International Valuation Standards (IVS)

CEP for CEV IAF RVO
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Registered Valuer – Legal Framework

- Section 247 of The Companies Act, 2013 was put into force w.e.f. 18th October, 2017
- Companies (Registered Valuers and Valuation) Rules, 2017 were put in force on the same date but came with a transition provision. Transition Arrangement ended on 31st January, 2019
- Updated Numbers: 3,073 registered valuers as on 30th May, 2020
- 22 Registered Valuer Entities registered by IBBI (10 for all 3 asset classes)
- IBBI/ Dr. Sahoo led the CoE in preparing a 2480 page report and drafting The Draft Valuer Bill, 2020

Proposed New Regulatory Framework for Valuation – Draft Valuer Bill, 2020

- National Institute of Valuers (NIV) to be set up to protect the Users of Valuation Services, including IBC
- Valuer Institutes, VPOs & Valuers to be regulated by NIV
- Valuers across all Regulatory Requirements proposed to be integrated, including:
  - IBC
  - CA, LLP
  - SARFAESI, PMLA
  - Banking Regn, Securities Contracts (Regulation), SEBI, IRDA, PFRDA
  - WT, IT, BMIT
  - FEMA

Importance of International Valuation Standards (IVS)

8. (1) 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.

Code of Conduct: 7. A valuer shall carry out professional services in accordance with the relevant technical and professional standards that may be specified from time to time

- CEV IAF RVO has adopted IVS as Valuation Standards
- Members of an RVO which has not adopted any Standards, are required to comply with Internationally accepted valuation standards

Valuation Report – Responsibility (Rule 8(2))

The registered valuer may obtain inputs for his valuation report

or get a separate valuation for an asset class conducted from another registered valuer,

in which case he shall fully disclose the details of the inputs and the particulars etc. of the other registered valuer in his report and

the liabilities against the resultant valuation, (irrespective of the nature of inputs or valuation by the other registered valuer),

shall remain of the first mentioned registered valuer.

Possible effects of not complying with Valuation Standards

- Cancellation or Suspension of Registration of Valuer (Rule 15)
- Complaint against Registered Valuer by aggrieved party (Rule 16)
- Fine of >25000 upto 1 Lakh (Fraud: Imprisonment upto 1 year + Fine of > 1 Lakh upto 5 Lacs) + Refund remuneration + pay for damages (Section 247 (3) & (4))
- Punishment for Fraud (Section 447 of CA)
- Punishment for False Statement (Section 448 of CA)

International Valuation Standards (IVS)

Introduction

Glossary

IVS Framework

General Standards:

- Scope of Work (IVS 101)
- Investigation & Compliance (IVS 102)
- Reporting (IVS 103)
- Bases of Value (IVS 104)
- Valuation Approaches and Methods (IVS 105)

International Valuation Standards (IVS)

Asset Standards:

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- Real Property Interests (IVS 400)
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- Financial Instruments (IVS 500)

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IVS - Glossary

20.2. Client

The word “client” refers to the person, persons, or entity for whom the valuation is performed. This may include external clients (ie, when a valuer is engaged by a third-party client) as well as internal clients (ie, valuations performed for an employer).

20.7. Must

The word “must” indicates an <u>unconditional responsibility</u>. The valuer must fulfill responsibilities of this type in <u>all cases in which the circumstances exist to which the requirement applies</u>.

IVS - Glossary

20.6. May

The word “may” describes actions and procedures that valuers have a responsibility to consider. Matters described in this fashion require the valuer’s attention and understanding. How and whether the valuer implements these matters in the valuation engagement will depend on the exercise of professional judgement in the circumstances consistent with the objectives of the standards.

IVS - Glossary

20.10. Should

The word “should” indicates responsibilities that are presumptively mandatory. The valuer must comply with requirements of this type unless the valuer demonstrates that alternative actions which were followed under the circumstances were sufficient to achieve the objectives of the standards. In the rare circumstances in which the valuer believes the objectives of the standard can be met by alternative means, the valuer must document why the indicated action was not deemed to be necessary and/or appropriate. If a standard provides that the valuer “should” consider an action or procedure, consideration of the action or procedure is presumptively mandatory, while the action or procedure is not.

IVS Framework

10. Compliance with Standards

10.1 When a statement is made that a valuation will be, or has been, undertaken in accordance with the IVS, it is implicit that the valuation has been prepared in compliance with all relevant standards issued by the IVSC.

20. Assets & Liabilities

20.1 The standards can be applied to the valuation of both assets and liabilities. To assist the legibility of these standards, the words asset or assets have been defined to include liability or liabilities and groups of assets, liabilities, or assets and liabilities, except where it is expressly stated otherwise, or is clear from the context that liabilities are excluded.

IVS Framework

40. Objectivity

40.1 The process of valuation requires the valuer to make impartial judgements as to the reliability of inputs and assumptions. For a valuation to be credible, it is important that those judgements are made in a way that promotes transparency and minimises the influence of any subjective factors on the process. Judgement used in a valuation must be applied objectively to avoid biased analyses, opinions and conclusions.

40.2 It is a fundamental expectation that, when applying these standards, appropriate controls and procedures are in place to ensure the necessary degree of objectivity in the valuation process so that the results are free from bias. The IVSC Code of Ethical Principles for Professional Valuers provides an example of an appropriate framework for professional conduct.

IVS Framework

50. Competence

50.1 Valuations must be prepared by an individual or firm having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation.

50.2 If a valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation, it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work (see IVS 101 Scope of Work) and the report (see IVS 103 Reporting).

50.3 The valuer must have the technical skills, experience and knowledge to understand, interpret and utilise the work of any specialists.

IVS Framework

60. Departures

60.1. A “departure” is a circumstance where specific legislative, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS. Departures are mandatory in that a valuer must comply with legislative, regulatory and other authoritative requirements appropriate to the purpose and jurisdiction of the valuation to be in compliance with IVS. A valuer may still state that the valuation was performed in accordance with IVS when there are departures in these circumstances.

60.2 The requirement to depart from IVS pursuant to legislative, regulatory or other authoritative requirements takes precedence over all other IVS requirements.

IVS Framework

60. Departures

60.3. As required by IVS 101 Scope of Work, para 20.3 (n) and IVS 103 Reporting, para 10.2 the nature of any departures must be identified (for example, identifying that the valuation was performed in accordance with IVS and local tax regulations). If there are any departures that significantly affect the nature of the procedures performed, inputs and assumptions used, and/or valuation conclusion(s), a valuer must also disclose the specific legislative, regulatory or other authoritative requirements and the significant ways in which they differ from the requirements of IVS (for example, identifying that the relevant jurisdiction requires the use of only a market approach in a circumstance where IVS would indicate that the income approach should be used).

60.4. Departure deviations from IVS that are not the result of legislative, regulatory or other authoritative requirements are not permitted in valuations performed in accordance with IVS.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(a) Identity of Valuer:

The valuer may be an individual, group of individuals or a firm. If the valuer has any material connection or involvement with the subject asset or the other parties to the valuation assignment, or if there are any other factors that could limit the valuer's ability to provide an unbiased and objective valuation, such factors must be disclosed at the outset. If such disclosure does not take place, the valuation assignment is not in compliance with IVS. If the valuer needs to seek material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance must be made clear.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(b) Identity of the Client (s) (if any):

Confirmation of those for whom the valuation assignment is being produced is important when determining the form and content of the report to ensure that it contains information relevant to their needs.

(c) Identity of other intended users, (if any):

It is important to understand whether there are any other intended users of the valuation report, their identity and their needs, to ensure that the report content and format meets those users' needs.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(d) Asset(s) being Valued:

The subject asset in the valuation assignment must be clearly identified.

(e) The Valuation Currency:

The currency for the valuation and the final valuation report or conclusion must be established. For example, a valuation might be prepared in euros or US dollars. This requirement is particularly important for valuation assignments involving assets in multiple countries and/or cash flows in multiple currencies.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(f) Purpose of the Valuation

The purpose for which the valuation assignment is being prepared must be clearly identified as it is important that valuation advice is not used out of context or for purposes for which it is not intended. The purpose of the valuation will also typically influence or determine the basis/bases of value to be used.

(g) Basis/ Bases of Value used:

As required by IVS 104 Bases of Value, the valuation basis must be appropriate for the purpose of the valuation. The source of the definition of any basis of value used must be cited or the basis explained. This requirement is not applicable to a valuation review where no opinion of value is to be provided and the reviewer is not required to comment on the basis of value used.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(h) Valuation Date:

The valuation date must be stated. If the valuation date is different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed then where appropriate, these dates should be clearly distinguished.

(i) The nature and extent of the valuer's work and any limitations thereon:

Any limitations or restrictions on the inspection, enquiry and/or analysis in the valuation assignment must be identified (see IVS Framework, paras 60.1-60.4) If relevant information is not available because the conditions of the assignment restrict the investigation, these restrictions and any necessary assumptions or special assumptions (see IVS 104 Bases of Value, paras 200.1-200.5) made as a result of the restriction must be identified.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(j) The nature and sources of information upon which the valuer relies:

The nature and source of any relevant information that is to be relied upon and the extent of any verification to be undertaken during the valuation process must be identified.

(k) Significant assumptions and/or special assumptions:

All significant assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified.

Scope of Work – IVS 101

20.3. A valuer must communicate the scope of work to its client prior to completion of the assignment, including the following:

(l) The type of report being prepared:

The format of the report, that is, how the valuation will be communicated, must be described.

(m) Restrictions on use, distribution and publication of the report:

Where it is necessary or desirable to restrict the use of the valuation or those relying on it, the intended users and restrictions must be clearly communicated.

(n) That the valuation will be prepared in compliance with IVS and that the valuer will assess the appropriateness of all significant inputs:

The nature of any departures must be explained, for example, identifying that the valuation was performed in accordance with IVS and local tax regulations. See IVS Framework paras 60.1-60.4 relating to departures.

Scope of Work – IVS 101

20.4. Wherever possible, the scope of work should be established and agreed between parties to a valuation assignment prior to the valuer beginning work. However, in certain circumstances, the scope of a valuation engagement may not be clear at the start of that engagement. In such cases, as the scope becomes clear, valuers must communicate and agree the scope of work to their client.

20.5. A written scope of work may not be necessary. However, since valuers are responsible for communicating the scope of work to their client, a written scope of work should be prepared.

20.6. Some aspects of the scope of work may be addressed in documents such as standing engagement instructions, master services agreements or a company's internal policies and procedures.

Changes in Scope of Work – IVS 101

30. Changes to Scope of Work

30.1. Some of the items in para 20.3 may not be determinable until the valuation assignment is in progress, or changes to the scope may become necessary during the course of the assignment due to additional information becoming available or matters emerging that require further investigation. As such, whilst the scope of work may be established at the outset, it may also be established over time throughout the course of the assignment.

30.2. In valuation assignments where the scope of work changes over time, the items in para 20.3 and any changes made over time must be communicated to the client before the assignment is completed and the valuation report is issued.

IVS 102: Investigations and Compliance

20. Investigations:

20.1. Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value.

20.2. Sufficient evidence must be assembled by means such as inspection, inquiry, computation and analysis to ensure that the valuation is properly supported.

20.3. Limits may be agreed on the extent of the valuer's investigations. Any such limits must be noted in the scope of work. If limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation engagement must not state that it has been performed in compliance with IVS.

IVS 102: Investigations and Compliance

20. Investigations:

20.5. In considering the credibility and reliability of information provided, valuers should consider matters such as:

(a) the purpose of the valuation,

(b) the significance of the information to the valuation conclusion,

(c) the expertise of the source in relation to the subject matter, and

(d) whether the source is independent of either the subject asset and/or the recipient of the valuation (see IVS 101 Scope of Work, paras 20.3 (a)).

20.7. If it becomes clear that the investigations included in the scope of work will not result in a credible valuation, or information to be provided by third parties is either unavailable or inadequate, or limitations on investigations are so substantial that the valuer cannot sufficiently evaluate the inputs and assumptions, the valuation assignment will not comply with IVS.

IVS 102: Investigations and Compliance

30. Valuation Record

30.1. A record must be kept of the work performed during the valuation process and the basis for the work on which the conclusions were reached for a reasonable period after completion of the assignment, having regard to any relevant statutory, legal or regulatory requirements. Subject to any such requirements, this record should include the key inputs, all calculations, investigations and analyses relevant to the final conclusion, and a copy of any draft or final report(s) provided to the client.

IVS 102: Investigations and Compliance

40. Compliance with Other Standards

40.1. As noted in the IVS Framework, when statutory, legal, regulatory or other authoritative requirements must be followed that differ from some of the requirements within IVS, a valuer must follow the statutory, legal, regulatory or other authoritative requirements (called a "departure"). Such a valuation has still been performed in overall compliance with IVS.

40.2. Most other sets of requirements, such as those written by Valuation Professional Organisations, other professional bodies, or firms' internal policies and procedures, will not contradict IVS and, instead, typically impose additional requirements on valuers. Such standards may be followed in addition to IVS without being seen as departures as long as all of the requirements in IVS are fulfilled.

Valuation Report – Must Haves (Rule 8(3))

(a) background information of the asset being valued;

(b) purpose of valuation and appointing authority;

(c) identity of the valuer and any other experts involved in the valuation;

(d) disclosure of valuer interest or conflict, if any;

(e) date of appointment, valuation date and date of report;

(f) inspections and/or investigations undertaken;

(g) nature and sources of the information used or relied upon;

(h) procedures adopted in carrying out the valuation and valuation standards followed;

Valuation Report – Must Haves (Rule 8(3))

(i) restrictions on use of the report, if any; (Intended Use)

(j) major factors that were taken into account during the valuation;

(k) conclusion; and

(l) caveats, limitations 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.

Code of Conduct: The valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.

Valuation Report - IVS 103: Reporting

Other requirements as per IVS 103 (Not mentioned in Rules or Code of Conduct):

10.1 The information necessary for proper understanding of the valuation. A report must provide the intended users with a clear understanding of the valuation.

10.2 Scope – Purpose – Disclosure of Assumptions, Special Assumptions, Significant uncertainty or limiting conditions that directly affect the valuation.

10.4 Disclosures specific to Standards on Particular Asset Class

30.1 (a) **Scope of Work (Refer IVS 101)** (May be included by ways of reference)

(c) The **Approach(es) adopted**

(d) The **Method(s) adopted**

(e) The **Key Inputs Used**

(f) The **Assumptions made**

(g) The Conclusion(s) of value and **principle reasons for conclusions reached**

(h) The Date of the Report

Basis/ Bases of Value – IVS 104

10.1. Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value.

10.3. While there are many different bases of value used in valuations, most have certain common elements:

an <u>assumed transaction</u>,

an assumed <u>date of the transaction</u> and

the <u>assumed parties</u> to the transaction.

Basis/ Bases of Value – IVS 104

10.4. Depending on the basis of value, the <u>assumed transaction</u> could take a number of forms:

(a) a hypothetical transaction,

(b) an actual transaction,

(c) a purchase (or entry) transaction,

(d) a sale (or exit) transaction, and/or

(e) a transaction in a particular or hypothetical market with specified characteristics.

Basis/ Bases of Value – IVS 104

10.5. The assumed date of a transaction will influence what information and data a valuer considers in a valuation. Most bases of value prohibit the consideration of information or market sentiment that would not be known or knowable with reasonable due diligence on the measurement/ valuation date by participants.

Basis/ Bases of Value – IVS 104

10.6. Most bases of value reflect assumptions concerning the parties to a transaction and provide a certain level of description of the parties. In respect to these parties, they could include one or more actual or assumed characteristics, such as:

(a) hypothetical,

(b) known or specific parties,

(c) members of an identified/described group of potential parties,

(d) whether the parties are subject to particular conditions or motivations at the assumed date (eg, duress), and/or

(e) an assumed knowledge level.

Basis/ Bases of Value – IVS 104

Basis of Value/ Standards of Value as per IVS 104:

1. Market Value
2. Market Rent (Valuation of Lease, etc.)
3. Equitable Value (Identified Parties)
4. Investment Value/ Worth (Value to Particular owner)
5. Synergistic Value (Combined Value > Sum of Parts)
6. Liquidation Value (Piecemeal Basis)
7. Fair Value (IFRS) (Orderly Transaction)
8. Fair Market Value (OECD) & Fair Market Value (US-IRS)
9. Fair Value (Legal/ Statutory) (basis of value in a legal context)
10. Others (Not Limited)

Basis/ Bases of Value – IVS 104

20.2. Valuers must choose the relevant basis (or bases) of value according to the terms and purpose of the valuation assignment. The valuer's choice of a basis (or bases) of value should <u>consider instructions and input received from the client</u> and/or its representatives. However, regardless of instructions and input provided to the valuer, the valuer <u>should not use a basis (or bases) of value that is inappropriate for the intended purpose of the valuation</u> (for example, if instructed to value for financial reporting purposes under IFRS, compliance with IVS may require the valuer to use a basis of value that is not defined or mentioned in the IVS).

20.3. In accordance with IVS 101 Scope of Work, the basis of value must be appropriate for the purpose and the source of the definition of any basis of value used must be cited or the basis explained.

130. Premise of Value – IVS 104

Premise of Value (Presumed Use) as per IVS 104:

1. Highest and Best use - Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. Consider HaBu as Group of Assets.
2. Current use/ Existing use
3. Orderly Liquidation (seller being compelled to sell on an as-is, where-is basis)
4. Forced Sale (Seller is compelled to sell by a deadline that prevents proper marketing + Buyers may not be able to undertake adequate due-diligence)

use must be physically possible (where applicable), financially feasible, legally allowed

Valuation Approaches – IVS 105

- Market Approach
  - Comparable Transactions Method
  - Guideline publicly traded comparable method
  - Anecdotal or Rule of Thumb
- Income Approach
  - Discounted Cash Flow Method (DCF)
- Cost Approach
  - Replacement Cost Method (Similar)
  - Reproduction Cost Method (Replica)
  - Summation Method

30.1. Market Value – IVS 104

“Market value" is

the estimated amount for which an asset or liability,

should exchange on the valuation date

between a willing buyer and a willing seller in an arm's length transaction,

after proper marketing and where the parties had acted knowledgably, prudently and without compulsion;

Market Value (IVS) – Conceptual Framework

- “Estimated Amount” refers to price expressed in terms of money
- Most probable price reasonably obtainable in the market
- It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer.
- This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.
- “An asset or liability should exchange” - Value of an asset or liability is an estimated amount rather than a predetermined amount or actual sale price
- “On Valuation Date” - value is time-specific as of a given date. The valuation amount will reflect the market state and circumstances as at the valuation date, not those at any other date.

Market Value (IVS) – Conceptual Framework

- “Between a willing buyer” refers to one who is <u>motivated, but not compelled to buy</u>. This buyer is neither over eager nor determined to buy at any price. This buyer is also one who <u>purchases in accordance with the realities of the current market and with current market expectations</u>, rather than in relation to an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The <u>assumed buyer would not pay a higher price than the market requires</u>. The present owner is included among those who constitute “the market”.
- “And a willing seller” is neither an over eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is <u>motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing</u>, whatever that price may be. The <u>factual circumstances of the actual owner are not a part of this consideration</u> because the willing seller is a hypothetical owner.

Market Value (IVS) – Conceptual Framework

- “In an arm’s length transaction” is one between parties who do not have a particular or special relationship that may make the price level uncharacteristic of the market or inflated. The Market Value transaction is presumed to be between unrelated parties, each acting independently.
- “After proper marketing” means that the asset has been exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The method of sale is deemed to be that most appropriate to obtain the best price in the market to which the seller has access. The length of exposure time is not a fixed period but will vary according to the type of asset and market conditions. The only criterion is that there must have been sufficient time to allow the asset to be brought to the attention of an adequate number of market participants. The exposure period occurs prior to the valuation date.

Market Value (IVS) – Conceptual Framework

- "Where the parties had each acted knowledgeably, prudently" presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses, and the state of the market as of the valuation date. Each is further presumed to use that knowledge prudently to seek the price that is most favourable for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the valuation date, not with the benefit of hindsight at some later date. For example, it is not necessarily imprudent for a seller to sell assets in a market with falling prices at a price that is lower than previous market levels. In such cases, as is true for other exchanges in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.
- "And without compulsion" establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.

Market Value (IVS) – Conceptual Framework

30.3. The concept of Market Value presumes a price negotiated in an open and competitive market where the participants are acting freely. The market for an asset could be an <u>international market or a local market</u>. The market could consist of <u>numerous</u> buyers and sellers, or could be one characterized by a <u>limited number of market participants</u>. The market in which the asset is presumed exposed for sale is the one in which the <u>asset notionally being exchanged is normally exchanged</u>.

30.4. The Market Value of an asset will reflect its <u>highest and best use (HaBu)</u>. The highest and best use is the use of an asset that maximises its potential and that is <u>possible, legally permissible and financially feasible</u>. The highest and best use may be for continuation of an asset's <u>existing use or for some alternative use</u>. This is <u>determined by the use that a market participant would have in mind</u> for the asset when formulating the price that it would be willing to bid.

Market Value (IVS) – Conceptual Framework

30.5. The nature and source of the valuation inputs must be consistent with the basis of value, which in turn must have regard to the valuation purpose.

For example, various approaches and methods may be used to arrive at an opinion of value providing they use market-derived data. The market approach will, by definition, use market-derived inputs. To indicate Market Value, the income approach should be applied, using inputs and assumptions that would be adopted by participants. To indicate Market Value using the cost approach, the cost of an asset of equal utility and the appropriate depreciation should be determined by analysis of market-based costs and depreciation.

Market Value (IVS) – Conceptual Framework

30.6. The data available and the circumstances relating to the market for the asset being valued must determine which valuation method or methods are most relevant and appropriate. If based on appropriately analysed market-derived data, each approach or method used should provide an indication of Market Value.

30.7. Market Value does not reflect attributes of an asset that are of value to a specific owner or purchaser that are not available to other buyers in the market. Such advantages may relate to the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any such element of value because, at any given date, it is only assumed that there is a willing buyer, not a particular willing buyer.

Market Rent (IVS) – Conceptual Framework

40.1. Market Rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

40.2. Market Rent may be used as a basis of value when valuing a lease or an interest created by a lease. In such cases, it is necessary to consider the contract rent and, where it is different, the market rent.

Market Rent (IVS)

40.6. In calculating Market Rent, the valuer must consider the following:

(a) in regard to a Market Rent subject to a lease, the terms and conditions of that lease are the appropriate lease terms unless those terms and conditions are illegal or contrary to overarching legislation, and

(b) in regard to a Market Rent that is not subject to a lease, the assumed terms and conditions are the terms of a notional lease that would typically be agreed in a market for the type of property on the valuation date between market participants.

Equitable Value (IVS)

50.1. Equitable Value is the <u>estimated price</u> for the transfer of an asset or liability between <u>identified knowledgeable and willing parties</u> that <u>reflects the respective interests</u> of those parties.

50.2. Equitable Value requires the assessment of the price that is fair between two specific, identified parties considering the respective advantages or disadvantages that each will gain from the transaction. In contrast, Market Value requires any advantages or disadvantages that would not be available to, or incurred by, market participants generally to be disregarded.

50.3. Will involve taking into account certain elements of Synergistic Value arising because of the combination of the interests.

Eg. Shares of a closely held co., Leased asset (Lessor/ Lessee)

Investment Value/ Worth (IVS)

60.1. Investment Value is the value of an asset to a particular owner or prospective owner for individual investment or operational objectives.

60.2. Investment Value is an entity-specific basis of value. Although the value of an asset to the owner may be the same as the amount that could be realised from its sale to another party, this basis of value reflects the benefits received by an entity from holding the asset and, therefore, does not involve a presumed exchange. <u>Investment Value reflects the circumstances and financial objectives of the entity for which the valuation is being produced. It is often used for measuring investment performance.</u>

Synergistic Value (IVS)

70.1. Synergistic Value is the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then Synergistic Value will differ from Market Value, as the Synergistic Value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as "marriage value."

Liquidation Value (IVS)

80.1. Liquidation Value is the amount that would be realised when an asset or group of assets are sold on a **piecemeal basis**. Liquidation Value should take into **account the costs of getting the assets into saleable condition as well as those of the disposal activity**. Liquidation Value can be determined under two different premises of value:

(a) an orderly transaction with a typical marketing period, or

(b) a forced transaction with a shortened marketing period

160. Premise of Value – Orderly Liquidation

160.1. An orderly liquidation describes the value of a group of assets that could be realised in a liquidation sale, **given a reasonable period of time to find a purchaser** (or purchasers), with the seller being **compelled to sell on an as-is, where-is basis**.

160.2. The reasonable period of time to find a purchaser (or purchasers) may vary by asset type and market conditions.

170. Premise of Value – Forced Sale

170.1. The term "forced sale" is often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence.

The price that could be obtained in these circumstances will depend upon the nature of the pressure on the seller and the reasons why proper marketing cannot be undertaken. It may also reflect the consequences for the seller of failing to sell within the period available.

The price that a seller will accept in a forced sale will reflect its particular circumstances, rather than those of the hypothetical willing seller in the Market Value definition.

Premise of Value – Forced Sale

170.3. A forced sale typically reflects the most probable price that a specified property is likely to bring under all of the following conditions:

(a) consummation of a sale within a short time period,

(b) the asset is subjected to market conditions prevailing as of the date of valuation or assumed timescale within which the transaction is to be completed,

(c) both the buyer and the seller are acting prudently and knowledgeably,

(d) the seller is under compulsion to sell,

(e) the buyer is typically motivated,

(f) both parties are acting in what they consider their best interests,

(g) a normal marketing effort is not possible due to the brief exposure time, and

(h) payment will be made in cash.

180. Entity Specific Factors

180.1. Examples of entity-specific factors that may not be available to participants include:

(a) additional value or reduction in value derived from the creation of a portfolio of similar assets,

(b) unique synergies between the asset and other assets owned by the entity,

(c) legal rights or restrictions applicable only to the entity,

(d) tax benefits or tax burdens unique to the entity, and

(e) an ability to exploit an asset that is unique to that entity.

180.2. Whether such factors are specific to the entity, or would be available to others in the market generally, is determined on a case-by-case basis. For example, an asset may not normally be transacted as a stand-alone item but as part of a group of assets. Any synergies with related assets would transfer to participants along with the transfer of the group and therefore are not entity specific.

190. Synergies

190.1. “Synergies” refer to the benefits associated with combining assets. When synergies are present, the value of a group of assets and liabilities is greater than the sum of the values of the individual assets and liabilities on a stand-alone basis. Synergies typically relate to a reduction in costs, and/or an increase in revenue, and/or a reduction in risk.

190.2. Whether synergies should be considered in a valuation depends on the basis of value. For most bases of value, only those synergies available to other participants generally will be considered (see discussion of Entity-Specific Factors in paras 180.1-180.3).

190.3. An assessment of whether synergies are available to other participants may be based on the amount of the synergies rather than a specific way to achieve that synergy.

200. Assumptions & Special Assumptions

200.1. In addition to stating the basis of value, it is often necessary to make an assumption or multiple assumptions to clarify either the state of the asset in the hypothetical exchange or the circumstances under which the asset is assumed to be exchanged. Such assumptions can have a significant impact on value.

200.2. These types of assumptions generally fall into one of two categories:

(a) assumed facts that are consistent with, or could be consistent with, those existing at the date of valuation, and

(b) assumed facts that differ from those existing at the date of valuation.

200.5. All assumptions and special assumptions must be reasonable under the circumstances, be supported by evidence, and be relevant having regard to the purpose for which the valuation is required.

Assumptions

200.3. Assumptions related to facts that are consistent with, or could be consistent with, those existing at the date of valuation may be the result of a limitation on the extent of the investigations or enquiries undertaken by the valuer.

Examples of such assumptions include, without limitation:

(a) an assumption that a business is transferred as a complete operational entity,

(b) an assumption that assets employed in a business are transferred without the business, either individually or as a group,

(c) an assumption that an individually valued asset is transferred together with other complementary assets, and

(d) an assumption that a holding of shares is transferred either as a block or individually.

Special Assumptions

200.4. Where assumed facts differ from those existing at the date of valuation, it is referred to as a “special assumption”. Special assumptions are often used to illustrate the effect of possible changes on the value of an asset. They are designated as “special” so as to highlight to a valuation user that the valuation conclusion is contingent upon a change in the current circumstances or that it reflects a view that would not be taken by participants generally on the valuation date. Examples:

(a) an assumption that a property is freehold with vacant possession,

(b) an assumption that a proposed building had actually been completed on the valuation date,

(c) an assumption that a specific contract was in existence on the valuation date which had not actually been completed, and

(d) an assumption that a financial instrument is valued using a yield curve that is different from that which would be used by a participant.

Valuation Approaches – IVS 105

10.1. Consideration must be given to the relevant and appropriate valuation approaches. The three approaches described and defined below are the main approaches used in valuation. They are all based on the <u>economic principles</u> of <u>price equilibrium</u>, <u>anticipation of benefits</u> or <u>substitution</u>.

The principal valuation approaches are:

(a) market approach,

(b) income approach, and

(c) cost approach.

Valuation Approaches – IVS 105

10.3. The goal in selecting valuation approaches and methods for an asset is to find the most appropriate method under the particular circumstances. No one method is suitable in every possible situation. The selection process should consider, at a minimum:

(a) the appropriate basis(es) of value and premise(s) of value, determined by the terms and purpose of the valuation assignment,

(b) the respective strengths and weaknesses of the possible valuation approaches and methods,

(c) the appropriateness of each method in view of the nature of the asset, and the approaches or methods used by participants in the relevant market, and

(d) the availability of reliable information needed to apply the method(s).

Valuation Approaches – IVS 105

10.4. Valuers are not required to use more than one method for the valuation of an asset, particularly when the valuer has a high degree of confidence in the accuracy and reliability of a single method, given the facts and circumstances of the valuation engagement.

However, valuers should consider the use of multiple approaches and methods and more than one valuation approach or method should be considered and may be used to arrive at an indication of value, particularly when there are insufficient factual or observable inputs for a single method to produce a reliable conclusion.

Where more than one approach and method is used, or even multiple methods within a single approach, the conclusion of value based on those multiple approaches and/or methods should be reasonable and the process of analysing and reconciling the differing values into a single conclusion, without averaging, should be described by the valuer in the report.

Valuation Approaches – IVS 105

10.5. While this standard includes discussion of certain methods within the Cost, Market and Income approaches, it <u>does not provide a comprehensive list</u> of all possible methods that may be appropriate. It is the valuer's responsibility to choose the appropriate method(s) for each valuation engagement. Compliance with IVS <u>may require the valuer to use a method not defined</u> or mentioned in the IVS.

10.6. When different approaches and/or methods result in <u>widely divergent indications of value</u>, a valuer should <u>perform procedures to understand why the value indications differ</u>, as it is generally not appropriate to simply weight two or more divergent indications of value. In such cases, valuers should reconsider the guidance in para 10.3 to <u>determine whether one of the approaches/ methods provides a better</u> or more reliable indication of value.

Valuation Approaches – IVS 105

10.7. Valuers should maximise the use of relevant observable market information in all three approaches. Regardless of the source of the inputs and assumptions used in a valuation, a valuer must perform appropriate analysis to evaluate those inputs and assumptions and their appropriateness for the valuation purpose.

10.8. Although no one approach or method is applicable in all circumstances, price information from an active market is generally considered to be the strongest evidence of value. Some bases of value may prohibit a valuer from making subjective adjustments to price information from an active market. Price information from an inactive market may still be good evidence of value, but subjective adjustments may be needed.

Valuation Approaches – IVS 105

10.9. In certain circumstances, the valuer and the client may agree on the valuation approaches, methods and procedures the valuer will use or the extent of procedures the valuer will perform. Depending on the limitations placed on the valuer and procedures performed, such circumstances may result in a valuation that is not IVS compliant.

10.10. A valuation may be limited or restricted where the valuer is not able to employ the valuation approaches, methods and procedures that a reasonable and informed third party would perform, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value could be material.

20. Market Approach – IVS 105

20.1. The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available.

20.2. The market approach should be applied and afforded significant weight under the following circumstances:

(a) the subject asset has <u>recently been sold</u> in a transaction appropriate for consideration under the basis of value,

(b) the subject asset or substantially similar assets are <u>actively publicly traded</u>, and/or

(c) there are <u>frequent and/or recent observable transactions</u> in substantially similar assets.

20. Market Approach – IVS 105

20.3. The following are additional circumstances where the market approach may be applied and afforded significant weight. When using the market approach under the following circumstances, a valuer should consider whether any other approaches can be applied and weighted to corroborate the value indication from the market approach:

(a) Transactions involving the subject asset or substantially similar assets <u>are not recent enough</u> considering the levels of volatility and activity in the market.

(b) The asset or substantially similar assets are publicly traded, <u>but not actively.</u>

(c) Information on market transactions is available, but the comparable assets have <u>significant differences</u> to the subject asset, potentially requiring <u>subjective adjustments</u>.

(d) Information on <u>recent transactions is not reliable</u> (ie, hearsay, missing information, synergistic purchaser, not arm's-length, distressed sale, etc).

(e) The <u>critical element</u> affecting the value of the asset is the <u>price it would achieve in the market</u> rather than the <u>cost of reproduction</u> or its <u>income-producing ability</u>.

20. Market Approach – IVS 105

20.4. The heterogeneous nature of many assets means that it is often not possible to find market evidence of transactions involving identical or similar assets. Even in circumstances where the market approach is not used, the use of market-based inputs should be maximised in the application of other approaches (eg, market-based valuation metrics such as effective yields and rates of return).

20.5. When comparable market information does not relate to the exact or substantially the same asset, the valuer must perform a comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject asset. It will often be necessary to make adjustments based on this comparative analysis. Those adjustments must be reasonable and valuers must document the reasons for the adjustments and how they were quantified.

20.6. The market approach often uses market multiples derived from a set of comparables, each with different multiples. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors.

Comparable Transactions Method

30.1. The comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value.

30.3. If few recent transactions have occurred, the valuer may consider the prices of identical or similar assets that are listed or offered for sale, provided the relevance of this information is clearly established, critically analysed and documented. This is sometimes referred to as the comparable listings method and should not be used as the sole indication of value but can be appropriate for consideration together with other methods. When considering listings or offers to buy or sell, the weight afforded to the listings/ offer price should consider the level of commitment inherent in the price and how long the listing/offer has been on the market. For example, an offer that represents a binding commitment to purchase or sell an asset at a given price may be given more weight than a quoted price without such a binding commitment.

Comparable Transactions Method

30.4. The comparable transaction method can use a variety of different comparable evidence, also known as units of comparison, which form the basis of the comparison. For example, a few of the many common units of comparison used for real property interests include price per square foot (or per square metre), rent per square foot (or per square metre) and capitalization rates. A few of the many common units of comparison used in business valuation include EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) multiples, earnings multiples, revenue multiples and book value multiples. A few of the many common units of comparison used in financial instrument valuation include metrics such as yields and interest rate spreads. The units of comparison used by participants can differ between asset classes and across industries and geographies.

30.5. Matrix Pricing: principally used to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities and their attributes (ie, yield).

Comparable Transactions Method

30.6. The key steps in the comparable transactions method are:

(a) identify the <u>units of comparison</u> that are used by participants in the relevant market,

(b) identify the <u>relevant comparable transactions</u> and <u>calculate the key valuation metrics</u> for those transactions,

(c) perform a <u>consistent comparative analysis</u> of <u>qualitative and quantitative similarities and differences</u> between the comparable assets and the subject asset,

(d) make <u>necessary adjustments</u>, if any, to the valuation metrics to reflect differences between the subject asset and the comparable assets (see para 30.12(d)),

(e) apply the <u>adjusted valuation metrics</u> to the subject asset, and

(f) if <u>multiple</u> valuation metrics were used, <u>reconcile</u> the indications of value.

Comparable Transactions Method

30.7. A valuer should choose comparable transactions within the following context:

(a) evidence of several transactions is generally preferable to a single transaction or event,

(b) evidence from transactions of very similar assets (ideally identical) provides a better indication of value than assets where the transaction prices require significant adjustments,

(c) transactions that happen closer to the valuation date are more representative of the market at that date than older/dated transactions, particularly in volatile markets,

(d) for most bases of value, the transactions should be "arm's length" between unrelated parties,

(e) sufficient information on the transaction should be available to allow the valuer to develop a reasonable understanding of the comparable asset and assess the valuation metrics/ comparable evidence,

(f) information on the comparable transactions should be from a reliable and trusted source, and

(g) actual transactions provide better valuation evidence than intended transactions.

Comparable Transactions Method

30.8. A valuer should analyse and make adjustments for any material differences between the comparable transactions and the subject asset. Examples of common differences that could warrant adjustments may include, but are not limited to:

(a) material characteristics (age, size, specifications, etc),

(b) relevant restrictions on either the subject asset or the comparable assets,

(c) geographical location (location of the asset and/or location of where the asset is likely to be transacted/used) and the related economic and regulatory environments,

(d) profitability or profit-making capability of the assets,

(e) historical and expected growth,

(f) yields/coupon rates,

(g) types of collateral,

(h) unusual terms in the comparable transactions,

(i) differences related to marketability and control characteristics of the comparable and the subject asset, and

(j) ownership characteristics (eg, legal form of ownership, amount percentage held).

Guideline publicly-traded comparable Method

30.9. The guideline publicly-traded method utilises information on publicly-traded comparables that are the same or similar to the subject asset to arrive at an indication of value.

30.10. This method is similar to the comparable transactions method. However, there are several differences due to the comparables being publicly traded, as follows:

(a) the valuation metrics/comparable evidence are available as of the valuation date,

(b) detailed information on the comparables are readily available in public filings, and

(c) the information contained in public filings is prepared under wellunderstood accounting standards.

30.12. Key Steps

30.13. A valuer should choose publicly-traded comparables within the following context:

30.14. Make Adjustments

Other Market Approach Considerations

30.16. Anecdotal or “rule-of-thumb” valuation benchmarks are sometimes considered to be a market approach. However, value indications derived from the use of such rules should not be given substantial weight unless it can be shown that buyers and sellers place significant reliance on them. 30.17. In the market approach, the fundamental basis for making adjustments is to adjust for differences between the subject asset and the guideline transactions or publicly-traded securities. Some of the most common adjustments made in the market approach are known as discounts and

premiums.

(a) DLOM: A DLOM reflects the concept that when comparing otherwise identical assets, a readily marketable asset would have a higher value than an asset with a long marketing period or restrictions on the ability to sell the asset.

(b) DLOC: All else being equal, participants would generally prefer to have control over a subject asset than not.

(c) Blockage Discounts: Large Size

Income Approach

40.1. The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

40.2. The income approach should be applied and afforded significant weight under the following circumstances:

(a) the income-producing ability of the asset is the critical element affecting value from a participant perspective, and/or

(b) reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables.

Discounted Cash Flow Method (DCF) (50.2.: 50.40)

Cost Approach

60.1. The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

60.2. The cost approach should be applied and afforded significant weight under the following circumstances:

(a) participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a participant would not be willing to pay a significant premium for the ability to use the subject asset immediately,

(b) the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach unfeasible, and/or

(c) the basis of value being used is fundamentally based on replacement cost, such as replacement value.

Cost Approach

60.3. Although the circumstances in para 60.2 would indicate that the cost approach should be applied and afforded significant weight, the following are additional circumstances where the cost approach may be applied and afforded significant weight. When using the cost approach under the following circumstances, a valuer should consider whether any other approaches can be applied and weighted to corroborate the value indication from the cost approach:

(a) participants might consider recreating an asset of similar utility, but there are <u>potential legal or regulatory hurdles or significant time involved</u> in recreating the asset,

(b) when the cost approach is being <u>used as a reasonableness check to other approaches</u> (for example, using the cost approach to confirm whether a business valued as a going-concern might be more valuable on a liquidation basis), and/or

(c) the asset was recently created, such that there is a <u>high degree of reliability in the assumptions</u> used in the cost approach.

60.4. Partially complete asset

Cost Approach Methods

70.1. Broadly, there are three cost approach methods:

(a) replacement cost method: a method that indicates value by calculating the cost of a similar asset offering equivalent utility,

(b) reproduction cost method: a method under the cost that indicates value by calculating the cost to recreating a replica of an asset, and

(c) summation method: a method that calculates the value of an asset by the addition of the separate values of its component parts.

70.5. The replacement cost is generally that of a modern equivalent asset, which is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques.

70.6. Reproduction cost is appropriate in circumstances such as the following:

(a) the cost of a modern equivalent asset is greater than the cost of recreating a replica of the subject asset, or

(b) the utility offered by the subject asset could only be provided by a replica rather than a modern equivalent.

Cost Approach Methods

70.11. The cost elements may differ depending on the type of the asset and should include the direct and indirect costs that would be required to replace/ recreate the asset as of the valuation date. Some common items to consider include:

(a) Direct Costs (Material & Labour)

(b) Indirect Costs (Transport, Installation, Professional Charges, Other Fees, Overheads, Taxes, Finance Cost, Profit Margin)

70.14. The actual costs incurred in creating the subject asset (or a comparable reference asset) may be available and provide a relevant indicator of the cost of the asset. However, adjustments may need to be made to reflect the following:

(a) cost fluctuations between the date on which this cost was incurred and the valuation date, and

(b) any atypical or exceptional costs, or savings, that are reflected in the cost data but that would not arise in creating an equivalent.

Valuation Approaches – IVS 105

Depreciation Adjustments in Cost Approach:

(a) Physical obsolescence (Curable or Uncurable): Any loss of utility due to the physical deterioration of the asset or its components resulting from its **age and usage**.

(b) Functional obsolescence (Excess Capital Cost or Excess Operating Cost): Any loss of utility resulting from inefficiencies in the subject asset compared to its replacement such as its **design, specification or technology being outdated**.

(c) External or economic obsolescence: Any loss of utility caused by **economic or locational factors external to the asset**. This type of obsolescence can be temporary or permanent. – No demand for products or services produced, Oversupply , Raw Material/ Labour Shortage, etc.

Valuation of a Going Concern – IVS 200

IVS 200 Businesses and Business Interests:

- Enterprise value: Often described as the total value of the equity in a business plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities.
- Operating Value: The total value of the operations of the business, excluding the value of any non-operating assets and liabilities.

Market Approach: Data Sources:

(a) public stock markets in which ownership interests of similar businesses are traded,

(b) the acquisition market in which entire businesses or controlling interests in businesses are bought and sold, and

(c) prior transactions in shares or offers for the ownership of the subject business.

Income Approach: DCF on Cash Flows

Cost Approach: Rarely used (Start-Ups + Holding company + Not Going Concern)

Valuation of a Going Concern – IVS 200

100. Business Information:

The valuation of a business entity or interest frequently requires reliance upon information received from management, representatives of the management or other experts. A valuer must assess the reasonableness of information received from management, representatives of management or other experts and evaluate whether it is appropriate to rely on that information for the valuation purpose. Prospective financial information provided by management may reflect owner-specific synergies that may not be appropriate when using a basis of value that requires a participant perspective.

Although the value on a given date reflects the anticipated benefits of future ownership, the history of a business is useful in that it may give guidance as to the expectations for the future. Valuers should therefore consider the business' historical financial statements as part of a valuation engagement. To the extent the future performance of the business is expected to deviate significantly from historical experience, a valuer must understand why historical performance is not representative of the future expectations of the business.

Valuation of a Going Concern – IVS 200

110. Economic & Industry Considerations:

Matters such as political outlook, government policy, exchange rates, inflation, interest rates and market activity may affect assets in different locations and/or sectors of the economy quite differently. Where the business sells its goods or services? Where the suppliers of the business are located?

120. Operating and Non-Operating Assets:

The valuation of an ownership interest in a business is only relevant in the context of the financial position of the business at a point in time. It is important to understand the nature of assets and liabilities of the business and to determine which items are required for use in the income-producing operations of the business and which ones are redundant or "excess" to the business at the valuation date.

Valuation of Land & building – IVS 400/ 410

20.1. Property interests are normally defined by state or the law of individual jurisdictions and are often regulated by national or local legislation. Before undertaking a valuation of a real property interest, **a valuer must understand the relevant legal framework that affects the interest being valued**.

Types based on Exclusive Possession and Control: Superior Interest (Subject to subordinate interest), Subordinate Interest, Right to use (Hierarchy of interests)

Valuation of a Hotel: Intangible Asset or Real Property Interest?

Market Approach:
1. Compare using common Unit of comparison like Price per Sq. Mtr. Or Sq. Ft., etc
2. Factor for differences in Location, Age of building, permitted use

Income Approach: Actual or Estimated Income generated by the asset

Cost Approach: Depreciated Replacement Cost – Cost of modern equivalent/ Replica – Provide depreciation for Physical, Functional, Technological & Economic Obsolescence

IVS 410: Development Property: Construction, Underdeveloped, Improvement – Residual Method

Valuation of intangible Assets – IVS 210

20.1. An intangible asset is a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner.

20.2. Specific intangible assets are defined and described by characteristics such as their ownership, function, market position and image.

20.3. There are many types of intangible assets, but they are often considered to fall into one or more of the following categories (or goodwill):

(a) Marketing-related: Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples include TMs, trade names, unique trade design and internet domain names.

(b) Customer-related: include customer lists, backlog, customer contracts, and contractual and non-contractual customer relationships.

(c) Artistic-related: arise from the right to benefits from artistic works such as plays, books, films and music, and from non-contractual copyright protection.

(d) Contract-related: represent the value of rights that arise from contractual agreements. Examples: licensing and royalty, service or supply contracts, lease agreements, permits, broadcast rights, servicing & employment contracts and non-competition agreements and natural resource rights.

(e) Technology-based: arise from contractual or non-contractual rights to use patented/ unpatented technology, databases, formulae, designs, software, processes or recipes.

Intangible Assets - Approaches – IVS 210

50. Market Approach: Rarely used due to heterogeneous nature

60. Income Approach:

60.5. There are many income approach methods. The following methods are discussed in this standard in more detail:

(a) excess earnings method,

(b) relief-from-royalty method,

(c) premium profit method or with-and-without method,

(d) greenfield method, and

(e) distributor method.

70. Cost Approach: Replacement Cost and Reproduction Cost

80. Special Considerations: Discount Rates, Economic Life, TAB

Plant & Equipment – IVS 300

20.5. A valuation of plant and equipment will normally require consideration of a range of factors relating to the asset itself, its environment and physical, functional and economic potential. Therefore, all plant and equipment valuers should normally inspect the subject assets to ascertain the condition of the plant and also to determine if the information provided to them is usable and related to the subject assets being valued. Examples of factors that may need to be considered under each of these headings include the following:

(a) Asset-related:

1. the asset’s technical specification,
2. the remaining useful, economic or effective life, considering both preventive and predictive maintenance,
3. the asset’s condition, including maintenance history,
4. any functional, physical and technological obsolescence,

Plant & Equipment – IVS 300

(a) Asset-related:

5. if the asset is not valued in its current location, the costs of decommissioning and removal, and any costs associated with the asset's existing in-place location, such as installation and re-commissioning of assets to its optimum status,
6. for machinery and equipment that are used for rental purposes, the lease renewal options and other end-of-lease possibilities,
7. any potential loss of a complementary asset, eg, the operational life of a machine may be curtailed by the length of lease on the building in which it is located,
8. additional costs associated with additional equipment, transport, installation and commissioning, etc, and
9. in cases where the historical costs are not available for the machinery and equipment that may reside within a plant during a construction, the valuer may take references from the Engineering, Procurement, Construction ("EPC") contract.

Plant & Equipment – IVS 300

(b) Environment-related:

1. the location in relation to the source of raw material and market for the product. The suitability of a location may also have a limited life, eg, where raw materials are finite or where demand is transitory,
2. the impact of any environmental or other legislation that either restricts utilisation or imposes additional operating or decommissioning costs,
3. radioactive substances that may be in certain machinery and equipment have a severe impact if not used or disposed of appropriately. This will have a major impact on expense consideration and the environment,
4. toxic wastes which may be chemical in the form of a solid, liquid or gaseous state must be professionally stored or disposed of. This is critical for all industrial manufacturing, and
5. licences to operate certain machines in certain countries may be restricted.

Plant & Equipment – IVS 300

(c) Economic-related:

1. the actual or potential profitability of the asset based on comparison of operating costs with earnings or potential earnings (see IVS 200 Business and Business Interests),

2. the demand for the product manufactured by the plant with regard to both macro- and micro-economic factors could impact on demand, and

3. the potential for the asset to be put to a more valuable use than the current use (ie, highest and best use).

Plant & Equipment – IVS 300

20.7. To comply with the requirement to identify the asset or liability to be valued in IVS 101 Scope of Work, para 20.3.(d) to the extent it impacts on value, consideration must be given to the degree to which the asset is attached to, or integrated with, other assets. For example:

(a) assets may be permanently attached to the land and could not be removed without substantial demolition of either the asset or any surrounding structure or building,

(b) an individual machine may be part of an integrated production line where its functionality is dependent upon other assets,

(c) an asset may be considered to be classified as a component of the real property (eg, a Heating, Ventilation and Air Conditioning System (HVAC)).

In such cases, it will be necessary to clearly define what is to be included or excluded from the valuation. Any special assumptions relating to the availability of any complementary assets must also be stated (see also para 20.8).

Plant & Equipment – IVS 300

20.9. Because of the diverse nature and transportability of many items of plant and equipment, additional assumptions will normally be required to describe the situation and circumstances in which the assets are valued. Examples:

(a) that the plant and equipment assets are valued as a whole, in place and as part of an operating business,

(b) that the plant and equipment assets are valued as a whole, in place but on the assumption that the business is not yet in production,

(c) that the plant and equipment assets are valued as a whole, in place but on the assumption that the business is closed,

(d) that the plant and equipment assets are valued as a whole, in place but on the assumption that it is a forced sale (See IVS 104 Bases of Value),

(e) that the plant and equipment assets are valued as individual items for removal from their current location.

Plant & Equipment – IVS 300

Various Approaches

70.4 Cost-to-Capacity Method: Under the cost-to-capacity method, the replacement cost of an asset with an actual or required capacity can be determined by reference to the cost of a similar asset with a different capacity.

70.5 The cost-to-capacity method is generally used in one of two ways:

(a) to estimate the replacement cost for an asset or assets with one capacity where the replacement costs of an asset or assets with a different capacity are known (such as when the capacity of two subject assets could be replaced by a single asset with a known cost), or

(b) to estimate the replacement cost for a modern equivalent asset with capacity that matches foreseeable demand where the subject asset has excess capacity (as a means of measuring the penalty for the lack of utility to be applied as part of an economic obsolescence adjustment).

Valuation of Land & building – IVS 400

20.6. Matters to be considered for compliance with IVS 101 & 102:

(a) the <u>evidence required to verify</u> the real property interest and any relevant related interests,

(b) the <u>extent of any inspection</u>,

(c) responsibility for <u>information on the site area</u> and any building floor areas,

(d) responsibility for <u>confirming the specification and condition</u> of any building,

(e) the extent of investigation into the <u>nature, specification and adequacy of services</u>,

(f) the existence of any <u>information on ground</u> and foundation conditions,

(g) responsibility for the <u>identification of actual or potential environmental risks</u>,

(h) <u>legal permissions</u> or restrictions on the use of the property and any buildings, as well as any expected or potential changes to legal permissions and restrictions.

Valuation of Land & building – IVS 400

50.4. The reliance that can be applied to any comparable price data in the valuation process is determined by comparing various characteristics of the property and transaction from which the data was derived with the property being valued. Differences between the following should be considered in accordance with IVS 105 Valuation Approaches and Methods, para 30.8. Specific differences that should be considered in valuing real property interests include, but are not limited to:

(a) the type of interest providing the price evidence and the type of interest being valued,

(b) the respective locations,

(c) the respective quality of the land or the age and specification of the buildings,

Valuation of Land & building – IVS 400

Specific differences that should be considered in valuing real property interests include, but are not limited to:

(d) the permitted use or zoning at each property,

(e) the circumstances under which the price was determined and the basis of value required,

(f) the effective date of the price evidence and the valuation date, and

(g) market conditions at the time of the relevant transactions and how they differ from conditions at the valuation date.

Code of Conduct (Annexure 1)

Integrity & Fairness

1. A valuer shall, in the conduct of his/its business, follow high standards of integrity and fairness in all his/its dealings with his/its clients and other valuers.
2. A valuer shall maintain integrity by being honest, straightforward, and forthright in all professional relationships.
3. A valuer shall endeavour to ensure that he/it provides true and adequate information and shall not misrepresent any facts or situations.
4. A valuer shall refrain from being involved in any action that would bring disrepute to the profession.
5. A valuer shall keep **public interest foremost** while delivering his services.

Code of Conduct (Annexure 1)

Professional Competence and Due Care

6. A valuer shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.
7. A valuer shall carry out professional services in accordance with the relevant technical and professional standards that may be specified from time to time
8. A valuer shall continuously maintain professional knowledge and skill to provide competent professional service based on up-to-date developments in practice, prevailing regulations/ guidelines and techniques.
9. In the preparation of a valuation report, **the valuer shall not disclaim liability for his/its expertise or deny his/its duty of care, except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer**.
10. A valuer **shall not carry out any instruction of the client insofar as they are incompatible with the requirements of integrity, objectivity and independence**.
11. A valuer shall clearly state to his client the services that he would be competent to provide and the services for which he would be relying on other valuers or professionals or for which the client can have a separate arrangement with other valuers.

Code of Conduct (Annexure 1)

Independence and Disclosure of Interest

12. A valuer shall act with objectivity in his/its professional dealings by ensuring that his/its decisions are made without the presence of any bias, conflict of interest, coercion, or undue influence of any party, whether directly connected to the valuation assignment or not.
13. A valuer shall not take up an assignment if he/it or any of his/its relatives or associates is not independent in terms of association to the company.
14. A valuer shall maintain complete independence in his/its professional relationships and shall conduct the valuation independent of external influences.
15. A valuer shall wherever necessary disclose to the clients, possible sources of conflicts of duties and interests, while providing unbiased services.
16. A valuer shall not deal in securities of any subject company after any time when he/it first becomes aware of the possibility of his/its association with the valuation, and in accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 or till the time the valuation report becomes public, whichever is earlier.
17. A valuer shall not indulge in "mandate snatching" or offering "convenience valuations" in order to cater to a company or client's needs.
18. As an independent valuer, the valuer shall not charge success fee.

Code of Conduct (Annexure 1)

Independence and Disclosure of Interest

19. In any fairness opinion or independent expert opinion submitted by a valuer, if there has been a prior engagement in an unconnected transaction, the valuer shall declare the association with the company during the last five years.

Confidentiality

20. A valuer shall not use or divulge to other clients or any other party any confidential information about the subject company, which has come to his/its knowledge without proper and specific authority or unless there is a legal or professional right or duty to disclose.

Information Management

21. A valuer shall ensure that he/ it **maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision. This shall be maintained so as to sufficiently enable a reasonable person to take a view on the appropriateness of his/its decisions and actions.**

22. A valuer shall appear, co-operate and be available for inspections and investigations carried out by the authority, any person authorised by the authority, the registered valuers organisation with which he/it is registered or any other statutory regulatory body.

Code of Conduct (Annexure 1)

Information Management

23. A valuer shall provide all information and records as may be required by the authority, the Tribunal, Appellate Tribunal, the registered valuers organisation with which he/it is registered, or any other statutory regulatory body.

24. A valuer **while respecting the confidentiality of information acquired during the course of performing professional services, shall maintain proper working papers for a period of three years or such longer period as required in its contract** for a specific valuation, for production before a regulatory authority or for a peer review. In the event of a pending case before the Tribunal or Appellate Tribunal, the record shall be maintained till the disposal of the case.

Gifts and Hospitality

25. A valuer or his/its relative shall not accept gifts or hospitality which undermines or affects his independence as a valuer.

Explanation.– For the purposes of this code the term 'relative' shall have the same meaning as defined in clause (77) of Section 2 of the Companies Act, 2013 (18 of 2013).

26. A valuer shall not offer gifts or hospitality or a financial or any other advantage to a public servant or any other person with a view to obtain or retain work for himself/ itself, or to obtain or retain an advantage in the conduct of profession for himself/ itself.

Code of Conduct (Annexure 1)

Remuneration and Costs.

27. A valuer shall provide services for remuneration which is charged in a transparent manner, is a reasonable reflection of the work necessarily and properly undertaken, and is not inconsistent with the applicable rules.

28. A valuer **shall not accept any fees or charges other than those which are disclosed in a written contract** with the person to whom he would be rendering service.

Occupation, employability and restrictions.

29. A valuer or his/its relative shall not accept gifts or hospitality which undermines or affects his independence as a valuer.

30. A valuer shall not conduct business which in the opinion of the authority or the registered valuer organisation discredits the profession.

Disclaimers – Draft Valuers Bill, 2020

Section 59(7): A valuation report shall not carry a disclaimer or condition, which has potential to dilute the responsibility of the valuer under this Act or makes the valuation unsuitable for the purpose for which the valuation was conducted and the valuation report shall be admissible as expert evidence within the meaning of section 45 of the Evidence Act, 1872 (1 of 1872).

1.24(e) Disclaimers: While the CoE recognises the need for valuers to provide reasonable disclaimers, a valuation report shall not carry a disclaimer, which has potential to dilute the responsibility of the Valuer or makes the valuation unsuitable for the purpose for which the valuation was conducted. The valuation reports should be capable of being tested through the crucible of legal evidence in judicial proceedings.

4.48 The Institute or VPOs may guide the valuers on what kind of disclaimers are acceptable and what are not.

Disclaimers Examples

- Reliance on Information Provided by the Client
- Unavailability of information as of Valuation Date
- Post Valuation Date Events
- Range of Value Estimate
- Definition and Premise of Value
- Indemnification not provided
- Reliance on Data from external sources
- Continuity of Subject Business
- Valuation Assumptions made by us

Valuation Report – Contents

- Executive Summary
- Introduction
- Background
- Assumptions & Limitations of the Valuation Report
- Caveats/ Limitation to use
- Purpose of the Report
- Disclaimer
- Scope of Work
- Documents Received / Bibliography
- List of Documents Sought but not received
- Sources for Other Information
- Basis of Valuation
- Brief on Valuation Methodologies/ Premise
- Company Overview
- Industry Overview
- Plant summary and Flow Diagram
- Detailed Valuation Report of Assets
  - Land
  - Building
  - Plant and Machinery
  - Furniture and Fixture
  - Securities or Financial Assets
- Photographs/ Videography
- Annexures

Valuation Report – Good Practices

- Reconciliation with CIRP Date financials
- Documents/ Information required
- Documents/ Information made available
- Assumption taken in absence of documents
- Valuation Basis with reasons
- Integration of skills between Valuers of different classes
- Liquidation cases: Remark on (a) to (f)
- Report showing values of individually sellable assets
- Individual value of different secured assets

Valuation Report – Checklist Approach

1. Scope of work to be clear and not vague.
2. Sufficient explanation of supporting evidence.
3. An explanation on methodology applied to arrive at specific valuation
4. No Errors in numerical calculations and mismatch in logical sequencing.
5. No Inconsistencies and contradictions in various parts of the same report.
6. Assumptions are clearly articulated.
7. Important sources for verification of land ownership to be provided
8. Name of appointing authority to be mentioned.
9. References to important dates.
10. Mention of caveats, limitations and disclaimers in the valuation report.

Valuation Report – Checklist Approach

11. The major factors taken into account during the valuation
12. Conclusion to be provided.
13. Mention of restrictions on use of the report, if any.
14. Notes to the report are identical across all asset categories.
15. Figures were computed based on latest available provisional balance sheets.
16. The reports should confirm having ‘Considered’ all three generic approaches to value and do not cite reasons for ‘selection’ of any particular method or for ‘disregarding’ any approach.
17. Valuation Reports should make reference to outstanding liabilities.

Thank You! Questions?

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