

Road Map to Indian Valuation Standards

The Ministry of Corporate Affairs (MCA) has notified the provisions governing valuation by registered valuers [section 247 of the Companies Act, 2013 (the Act)] and the Companies (Registered Valuers and Valuation) Rules, 2017 (the Rules), both to come into effect from 18 October, 2017. These rules are game changer in the domain of Valuation. Earlier various class of professionals were given authority to certify valuation in the absence of dedicated framework under any regulatory authority. Now with this rules and IBBI being appointed as responsible authority to administer and perform functions under the said rules, the valuation domain is being well regulated.

Presently more than 5000 valuers are registered under IBBI and they are only authority to carry out valuations under different legal framework. Nevertheless the other laws are soon expected to be amended to include the Registered Valuers to carry out Valuations once proposed Valuers Bill 2000 become Act. Valuation is inexact science requiring both objectivity and subjectively. Hence professional judgment of valuer is critical in valuations.

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One of the key reasons of regulating this domain was to bring consistency and uniformity. Different valuers have been taking different assumptions may lead to drastic differences in value conclusion. In many cases, the valuation also lacks uniformity and generally accepted global valuation practices. To bring uniformity, the valuation rules prescribed Valuation Standards.

As per definition 'Valuation standards' means the standards on valuation referred to in rule 18 of the Companies (Registered Valuers and Valuation)

Rules, 2017 Rule 18 prescribes Valuation Standards.

The Central Government shall notify and may modify (from time to time) the valuation standards on the recommendations of the Committee set up under rule 19. Rule 19 Committee to advise on valuation matters.

(1) The Central Government may constitute a Committee to be known as 'Committee to advise on valuation matters' to make recommendations on formulation and laying down of valuation standards and policies for compliance by companies and registered valuers.

The Centre Government has set up a 12-member 'Committee to advise on valuation matters' headed by R Narayanaswamy, Professor-Finance & Accounting, Indian Institute of Management, in May 2018.

Needs of Valuation Standard

- Establish global framework
- Set asset specific guidelines
- Reflect global nature of business
- Assured guarantee of quality

The Valuation standards are set with objective to Standardize the various principles, practices followed by Registered Valuers or Valuation Professionals in valuation of assets & liabilities. Applicability / utility of Valuation Standards Disclosures in Valuation report

Rule 8. (3) states The valuer shall, in his report, state the following:-

(h) procedures adopted in carrying out the valuation and valuation standards followed; Rule 8 prescribed that The registered valuer shall, while conducting a valuation, comply with the valuation standards as notified or modified under rule 18: Hence it is mandatory for registered valuer to comply with the valuation standards as notified under rule 18. However the Valuation Standards are not yet notified under Rule 18. Till Valuation Standards as per rule 18 are being notified a valuer shall make valuations as per-

(a) internationally accepted valuation standards;

(b) valuation standards adopted by any registered valuers organisation.

International Valuation Standards (IVS) : The International Valuation Standards Council (IVSC) is a not-for-profit organisation that acts as the global standard setter for the valuation profession

- IVS - A benchmark for global valuation practice
- IVS 2017 comprises five General Standards and six Asset Standards.
- The General Standards set requirements for the conduct of all valuation assignments including establishing the terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting.
- The Asset Standards include requirements related to specific types of assets, including background information on the characteristics of each asset type that influence value and additional asset-specific requirements regarding common valuation approaches and methods used. The assets standards cover:

Businesses and Business Interests Intangible Assets Plant and Equipment Real Property Interests Investment Property under Construction Financial Instruments Overview of ICAI Valuation Standards: Valuation Standards Board of ICAI has issued 'ICAI Valuation Standards (IVS-101, 102, 103, 201, 202, 301, 302, 303)', which are applicable from 1 July 2018.

VS 101- Definitions - To prescribe specific definitions and principles applicable to ICAI Valuation Standard. Also this is Valuation Standard guides to other Valuation Standards. VS 102-Valuation Bases- It defines important Valuation Bases & Prescribes the measurement assumptions. Also explains the premises of values. A valuer is responsible for selecting the appropriate valuation base considering the terms of engagement and the intended purpose of the valuation. VS 103- Valuation Approach and Methods- it defines approaches and methods for asset valuation and provides guidelines. There are three types of Valuation Methods such as Market method, Income method and cost method.

VS 201- Scope of Work, Analyses & Evaluation- It identifies scope & terms of documents of valuation and engagement, responsibilities of valuer and client. The terms of the valuation Assignment shall be documented in writing in an Engagement Letter.

VS 202- Valuation Report & Documentation- The valuation report should be minimum in content, forms basis for the preparation of Valuation Report & basis for maintaining sufficient & appropriate documentation. VS 301- Business valuation- It provides guidance for business valuers. The objective of this standard is to create uniform concepts, principles, practices and procedures of valuers for performing valuation services. VS 302- Intangible Assets- The objective of this standard is to prescribe specific guideline & principles applicable to valuation of intangible assets that are not dealt specifically in another standard. Intangible assets are categorized as under:

Marketing based
Customer based
Technology based
Contract based
Artistic based

VS 303 - Financial Instrument- It establishes principles, suggests methodology and consideration to be followed by valuer in performing valuation of financial instrument. It also supplements other valuation standards. If any 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

To conclude: The 12-member 'Committee to advise on valuation matters' headed by R Narayanaswamy, have submitted the report based on which Indian Valuation Standards under rule 18 will be notified. Ministry of Corporate Affair is in process of finalisation of India Valuation Standards and soon they may notify.

Convergence of International Valuation Standards (IVS) to India Valuation Standard has to consider following points :

- Best valuation practices followed globally as well as in India
- Uniqueness of Indian conditions
- Current practices followed in India
- Various purposes for which valuations might be required over and above the requirements of Companies Act, IBC or Other legal framework

he/she has to mention the compliance to the Valuation Standards in his report. Hence it is imperative for stake holders to know the Valuations Standards, because the key business decision will be taken based on the Valuations

Once notified the Standards will be applicable to all Registered Valuers and he/she has to mention the compliance to the Valuation Standards in his report. Hence it is imperative for stake holders to know the Valuations Standards, because the key business decision will be taken based on the Valuations

