being valued is essential to identify the relevant information available to be perused for valuing the instrument.**



VALUATION METHODS

- ✓ Financial instruments being generally aligned to market linked factors, the usage of market linked methods with observable inputs is usually the preferred approach to arrive at a value.
- ✓ **In selection of the approach and method, a *valuer* shall also give due consideration to the control environment under which the entity and the instrument operates. The control environment consist the entity's internal governance and control objectives, procedures and their operating effectiveness with the objective of enhancing the reliance on the valuation process and outcome thereof.**
- ✓ A *valuer*, if relying on valuation inputs provided by the entity, shall form independent opinion on the valuation control environment and factor outcome on the valuation method, approach, outcome and reporting thereof.



FACTORS FOR SELECTION OF METHOD

- ✓ the valuation base and terms and conditions of the instrument being valued;
- ✓ the purpose of valuation; and
- ✓ other considerations including the control framework of the entity and input data sets.



VALUE UNDER VARIOUS APPROACHES

- ✓ **In market approach**, the value of the financial instrument is determined by considering traded prices of such instrument in an active market; or prices and other relevant information generated by market transactions involving identical or comparable (similar) assets.
 - A *valuer* shall follow the detailed guidance provided in ICAI Valuation Standard 103 for application of the market approach.
 - From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility.

- ✓ **In income approach**, value of a financial instrument is determined based on the expected economic benefits by way of income, cash flows or cost savings generated by such financial instrument and level of risk associated with such financial instrument. It generally involves discounting future amounts to a single present value after adjusting inherent risks.



VALUATION TECHNIQUES AND INPUTS

Once the valuation technique has been shortlisted and deployed, such valuation technique used for valuation shall be applied consistently.

However, in certain circumstances a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of value in the circumstances. Examples of instances when a change in valuation technique may be necessitated are:

- ✓ change in terms or regulations governing the instrument;
- ✓ new markets development;
- ✓ new information becomes available;
- ✓ information previously used is no longer available;
- ✓ valuation techniques improvement; or
- ✓ market conditions change.



MAJOR CONSIDERATIONS

- ✓ Determination of Present Value
- ✓ Adjustments for Credit Risks
- ✓ Control Environment

**BROAD DIFFERENCES
FROM
INTERNATIONAL VALUATION
STANDARDS ISSUED BY IVSC**



DIFFERENCES

S. no.	Topic	International valuation standards	ICAI Valuation Standard
1	Scope	Covers valuations of <ul style="list-style-type: none">• Business• Real Estate• Plant & Machinery• Intangibles• Equity/Financial instruments	Real estate and Plant & Machinery are not yet covered.
2	Usage of Multiple Valuation Methods	Preference to use one method unless circumstances require usage of multiple methods	Valuer's may use combination of methods and give weightages
3	Range of Value	Generally only one Value is provided	Permits a reasonable range of values (in line with internationally accepted practices)



DIFFERENCES

S. no.	Topic	International valuation standards	ICAI Valuation Standard
4	Valuation Bases	Defines and explains: <ul style="list-style-type: none">- Market Value- Market Rent- Equitable Value- Investment Value- Synergistic value- Liquidation Value	Defines and explains: <ul style="list-style-type: none">- Fair Value- Participant Specific Value- Liquidation Value Fair Value is referenced as most important Valuation Base. Fair Value is defined and explained to be proxy for Market Value Concept of Relative Value recognised



DIFFERENCES

S. no.	Topic	International valuation standards	ICAI Valuation Standard
5	Information to be obtained by Valuer	Requires reasonable and sufficient information to be obtained	Specified to collect following information: <ul style="list-style-type: none">- Non-financial information- Ownership details- Financial information- General information



DIFFERENCES

S. no.	Topics	International valuation standards	ICAI Valuation Standard
6	Investigations and Compliance	Standard titled as Investigation and Compliance	Standard Renamed as Analyses and Evaluation
7	Valuer's Signature	Requires Valuer to be identifiable	Requires signature shall contain name of the Valuer vested with signing authority, entity name, Individual and entity's registration number along with the date and place where the Valuation Report is signed



WEBCASTS BY ICAI

- ✓ Series of webcast introducing the standards has been enabled to engage with members and seek their inputs to the exposure draft
- ✓ Viewers Statistic Report of the webcasts

Date	IPs	Total Hits
30 th April, 2018	4263	9309
2 nd May 2018	5834	13801
3 rd May 2018	4923	10509
4 th May 2018	4585	11088
7 th May 2018	5434	12540

Thank you