THE VALUATION PROFESSIONAL

YOUR INSIGHT JOURNAL

February 2025

ICMAI Registered Valuers Organisation
(A Section 8 Company promoted by The Institute of Cost Accountants of India)

About ICMAI Registered Valuers Organisation

In this backdrop, the Companies Act, 2013 brought into the light the concept of 'Registered Valuers' to regulate the practice of Valuation in India and to standardize the valuation practices in line with International Valuation Standards. Consequentially , The Ministry of Corporate Affairs (MCA) notified the provisions governing valuation by registered valuers vide Section 247 of the Companies Act, 2013 and the Companies (Registered Valuers and Valuation) Rules, 2017.

The Institute of Cost Accountants of India (Statutory body under an Act of Parliament) has promoted ICMAI Registered Valuers Organisation (ICMAI RVO), a section 8 company under Companies Act, 2013, which is recognised under Insolvency and Bankruptcy Board of India (IBBI) to conduct educational courses on Valuation for three different asset classes - Land & Building, Plant & Machinery and Securities or Financial Assets and to act as frontline regulator as Registered Valuers Organisation. The key functions of the company include – Enrolment of members as Registered Valuers, look at their professional development, grievances, and discipline and promote development of valuation eco system and valuation profession within India. ICMAI RVO is an Academic Member of International Valuation Standards Council.

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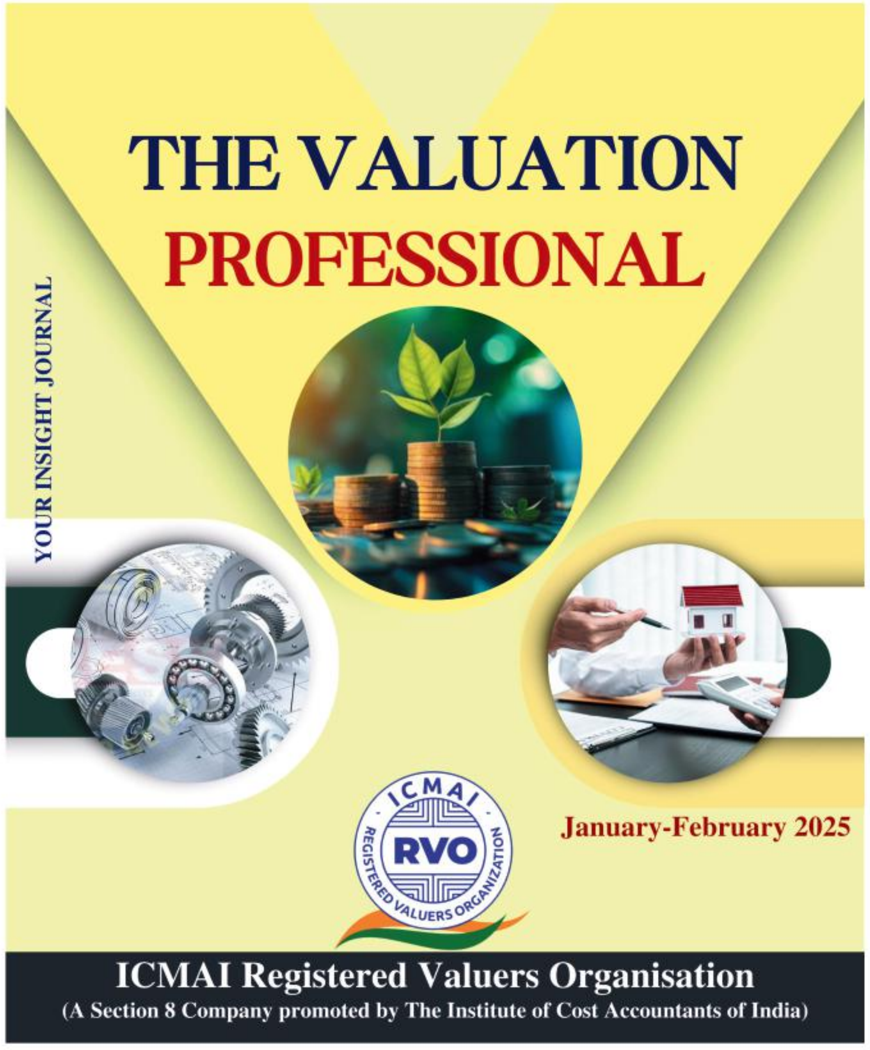

February 2024

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ICMAI REGISTERED VALUERS ORGANISATION
RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA
PROMOTED BY: THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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FROM THE CHAIRMAN's OF DESK

Dr. Shyam Agrawal
Chairman
ICMAI Registered Valuers Organisation

The field of business valuation is undergoing substantial changes driven by evolving market conditions , technological advancements , and shifting investor priorities. These changes are not just academic; they have real-world implications for mergers, acquisitions, and the strategic planning processes of businesses across the globe. Below are the pivotal trends that are redefining the business valuation landscape. The future of valuation is likely to be heavily influenced by increased reliance on data analytics, a growing emphasis on intangible assets like intellectual property and brand value, a greater focus on environmental, social, and governance (ESG) factors, and the integration of advanced technologies to provide more accurate and nuanced valuations of companies and assets across diverse industries.

Overall, the future of valuation is likely to be characterized by a more sophisticated and dynamic approach, utilizing advanced data analytics and incor-porating a broader range of factors beyond traditional financial metrics to provide a more comprehensive picture of a company's true value.

For businesses, investors, and valuation professionals, staying informed and adaptable in the face of these changes will be crucial. The ability to accurately value a company—considering both its tangible and intangible assets—will be a key determinant of success in an increasingly complex and dynamic market environment. As these trends continue to evolve, the field of business valuation will likely see further innovation and adaptation, driven by the need to meet the demands of a rapidly changing world.

FROM THE MD's OF DESK

Dr. S. K Gupta
Managing Director
ICMAI Registered Valuers Organisation

Artificial intelligence (AI) is used in valuation by automating complex calculations, analysing vast amounts of market data rapidlly , and leveraging predictive analytics to generate more accurate and insightful valuations, improving the speed and efficiency of the valuation process while providing deeper insights compared to traditional methods; essentially allowing analysts to perform more comprehensive valuations with less manual work.

AI has transformed the business valuation landscape by introducing machine learning algorithms and data analytics to the process. These technologies allow for a more objective and accurate assessment of a company's value, as they can process vast amounts of data and make predictions based on historical trends and patterns. The power of AI in the context of business valuations can be significant, and it can provide valuable insights and efficiencies. First, AI can facilitate data processing and analysis processes, including historical financial statements analysis, trend forecasting, and market and industry research. This capability can be useful in assisting valuation professionals in assessing the subject company's current position and future growth prospects.

One of AI's most significant contributions to valuation is its ability to collect and process vast amounts of data from a variety of sources in real time. In traditional valuation, data collection is a time-consuming process, often limited to financial statements, market conditions, and industry reports.

AI is set to play an increasingly important role in the future of valuation, providing more accurate, efficient, and dynamic assessments of assets and businesses. By harnessing the power of data analytics, machine learning, and predictive modelling, AI could revolutionize the valuation process, offering deeper insights and enabling better decision-making.

However, as AI continues to evolve, businesses must address the challenges surrounding data quality, interpretability, and regulatory compliance. When implemented thoughtfully, AI could be a powerful tool for unlocking new levels of precision and foresight in valuation, ultimately driving better outcomes for companies, investors, and stakeholders.

PROFESSIONAL DEVELOPMENT PROGRAMS

ICMAI Registered Valuers Organisation

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PROFESSIONAL DEVELOPMENT PROGRAMS

JANUARY-FEBRUARY 2025

1	Mastering Valuation Process on 04th-05th January 2025 from 11.00 am to 05.00 pm
2	02nd Batch Certificate Course : AI and Analytics in Business Valuation Starting From 04th January 2025
3	Boot Camp on Valuation on 07th-08th January 2025 from 02.00 pm to 06.00 pm
4	Certificate Course : Professional Proficiency in Valuation on 11th-12th & 18th-19th January 2025
5	03rd Batch Certificate Course : AI and Analytics in Business Valuation Starting From 18th January 2025
6	Certificate Course for IPs : Valuation under IBC on 19th January 2025 from 11.00 am to 05.30 pm
7	Revised International Valuation Standards (Effective from 31st January 2025) on 21st-22nd January 2025
8	Harmonizing Interface between IPs and RVs on 23rd January 2025 from 11.00 am to 05.30 pm
9	Mastering Soft Skills on 24th -25th-26th January 2025 from 10.00 am to 01.00 pm
10	04th Batch Certificate Course : AI and Analytics in Business Valuation Starting From 08th February 2025
11	Advanced (Level II) Certificate Course AI & Analytics in Business Valuation Starting from 08th February 2025
12	03rd Batch of Diploma in Business Valuation Starting from 15th February 2025
13	66th Online Batch Securities or Financial Assets - From 07th Feb to 16th Feb 2025 (Seven Days Program)
14	50th Online Batch Land and Building : From 14th February to 23rd February 2025 (Seven Days Program)
15	29th Online Batch Plant & Machinery - From 14th February to 02nd March 2025 (Seven Days Program)
16	Online Certificate Course : ESG considerations in Valuation starting from 19th February 2025

PROFESSIONAL DEVELOPMENT PROGRAMS

UPCOMING PROGRAM

1	05th Batch Certificate Course : AI and Analytics in Business Valuation starting from 01st March 2025
2	Certificate Course : Professional Proficiency in Valuation on 01st-02nd & 08th-09th March 2025
3	Mastering Valuation Process on 04th-05th March 2025 from 11.00 am to 05.00 pm
4	Harmonizing Interface between IPs and RVs on 06th March 2025 from 11.00 am to 05.30 pm
5	Boot Camp on Valuation on 07th-08th March 2025 (Friday-Saturday) From 02.00 pm to 06.00 pm
6	Physical Program - International Women's Day on 08th March 2025 from 09:30 am to 01.30 pm
7	Revised International Valuation Standards (Effective from 31st January 2025) on 11th-12th February 2025
8	67th Online Batch Securities or Financial Assets - From 06th Mar to 16th Mar 2025 (Seven Days Program)
9	Workshop on Valuation Report on 13th March 2025 (Thursday) from 11:00 am to 05:00 pm
10	Master Class on Understanding Valuation Perspectives on 15th-16th March 2025 from 02.00 pm to 06.00 pm
11	04th Batch of Diploma in Business Valuation starting from 15th March 2025 from 04.00 pm to 06.00 pm
12	06th Online Batch AI and Analytics in Business Valuation starting from 22nd March 2025
13	Online Certificate Course ESG considerations in Valuation starting from 26th March 2025
14	51th Online Batch Land and Building : From 13th March to 23rd March 2025 (Seven Days Program)
15	67th Online Batch Securities or Financial Assets - From 21st Mar to 30th Mar 2025 (Seven Days Program)

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The 'Number' Isn't Necessarily the 'Number': A Valuation is an Estimate, Not a Fact (and Some Observations on Neutral Valuations)

Mr. Peter Maras

Valuation, Damages, Forensic Accounting | Expert Witness | Start-up, Tech & Intangible Asset Valuer | APAC Disputes | ADR & Litigation Support | CVA, CFA and ACCA Member

Is valuation about discovery or creation?

Do experts 'uncover' an intrinsic, true value that already exists, waiting to be found?

Or are they constructing a valuation based on inputs, assumptions, and reasoning?

For our part, we view valuation as a process of applying judgment to data, selecting methodologies, and making assumptions to construct an estimate that is defensible and appropriate to the context.

As such, no valuation is inherently 'correct' or 'accurate,' and every valuation reflects the choices and perspectives of the valuer.

(Even in the field of mathematics – what many might regard as a science - there is a persistent philosophical debate over whether it is a human creation, a discovery of natural rules or a blend of both.)

In certain disputes, the appointment of a single expert, whether as an expert determiner or a neutral, joint expert, is often seen as a practical and cost-effective solution to resolving valuation disagreements.

Underlying this appointment might be an inherent perception that this sole expert will somehow determine the 'correct number'.

This perception, while convenient, can be perilous in high-stakes cases.

Valuation is no exact science.

Even 'qualified' experts with the best intentions approach the task with their own methodologies, data preferences, and inherent biases. Some experts lean high, others low - often without realising it. These variances arise not because the experts are incompetent but because valuation is inherently subjective. Many selection mechanisms have, at least in substance, a degree of randomness, effectively introducing chance into the valuation outcome.

Many lawyers and clients might agree that having more 'control' by reducing this randomness would be preferable or, at least turning complete uncertainty into a universe of potential outcomes e.g. to which probability and logic can apply.

'Trust the artist' – Potential Dangers of Neutral Valuations

Neutral valuations arise in a series of circumstances – they might be consensual (contractually or otherwise – before or after a dispute arises) or arise as a function of court rules.

While the neutrality of a single valuer might reduce perceived bias (e.g. it is jointly appointed by parties who jointly bear costs) and perceived cost , this approach carries significant risks, particularly in disputes where valuations have real, material consequences.

That is, where the 'number' isn't just a theoretical number on a page, but one which translates into 'real' money changing hands in the 'real' world, complete with potential tax and insolvency consequences. In acquisition disputes, shareholder disputes, or certain marital disputes (i.e. a company, business, or perhaps complex intangible assets represents the bulk of the asset pool), the financial stakes can be enormous. Unexpected valuations – or those that fail to appreciate the real world outcomes for parties - can shift outcomes by millions, negating in theory any procedural cost savings.

Neutral valuers are typically focused on producing a number that 'makes sense' within the context of the information they've been provided pursuant to their terms of reference (which might include information researched from the valuer's own databases). However,

this focus can lead to critical oversights – which any unexamined decision-maker can have - if the valuer is left to rely solely on their default processes and with poor quality, incomplete information and / or without considering alternate views. Without active engagement from the parties involved, the valuer may overlook crucial nuances beneficial to a party, leading to suboptimal or unbalanced outcomes (at least from one party's perspective).

Perhaps without realising it, parties who appoint neutral experts on the assumption they will determine the 'correct' number may have unwittingly removed some of the benefits of 'competitive tension' of the typically adversarial expert process - testing assumptions, data, interpretations and facts.

But we can reintroduce some of this rigour. In a way that a party can control.

Taking Control of the Process

For starters, a streamlined process does not necessarily mean that the information gathering, and analysis should be similarly expedited. Sometimes there are no shortcuts to get a valuation outcome that is considered fair by the parties. Neutral expert TORs often request that parties provide certain information but there is no compulsion, it is simply stated (implicitly or otherwise) that the parties will bear the consequences by not having that information considered. The author suggests that the information request stage be treated with due weight and consideration by parties and their counsel, almost as if it were an evidentiary process.

Another effective way to mitigate this risk is to take control of the valuation process by appointing your own 'shadow' expert - not necessarily to provide the valuation itself (although this can be done – so long as there is a mechanism to provide submissions to the neutral expert) but to engage critically with the neutral expert.

This can involve, to the extent the process allows, assisting with submissions, providing alternative data sets, providing a suggested valuation opinion – or where a draft valuation has been submitted for feedback - challenging assumptions and methods, noting internal inconsistencies , inconsistencies with guidelines such as the IVS, or proposing alternative scenarios. Often there may be a process by which parties can pose questions to the valuer and to which they are obliged to respond (although not necessarily change their opinion).

A well-prepared expert-assisted submission can assist the neutral in their critical thinking so that their analysis steered toward a more robust, balanced and informed outcome.

Think of it as a form of Socratic method on paper; an impetus towards more critical thinking.

But doesn't this cost more? Does it not defeat the purpose of reducing the number of experts?

Yes – but it is a compromise position (and the client has control on investing more (or not) to reduce randomness or risk of an unsatisfactory outcome by which they are bound).

Providing submissions or alternative data might at first glance seem like biasing the process – but handled well it's about ensuring completeness and accuracy to give a party the best chance at reducing 'left tail risk' e.g. an 'out of left field' catastrophic outcome . Without this intervention, the neutral expert is left on autopilot, relying solely on the information provided by default and perhaps on their own heuristics – which might be unknown and unexamined from the perspective of the parties.

A proactive investment, which can be a relatively small percentage of the potential variation in valuation outcomes, in engaging an expert to provide well-reasoned submissions or critiques can shift the valuation outcome significantly - potentially by millions of dollars.

To take the creation analogy further, why not provide the sole valuer with high quality paints, some artistic inspiration and reference material, periodically check in, speak with other artists given - except in very unusual cases- you are going to have to 'take the painting home' (the valuation outcome) and keep it.

Conclusion

Assuming that a single expert will independently determine the 'correct' valuation can be a dangerous mi-

-sconception in dispute resolution.

Valuation is a mix of art and science - creation and discovery.

While neutral experts play an important role, their work must be complemented by active engagement.

The key takeaway for legal practitioners is perhaps not to leave the valuation process to chance. Whether by appointing your own expert or actively engaging with the neutral expert, proactively guiding the valuation process is essential to safeguarding your client's financial interests.

The number isn't just a number - it's the product of the process you guide.

Valuation of Cooperative Organizations

Dr. S K Gupta

Managing Director - ICMAI Registered Valuers Organisation

The perspective

A cooperative is a business that is owned and controlled by its members. Cooperatives are democratic organizations that focus on serving their members, rather than maximizing profits for investors. Cooperatives are associations or organizations whose goals are to satisfy their members' social, economic, and cultural needs. Each member enjoys equal voting rights in a cooperative regardless of the number of shares they own. Different regions around the world offer a variety of legal structures for cooperatives.

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Cooperative Principles

1) Voluntary and Open Membership : Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities and meet the requirements of membership, without gender, social, racial, political or religious discrimination. Members have control over setting policies for the co-op and making decisions for the cooperative.

2) Democratic Member Control : Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.

3) Member Economic Participation : Members contribute equitably to, and democratically control, the capital of their cooperative.

4) Autonomy and Independence : Cooperatives are autonomous, self-help organizations controlled by their members.

5) Education, Training, and Information : Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute to the development of their cooperatives. They inform the general public about the nature and benefits of cooperatives.

6) Cooperation among Cooperatives : Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

7) Concern for Community : Cooperatives work for the sustainable development of their communities through policies approved by their members.

Cooperatives vs. Corporations

The following are some similarities and differences between cooperatives and regular corporations.

1. Ownership

- Cooperatives generally issue par value shares whose value will not increase. Share redemption is handled by the cooperative rather than via any negotiations between members.
- Corporations issue shares that may fluctuate in value. Any sale will depend on demand and the exchange value agreed to between the selling and the purchasing parties.

2. Directors

- For both cooperatives and corporations, directors are elected by the shareholders or members based on the rules set out by the cooperatives' articles. They have to discharge their duties in good faith and with prudent care.

- Depending on the jurisdiction, cooperatives may have a minimum number of directors. As forming a cooperative for one member acting to benefit themselves is nonsensical; the minimum number of directors for a cooperative is usually 2 or 3.
- Corporations must have one or more directors. The minimum is higher for publicly-traded corporations.

3. Voting

- Cooperative members have equal voting rights no matter how many shares they hold. Many jurisdictions do not give members an option to have someone else vote on their behalf, i.e., proxy voting. In place of this rule, members may sometimes elect or appoint delegates to represent them if the cooperative bylaws provide such an option.
- Corporation shareholders have proportional voting rights equal to the number of shares owned.

Valuation of cooperative organizations

Business valuations are performed for a number of different reasons which can include financing, liquidations, mergers, acquisitions, spin offs and bankruptcies.Individual owners may be concerned with valuation in order to vote on corporate reorganization. Valuation of cooperative organizations involves assessing their worth, considering both financial and non-financial factors, and often involves a unique approach due to their democratic and member-centric nature.

Financial Valuation :

- **Asset Valuation :** Like any business, cooperatives have assets that need to be valued, including real estate, equipment, and other tangible assets.
- **Revenue and Profitability :** The cooperative's ability to generate revenue and profits is a key factor in its valuation. Traditional metrics like revenue, net income, and operating margins are still important, but should be analyzed in the context of member benefits
- **Debt and Liabilities :** The cooperative's debt and liabilities need to be factored into the valuation.
- **Membership Value :** The value of the membership itself, including the potential for future patronage and benefits, can be a significant factor.
- **Future Earnings Potential :** Valuation also considers the cooperative's future earning potential and growth prospects.

Non-Financial Valuation :

- **Cooperative Principles :** The valuation process should consider the cooperative's adherence to the seven cooperative principles (voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives, and concern for community).
- **Social Impact :** The social impact of the cooperative, such as its contribution to the community and its members' well-being, can be a factor in its valuation.
- **Member Satisfaction :** Member satisfaction and engagement can also be a factor in the valuation.
- **Reputation and Brand Value :** The cooperative's reputation and brand value can also be important factors.

Valuation Approaches for Cooperatives

- **Discounted Cash Flow (DCF) Analysis :** A common method for valuing businesses, but may need adjustments to reflect the cooperative's unique structure and goals.
- **Comparable Company Analysis :** Comparing the cooperative to similar businesses, but this can be challenging as cooperatives are often unique.
- **Asset-Based Valuation :** Focusing on the value of the cooperative's assets, which may be appropriate for certain types of cooperatives.
- **Market-Based Valuation :** Using market data, such as the price of similar assets or businesses, to determine the value of the cooperative.
- **Value Co-creation :** Recognizing that value is created through the interaction of members and stakeholders, and that this value can be a significant factor in the cooperative's worth.
- **Member value (MV) :** Member Value is the present value of projected future cash patronage payments and equity redemption payments. MV Is calculated by projecting annual cash patronage and equity retirement payments and discounting the member payments back to the present value.

- Key challenge in using MV as a means of valuing the cooperative firm is the need for assumptions of future cash patronage rates and the equity redemption schedule. Key challenge in using MV as a means of valuing the cooperative firm is the need for assumptions of future cash patronage rates and the equity redemption schedule
- **Free cash flow to equity (FCFE) :** FCFE is the cash flow available to the firm's owners once operating expenses (including taxes), expenditures needed to sustain the firm's productive capacity, and payments to (and receipts from) debt holders are accounted for. In simple terms, FCFE represents the cash that could be potentially available to pay to equity shareholders. In calculating FCFE a valuator forecasts operations for a 5 to 10 year period of time and estimates the cash flows in excess of all expenses, loan repayment and additional infrastructure investment needed to maintain the assumed growth rate for each of those years. The valuator also estimates the terminal value for the business in the final year of the forecast. The annual cash flows and the terminal value are then discounted back to the date of the valuation

Difference between MV and FCFE methods

The FCFE differs from the MV approach in that it measures the cash potentially available for distribution. FCFE therefore requires no assumptions of actual profit distribution choices. FCFE also differs from MV in that it considers the residual value of the firm in the final year of the projections.

Conclusion

The unique financial structure of the cooperative business model creates challenges in valuing cooperative firms.

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Key Changes in IVS 2025 and Their Impact on Valuation Practices in India

Mr. Anil Kumar Sharma

Registered Valuer & Insolvency Professional

Introduction

Valuation plays a critical role in financial decision-making, and its importance has only grown with increasing market complexities. The International Valuation Standards (IVS) serve as the backbone of structured, transparent, and consistent valuation practices worldwide. The IVS 2025 standard, that became effective from January 31, 2025, introduces significant modifications aimed at improving clarity, consistency, and adaptability to evolving market needs.

These changes are not arbitrary; they reflect the rapid advancements in technology, the growing relevance of Environmental, Social, and Governance (ESG) factors, and the necessity for enhanced data integrity. In this article, we will examine the major changes in IVS 2025, particularly their implications for valuation practices in India.

A notable modification in IVS 2025 is avoidance of ambiguous language. The replacement of "may" with "must" or "should" eliminates uncertainty, making compliance requirements clearer and more enforceable. Where the standard uses "must "it implies that the requirement is mandatory and where the word "should" implies a presumptive mandatory requirement when used which means action required can be substituted with an alternative one as long it fits the purpose and is properly disclosed with reasons.

What are IVS Standards?

IVS provides a principle-based framework for conducting and reviewing valuations, ensuring that valuations across different jurisdictions use a common framework. These standards apply to valuers, reviewers, regulators, and other professionals involved in the valuation ecosystem.

IVS can either be mandatory or adopted voluntarily, depending on local regulatory requirements. They offer clear valuation guidelines while allowing professionals the flexibility to exercise their professional judgment. In essence, IVS functions like a well-designed navigation system—it provides the necessary structure without rigidly dictating every step. In fact, words professional skepticism has been added to the Valuer Principles – implying that the valuer must exercise reasonable skepticism e.g., when selecting use of data or making assumptions. The meaning ascribed to this principle is an attitude of critical assessment and a questioning mind when using any evidence for valuation.

Key Changes in IVS 2025

The upcoming IVS 2025 introduces several structural and procedural updates that will significantly influence valuation practices. Below, we break down the most notable changes.

1. Introduction of IVS 104 – Data and Inputs for Valuation

One of the most fundamental changes is the introduction of IVS 104, a new chapter dedicated to the selection and use of data in valuations. Data quality directly impacts the credibility of a valuation, and this addition formalizes the expectations for data relevance, accuracy, and transparency.

Key Aspects of IVS 104:

- IVS 104, emphasizes the use of observable data that is readily available and reflects real-world transactions.
- This standard defines the three key characteristics of relevant data:
  - Timeliness - Data should be current and applicable to the valuation date.

   - **Accuracy** - The source should be verifiable and reliable.
   - **Transparency** - Data should be clearly documented and justifiable.
- Includes an appendix dedicated to ESG considerations, recognizing their increasing influence on valuations.

The ESG component ensures that valuations go beyond traditional financial metrics, incorporating sustainability and governance factors that affect asset values.

2. Introduction of IVS 105 – Valuation Models

This new chapter establishes a structured approach to selecting and applying valuation models. A key distinction is made between:

- **Valuation Method** : A technique used (e.g., Discounted Cash Flow or Market Comparison Method).
- **Valuation Model** : A computational tool or formula that applies the chosen method.

Why This Matters :

- Ensures clarity in valuation techniques.
- Reinforces the need for a structured approach in selecting models.
- Addresses the growing use of AI-driven and algorithmic valuation models.

Freedom has been given to a valuer to use a "specialist" or a service provider in case his own competency is limited and not sufficient for the type of asset or for want of a model or data.

3. Refinements in Asset Standards

Another significant update involves renaming the Plant and Equipment valuation standard to Plant, Equipment, and Infrastructure standard. This adjustment aligns with global market realities, ensuring that valuers cover all relevant aspects of complex assets.

Additionally, language in the asset standards has been streamlined for improved clarity, reducing ambiguity in interpretation and implementation.

4. Compliance and Scope of Work

IVS 2025 strengthens compliance obligations and broadens the requirements for defining the scope of work. Valuers are now required to disclose full adherence to all applicable standards rather than partial compliance.

Key Compliance enhancements :

- Ethical principles and professional skepticism are emphasized.
- Compliance must cover all applicable standards (both general and asset-specific).
- Deviations from IVS are permitted only if mandated by statutory, legal, or regulatory frameworks.

The enhanced Scope of Work (IVS 101) section now mandates greater clarity in valuation engagements.

New Scope Requirements :

- Clearly define the assets and liabilities being valued.
- Explicitly state whether ESG factors are considered.
- Outline the role of specialists (if applicable).
- Provide a sample deliverable or a well-defined description of valuation reporting

A structured Scope of Work ensures transparency, minimizes misinterpretations, and aligns expectations between valuers and stakeholders.

5. Updates in IVS 102 – Bases of Value

While most Bases of Value remain unchanged, there is a crucial update in the definition of base of value, Liquidation value, words "on a piecemeal basis " from the definition of Liquidation value in IVS 2022 have been deleted This makes it quite aligned to the Liquidation value premises and assumptions under the Insolvency and Bankruptcy Code, 2016.

Further,under IVS 2025, valuers can use non-IVS bases of value only if they comply with relevant laws and regulations and adequately disclose their application.

Additionally, any special assumptions must be backed by clear evidence, ensuring that all deviations from conventional valuation approaches are justified.

Impact on Valuation Practices in India

These structural enhancements in IVS 2025 are expected to have widespread implications for valuation professionals in India. Below, we analyze their anticipated impact below .

1. Enhanced Quality of Valuations

The focus on data integrity, valuation models, and compliance will significantly improve the accuracy and reliability of valuations in India. With the restructuring of IVS, Indian valuation professionals will be expected to adhere to higher standards, ultimately enhancing confidence in valuation outcomes.

2. Integration of ESG Factors

ESG factors are gaining traction in Indian markets, particularly in sectors like Infrastructure, Power plants, Real estate , manufacturing, and financial services. IVS 2025 mandates explicit consideration of ESG elements, ensuring that valuations reflect broader environmental, social and governance impacts rather than just financial metrics.

3. Strengthened Quality Control Measures

The introduction of specific quality control requirements will reinforce trust in valuation practices. Mandatory process quality control, expert collaboration, and compliance disclosures will promote objectivity and transparency in valuations.

4. Impact on Costs

The adoption of IVS 2025 may initially lead to increased costs due to :

- Training & Adaptation : Valuation professionals may need additional training to understand and implement the new standards.
- ESG Data Integration : The need for in-depth ESG analysis could increase research and compliance costs.
- Advanced Valuation Models : Encouraging the use of sophisticated valuation models may necessitate investments in software and expertise.

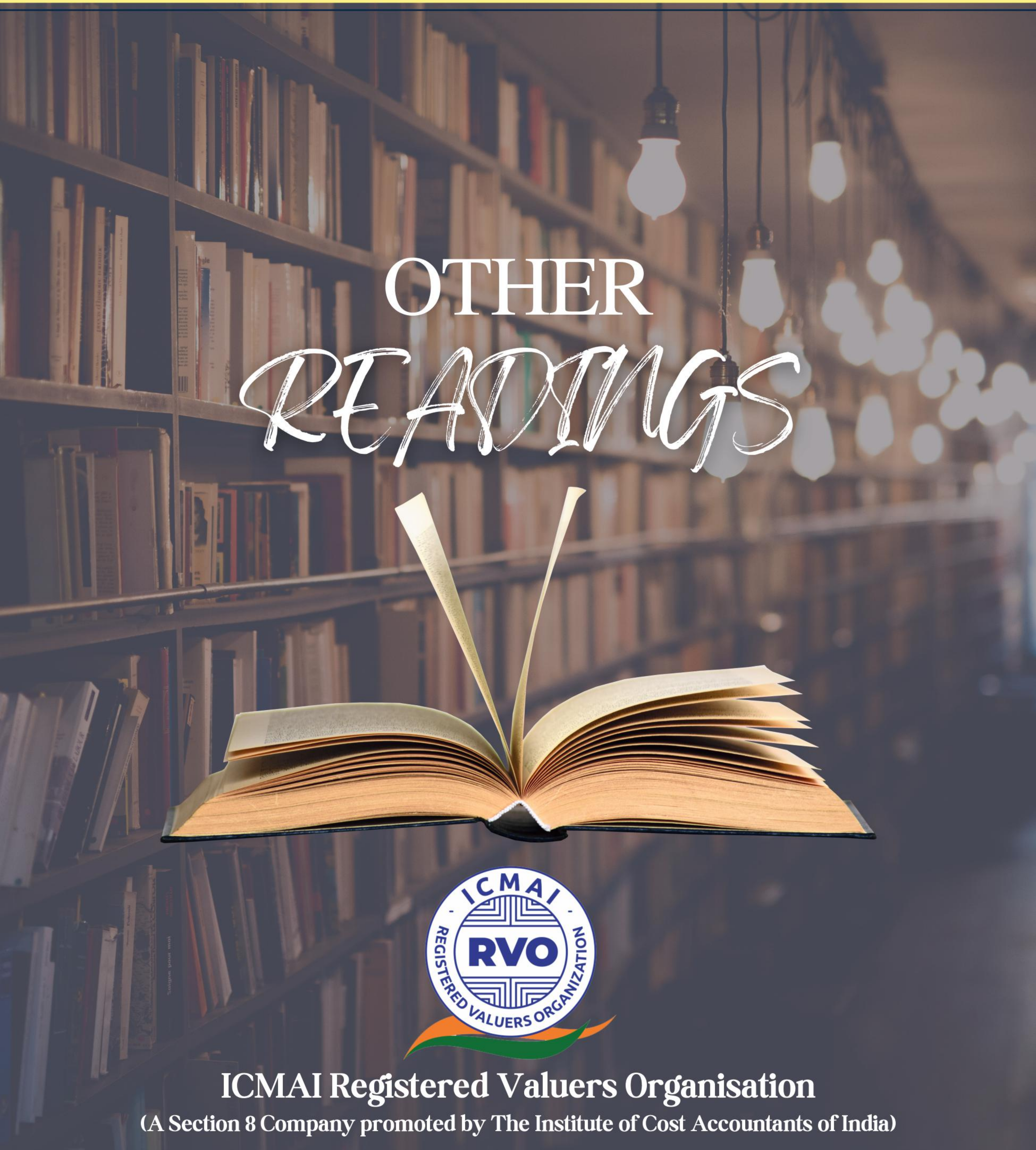
However, in the long run, these measures are expected to streamline valuation processes, reducing inefficiencies and fostering a more structured approach to valuation in India.

Conclusion

IVS 2025 represents a significant step toward refining valuation standards to align with contemporary market requirements. With an emphasis on data quality, valuation methodologies, ESG considerations, and compliance, these updates enhance the transparency and reliability of valuations globally, including in India.

For valuation professionals, adapting to IVS 2025 is not just a regulatory requirement but an opportunity to improve valuation practices and build trust with stakeholders. While the transition may pose initial challenges in terms of costs and training, the long-term benefits—such as improved accuracy, market credibility, and the ability to integrate ESG considerations—far outweigh these hurdles.

As the valuation landscape evolves, embracing these changes will be crucial for staying ahead in an increasingly complex financial world.



OTHER READINGS

ICMAI Registered Valuers Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

IVSC PERSPECTIVES PAPER

The Integration of ESG in Valuation Practices:

IVSC Global Survey 2024

January 2025

IVSC

Richard Hayler
Chair, IVSC ESG Working Group

Navigating ESG Integration: Insights from the IVSC Global Survey

Foreword

Over the past decade, the significance of Environmental, Social, and Governance (ESG) factors in valuation has been extensively debated. To ensure the ongoing relevance of International Valuation Standards (IVS), the International Valuation Standards Council (IVSC) closely monitors the integration of ESG considerations into valuation practices. The IVSC's ESG Committee was specifically established to address this developing area.

Our recent survey was aimed to inform the incorporation of ESG into the development of IVS, while also providing valuable insights to the valuation profession and the public on the evolving landscape of ESG integration in valuation across various markets. The ESG Committee, recognising the diverse perspectives on ESG in valuation, prioritised neutrality and objectivity in the formulation of questions and the interpretation of responses.

The survey findings reveal significant uncertainty surrounding the integration of ESG factors in valuation. Moreover, they highlight the diverse pace and direction of ESG adoption across different markets. While this diversity may raise concerns regarding valuation comparability, it is encouraging to note that only 9% of respondents deemed the 'IVS 104 Appendix on ESG considerations' insufficient. This suggests that, for the time being, the IVSC has struck a suitable balance in its approach to ESG integration within the IVS framework.

The IVSC is committed to continuing to use tools such as this survey to canvas market opinion on the role of ESG in valuations. We welcome your comments and feedback.

Introduction

As a global valuation standard setter, the International Valuation Standards Council (IVSC) considers opinions from valuation stakeholders around the world. The global debate on sustainability and Environmental, Social and Governance (ESG) issues continues to garner considerable attention, including, for example, whether investors should consider these factors when pricing assets and investments.

To the extent such factors are influencing asset values, stakeholders need to be able understand the extent to which they are being captured in the underlying valuations. In this context, the IVSC has sought through its annual survey to assess the state of the market on ESG factors and their relevance in the valuation of assets and businesses across geographies and valuation specialisms.

These factors, once considered peripheral, have moved to the forefront of discussions among investors, regulators, and valuation professionals in some markets. However, perspectives are divergent with jurisdictions and asset classes moving at different speeds and in different directions. Political polarisation in some areas of the world has also led some stakeholders to avoid the use of the term 'ESG,' focusing instead on 'sustainability' to encapsulate similar factors.

This paper presents an analysis of the survey responses, highlighting the consistent themes, surprises and challenges. While the concepts of 'ESG' and 'sustainability' overlap, they are not necessarily the same. However, for simplification purposes, henceforth these terms may be used interchangeably.

IVSC ESG Working Group

The IVSC is gratful to the members of its ESG Working Group for their time and contribution to this survey and report.

- **Alexander Aronsohn** - Standard Review Board Technical Director
- **Anjanette (AJ) Hutson** - Colliers and Appraisal Institute USA
- **Ayda Chamcham** - Appraisal Institute Canada
- **Carla Nunes** - Kroll
- **Catalina Miranda** - IVSC Business Valuation Board
- **David Larsen** - IVSC Standards Review Board
- **Dr Georgia Warren-Myers** - University of Melbourne/JLL
- **Giampiero Bambagioni** - IVSC European Membership and Standards Recognition Committee
- **Howard Mah Lee** - American Institute of Certified Public Accountants (AICPA)
- **Jose Covas** - IVSC Standards Review Board
- **Miguel Cordano Rodríguez** - President of CTTP
- **Richard Hayler (Chair)** - IVSC Standards Review Board
- **Richard Olson** - Lincoln International
- **Simon Orr** - J P Morgan
- **Susann Ihlau** - IVSC Standards Review Board

The IVSC ESG survey ran between 28th March and 31st May 2024, with responses received from 542 participants from 85 countries.

Based on a survey of valuation professional service providers.

Survey Overview

The IVSC ESG survey of valuation providers ran between 28th March 2024 and 31st May 2024, with responses being received from 542 survey participants from 85 countries. Since not all the questions were mandatory the number of responses varies between questions. The charts throughout this report indicate the number of responses received for each survey question to assist the reader in interpreting the data. In instances where not all respondent replied, statistics (and proportion of responses) are based solely on those who replied. In addition, some questions allowed the respondent to select multiple options, which means that, for such questions, the number of responses may exceed the number of respondents who answered the question.

Respondent Demographics

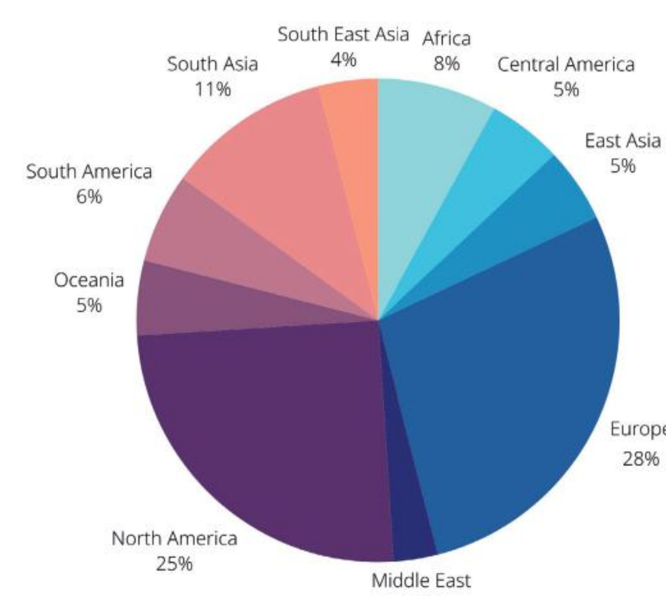


Chart 1: In which geography are you located? (542 respondents)

Geographic coverage was well balanced. The majority of respondents were located in Europe (28%), closely followed by North America and Asia-Pacific (both at 25% each). The balance is comprised of Central & South America and Africa & Middle East, with equal weights (11% each). Notably, the fact that responses came from stakeholders located in 85 countries is a testament to the global reach of the IVSC and the interest that this topic generates. Chart 1 provides a more granular detail on the geographic distribution of the survey respondents. The three countries with the highest number of respondents were the United States (24%), India (9%) and Italy (6.8%).

IVSC

The survey conducted by the IVSC drew responses from valuation professionals who focus their valuation work on various regions and markets (Africa: 9%, Asia: 19%, Americas: 30%, Europe: 27%, Middle East: 5%), with 9% having a global focus. [See Chart 2]

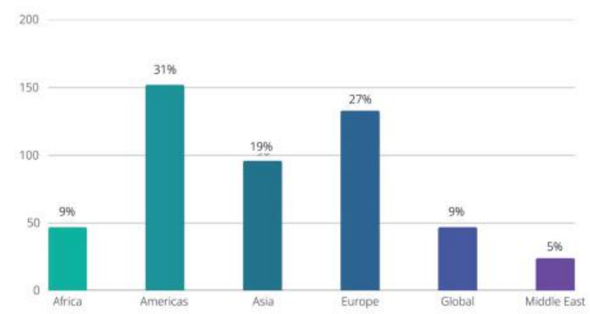


Chart 2: In which markets do you work? (417 respondents, 499 responses)

Valuation focus spread across a variety of areas, with business valuation and intangible respondents accounting for over half of total responses. Tangible assets represented just over a quarter of respondents (26%). Unsurprisingly, several respondents perform or review valuations in multiple asset classes. [See Chart 3]

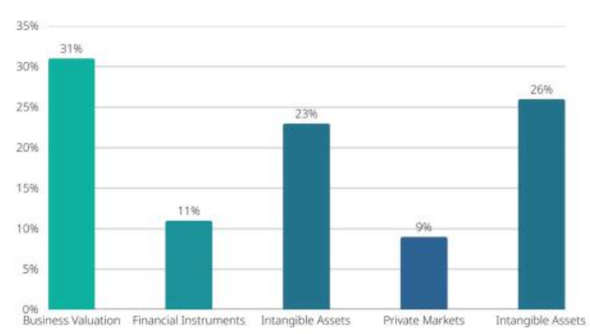


Chart 3: What is your valuation focus? (534 respondents, 968 responses)

Experience levels varied, with respondents ranging from those with less than five years of experience to those with over two decades in the field. Notably of those who replied to this questionnaire, almost half (44%) had over 20 years of experience. [See Chart 4]

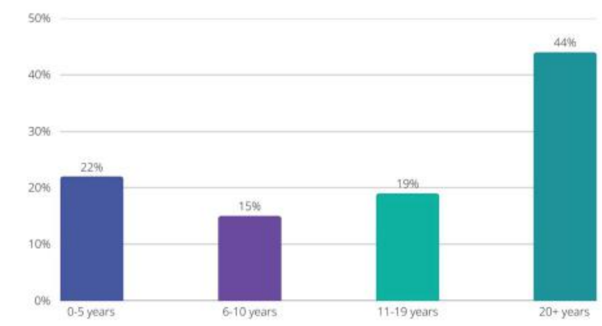


Chart 4: How many years of valuation experience do you have? (402 responses)

Respondents performed or reviewed valuations for a variety of purposes, with financial reporting being the most common (26%) [See Chart 5].

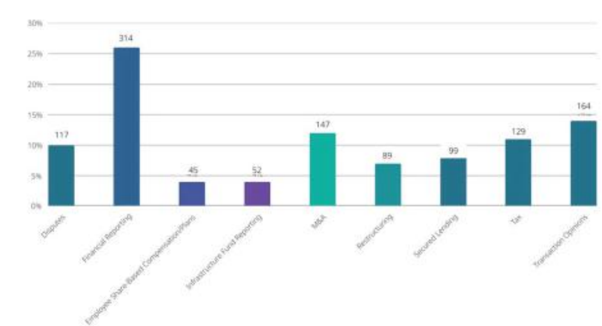


Chart 5: What is the main purpose(s) of the valuations you perform or review? (427 respondents, 1190 responses)

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Analysis and Key Findings

1. ESG Awareness and Integration

The survey revealed that while there is a growing awareness of ESG factors among valuation professionals, the degree of integration into valuation practices remains varied. As illustrated in Chart 6, only 30% of respondents commented that they always or very frequently consider ESG/ Sustainability factors within their valuation and valuation reports. This may be because ESG/ sustainability considerations in valuations are still in their infancy or simply that many valuers do not consider them to be material variables in the valuation and therefore not worthy of separate consideration.

Respondents from Europe show higher levels of ESG integration compared to those from other regions or countries.

Question: To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation reports?

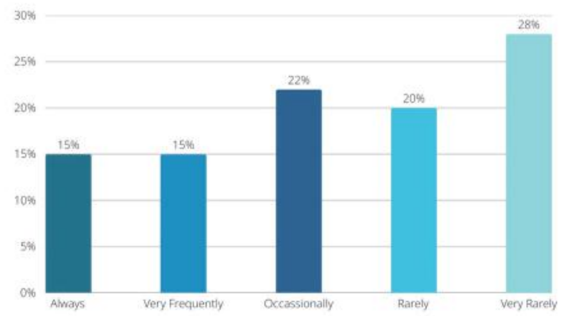

Chart 6: To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation's reports? (511 responses)

Notably, respondents from Europe show higher levels of ESG integration compared to those from other regions or countries such as the United States. For example, in Europe just over a third of respondents rarely (12%) or very rarely (24%) consider ESG factors in valuations. This means the majority of European respondents are reflecting ESG factors in their valuations, even if only occasionally. [See Chart 6A]

In contrast, the vast majority (80%) of U.S. respondents rarely (24%) or very rarely (56%) consider ESG factors in valuations. [See Chart 6B]

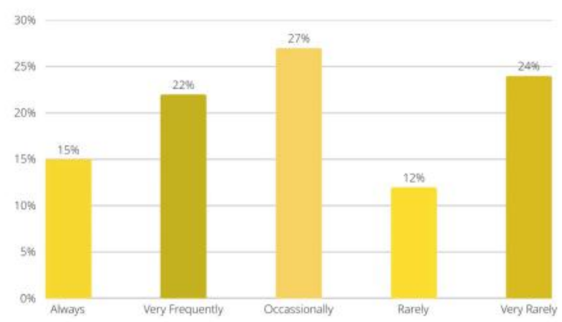

Chart 6a: Europe – To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation reports? (132 responses)

IVSC

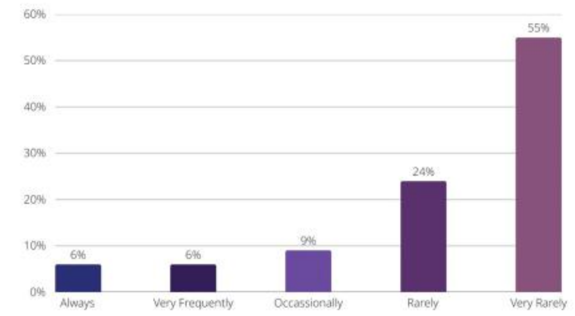

Chart 6b: USA – To what extent are you currently considering ESG/ ustainability factors within your valuation and valuationreports? (125 responses)

The U.S. respondents took a different approach, rarely considering ESG factors when compared not just with Europe, but also the Rest of the World (ie, excluding Europe and the United States). Although divergence exists, these other markets appear to be more aligned with Europe [see Chart 6C].

The cause of this is unclear but may be linked to the regulatory environment existing in different jurisdictions, with Europe leading the way on the consideration of ESG factors.

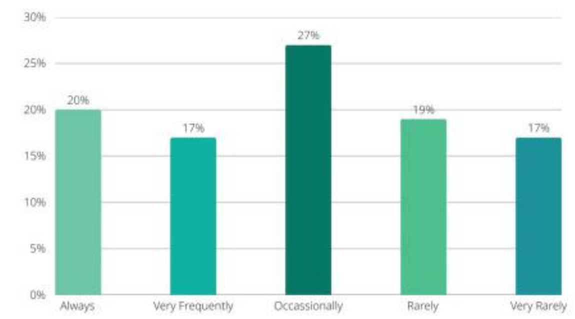

Chart 6c: Rest of the World – To what extent are you currently considering ESG/Sustainability factors within your valuation and valuation reports? (254 responses)

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2. Challenges in ESG Integration

Respondents identified several challenges in incorporating ESG factors into valuations. The most frequently cited challenge was the lack of standardised metrics for measuring ESG impacts. Valuation professionals expressed difficulty in quantifying the effects of ESG factors, particularly social and environmental components, which are often seen as difficult to quantify, lacking data or speculative.

Range of frameworks, guidelines, methods or reporting standards used

Although there was no dominant ESG framework used for the valuation of Corporates, the IFRS Foundation's International Sustainability Standards Board (ISSB) appear to be gaining some traction (17%). [See Chart 7]

According to the IFRS Foundation, 30 jurisdictions representing nearly 57% of global GDP and over 40% of global market capitalisation have already decided to use or are taking steps to introduce ISSB standards in their legal or regulatory frameworks. This includes for example, Australia, Brazil, China, and Japan. Some of these jurisdictions are developing their own standards but aligning them with ISSB standards.[1]

The second most used framework (for those who use one) was the EU Taxonomy at 10%.

However, almost a quarter of these respondents (23%) found none of the existing frameworks useful when incorporating ESG factors for the valuation of Corporates.

No overarching framework, guideline, method or reporting standard used by valuers

From a valuation standpoint, a standardised sustainability disclosure framework across countries is crucial if ESG factors are to be consistently incorporated into the valuation exercise. The disparate responses for corporate valuations, [Chart 7] is therefore a cause for concern.

1 IFRS Foundation, *"Progress on Corporate Climate-related Disclosures—2024 Report"*, November 2024. Available here: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/progress-climate-related-disclosures-2024.pdf.

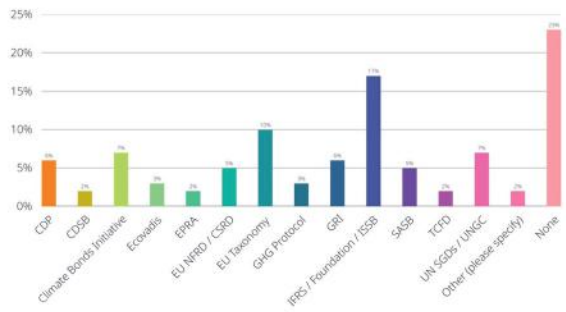


Chart 7: Which frameworks, guidelines, methods, or reporting standards have you found most useful in the course of considering ESG/Sustainability within your CORPORATE valuation work? (410 Respondents, 649 Responses)

However, when incorporating ESG/Sustainability factors in the valuation of investments and portfolios, GRESB (formerly known as Global Real Estate Sustainability Benchmark) is being used by 29% of respondents. [See Chart 8]

GRESB provides ESG benchmark data for real estate and infrastructure investments across the world. Real estate is an area where energy efficiency and other environmental regulation has been issued in many jurisdictions, and the need for benchmarking data has been more acute here than in some other asset classes.

The United Nations-supported Principles for Responsible Investment (PRI) and the EU's Sustainable Finance Disclosure Regulation (SFDR) were the next most-used frameworks for the valuation of investments and portfolios, at 19% and 18%, respectively.

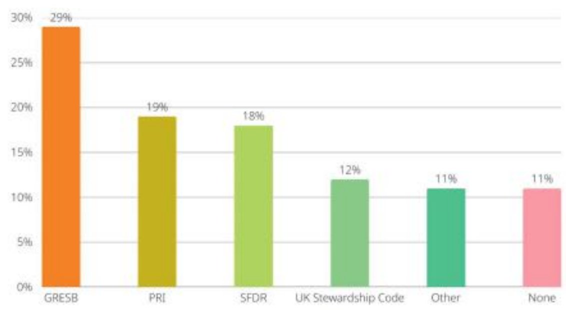


Chart 8: Which frameworks, guidelines, methods, or reporting standards have you found most useful in the course of considering ESG/Sustainability within your INVESTMENT/PORTFOLIO valuation work? (205 Respondents, 257 Responses)

31% of respondents are not using ratings or certifications to assess ESG/Sustainability.

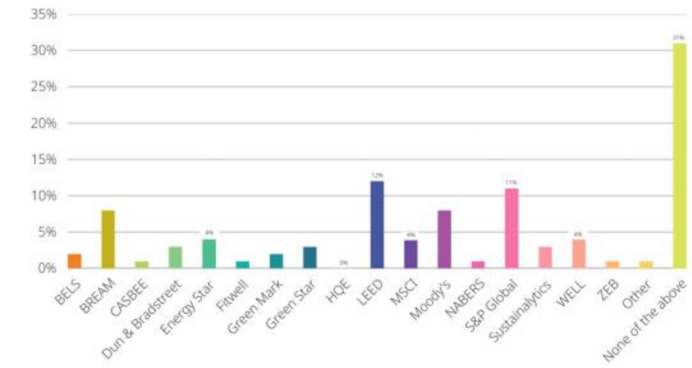


Chart 9: Which ratings or certifications are you utilising in your valuations to assist in assessing ESG/Sustainability? (348 Respondents, 541 Responses)

Another significant challenge highlighted was the varying importance placed on ESG factors by different stakeholders, with most valuers (71%) not independently assessing ESG/Sustainability factors within their valuations. [See Chart 10]

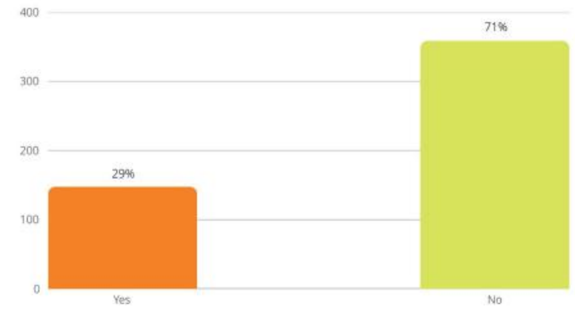


Chart 10: Do you independently assess ESG/Sustainability factors on all or most company and asset valuations? (507 Respondents)

The majority of respondents (57%) also did not separately identify factors within the environmental, social and governance pillars when determining if ESG is material for their valuations. [See Chart 11]

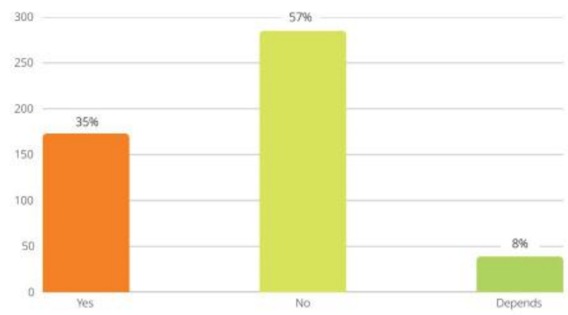
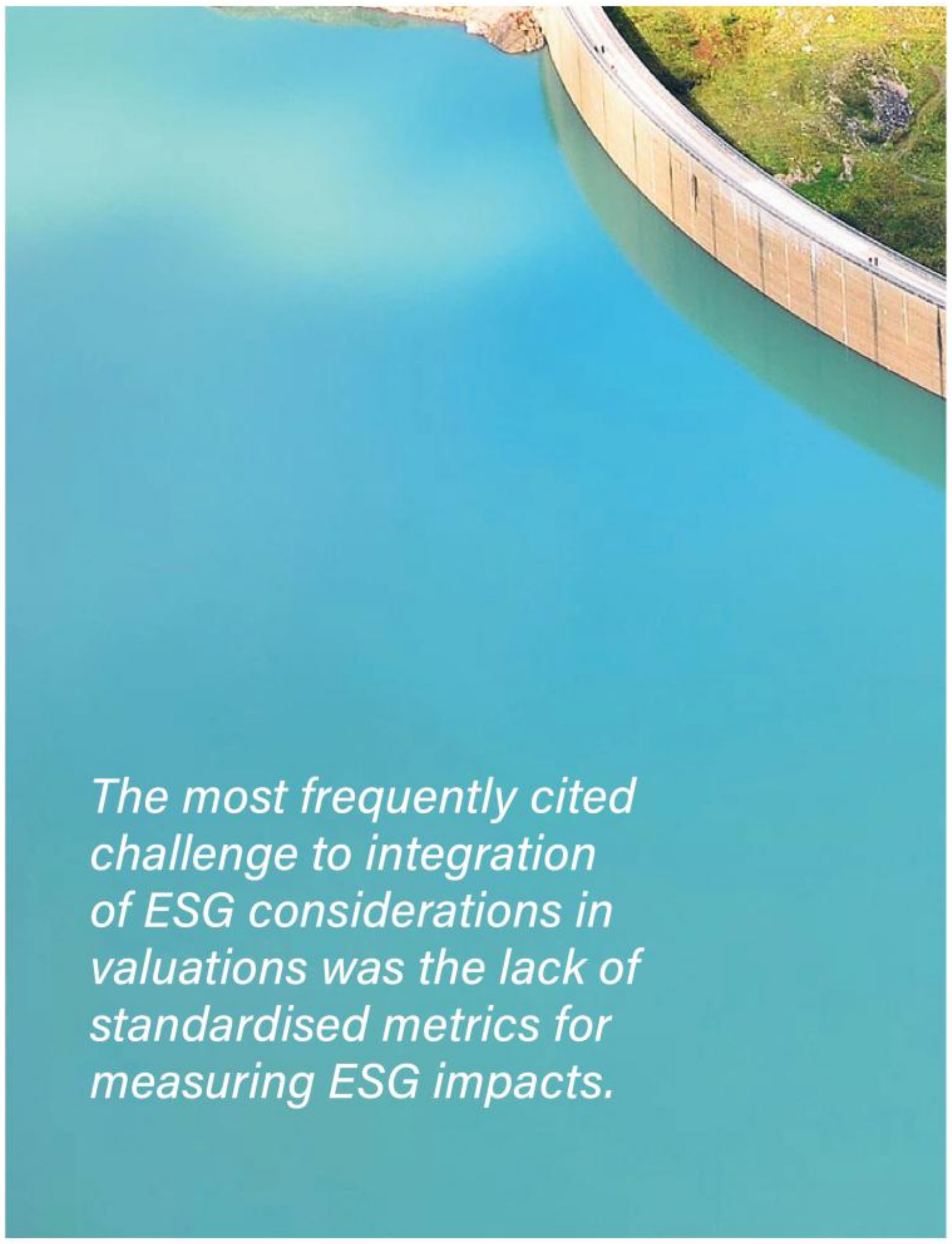


Chart 11: Do you separately identify Environmental (E), Social (S) and Governance (G) considerations from each other to reflect and report on the various individual factors which may be material to the valuation? (497 Respondents)

This may indicate that the consideration of ESG factors is relatively high level or superficial, given the potential for material differences in the applicability of each factor between sectors. For example, water usage and water treatment (environment) would likely be very material for a clothes manufacturing facility, but not for a consulting firm. On the other hand, a data breach from a cyber-attack (governance) could be a material risk to consider for that consulting firm.

One respondent noted, "ESG has not yet become a meaningful consideration for many of my clients, which makes it challenging to incorporate these factors into valuations consistently."



Perspectives Paper: The Integration of ESG in Valuation Practices: IVSC Global Survey 2024

3. Training and Development

The survey responses indicated a gap in professional development related to ESG. Just over half of respondents (see Chart 12) reported that neither they nor their organisations are currently undertaking any formal training or certifications focused on ESG or sustainability. This lack of training most likely reflects the priorities of members in their respective markets but may also contribute to the inconsistent integration of ESG factors across the profession.

Nevertheless, some respondents expressed interest in pursuing further education in this area, potentially indicating evolving priorities. The need for more structured training and standardized guidelines was a common theme, with several respondents calling for the IVSC and other bodies to take a leading role in this regard.

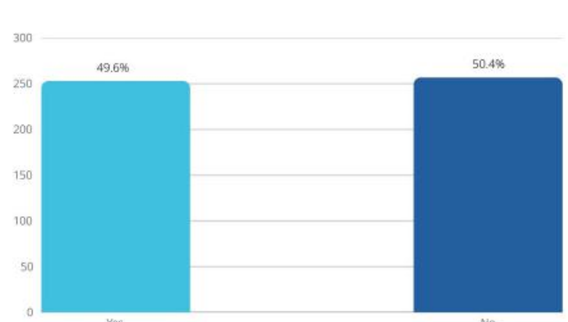


Chart 12: Are you or your organisation undertaking any professional development or training focused on ESG/Sustainability (eg official certifications, self-study, webcasts etc)? (510 Respondents)

Despite this, comfortingly, the majority of respondents thought the level of detail contained within the IVS 104 Data and Inputs Appendix on consideration of environmental, social and governance factors was generally adequate. Over a third believed the guidance was sufficient (28%) or very sufficient (8%), while another 24% believed it to be somewhat sufficient. [See Chart 13]

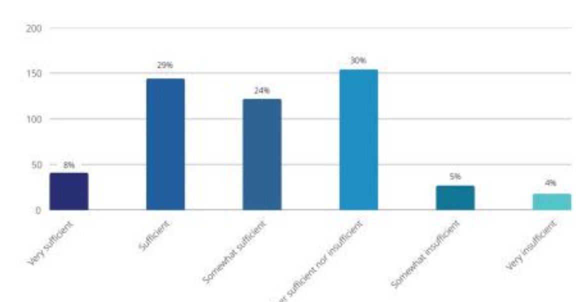


Chart 13: Is the IVS (effective 31 January 2025) – IVS 104 Appendix on ESG considerations sufficient for your valuation needs? (506 Respondents)

However, it was noted that further technical guidance was required for quantifying ESG using existing valuation approaches and methodologies. Almost half of respondents believed that the quantifying the impacts of ESG on valuations required the development of wholly new valuation approaches and methodologies. [See Chart 14]

That is not to say that current valuations under IVS do not implicitly include ESG factors, but rather that help is needed to explicitly demonstrate the impact of these factors, where appropriate, in a clear and consistent way.

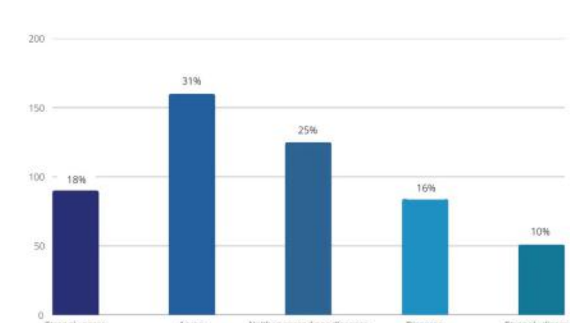


Chart 14: Do you believe that quantifying the impacts of ESG on valuations requires the development of wholly new valuation approaches and methodologies? (510 Respondents)

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4. Market Differences and Regional Insights

The survey highlighted notable differences in ESG integration across various markets. Respondents from Europe, particularly those in the Netherlands and the UK, reported higher levels of ESG awareness and integration compared to their counterparts in the Americas and Asia-Pacific regions. This regional disparity may be attributed to differences in political and regulatory pressures as well as market demand for sustainable investment practices.

The United States shows a clear departure from other jurisdictions, as the majority of respondents (59%) did not consider ESG factors in their valuations. [See Chart 17]

However, focusing on the non-US jurisdictions (Exhibits 15, 16 and 18), there are some interesting observations that can be gleaned. At this juncture, those who consider ESG/Sustainability in their valuation are mostly focused on identifying and disclosing the factors that may have an impact on value. But those who either qualitatively or quantitatively measure the impact of ESG/ Sustainability factors are still in the minority. This may demonstrate the difficulty in directly reflecting these factors in valuation as outlined above. Some respondents indicated this was due to data constraints while others complained of a lack of understanding how these concepts can be incorporated into the valuation, or a lack of demand for such considerations from the stakeholders who request/use the valuation report.

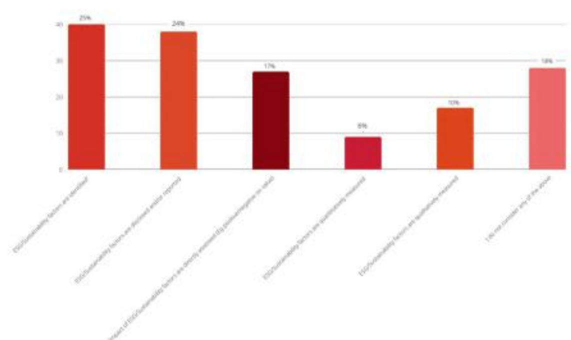

Chart 15: Asia - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (102 Respondents, 159 Responses)

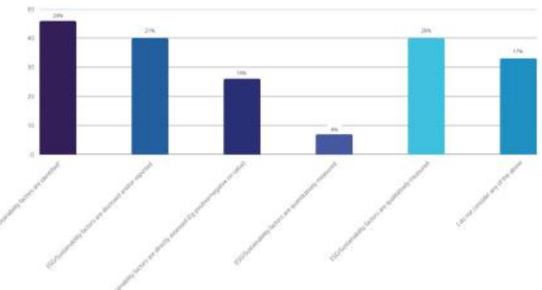

Chart 16: Europe - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (136 Respondents, 192 Responses)

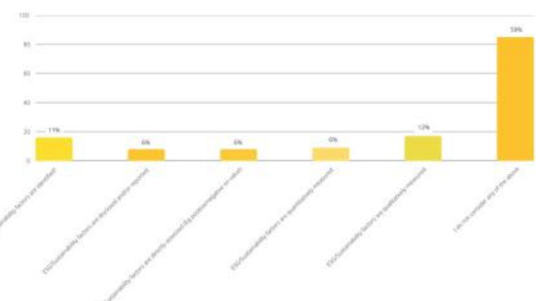

Chart 17: USA - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (130 Respondents, 143 Responses)

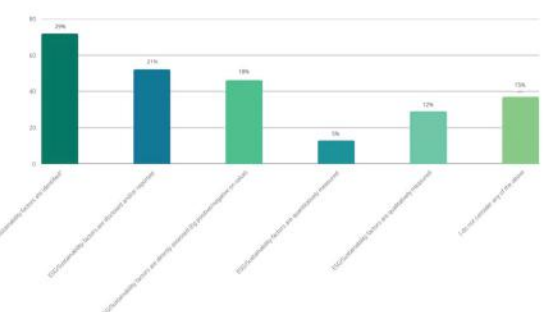

Chart 18: Rest of the World - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (153 Respondents, 249 Responses)

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There does seem to be a risk that the 'Environment' pillar of ESG is being reduced to a discussion on carbon emissions, when other factors, such as water use, pollution or waste disposal, could have a more immediate effect on the value of an asset, for example in the form of fines or stop work orders.

In markets where ESG integration is less prevalent, respondents often cited a lack of client demand and limited access to relevant data as key barriers. These insights suggest that while ESG is gaining traction globally, its adoption is still heavily influenced by local market conditions.

Corporate perspectives will, absent legal or regulatory requirements, necessarily be driven to a significant degree by what their customers demand in exchange for buying their products and services. Further, in most jurisdictions the directors fiduciary duty is still to shareholders, rather than society or the environment, and valuation of an asset is typically valued accordingly.

5. Future Outlook and Recommendations

Based on the survey findings, while ESG integration in valuation practices is progressing, the direction and timeline is unclear. Obstacles that will need to be overcome for the profession to progress in the explicit consideration of ESG factors in valuations include:

- Standardisation of ESG Metrics: There is a pressing need for the development of standardized metrics for evaluating ESG factors in valuations. This would enable more consistent and comparable assessments across different markets and asset classes.
- Enhanced Professional Development: Valuers would benefit from increased access to training programs focused on the value impact of different ESG factors. This training should be designed to equip professionals with the skills needed to effectively integrate ESG considerations into their work.
- Greater Engagement with Stakeholders: To ensure that ESG factors are appropriately valued, there must be greater dialogue between valuers, clients, and regulators. This engagement will help align expectations and foster a shared understanding of the importance of ESG in valuations.

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Conclusion

The integration of ESG factors into valuation practices is an evolving area that presents both challenges and opportunities for professionals in the field. The IVSC SRB ESG Working Group generally believe, and comments received appear to corroborate, that most valuers agree that ESG factors are implicitly accounted for in their valuations, but the questionnaire responses clearly show room for their explicit consideration, quantification and disclosure.

The public commentary around ESG appears to have been largely driven by political and public forces, which in turn is driving market participants. It is for those market participants to determine whether the valuers serving it should be providing such explicit consideration, quantification and disclosure.

Critically however, valuers must not lose sight of the basis of value being applied, as this will necessarily have a bearing on the role ESG factors play in their valuation. Valuation does not decide whether something is moral, as this changes with society, rather it provides a quantitative value of a given asset and/or liability at a given time for a set of assumed circumstances.

The IVSC will continue to monitor the integration of ESG factors into valuation practices and will maintain ongoing dialogue with the valuation community to provide the support required.

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PROCESS FOR BECOMING REGISTERED VALUERS
&
OPPORTUNITIES FOR REGISTERED VALUERS

ICMAI Registered Valuers Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

PROCESS FOR BECOMING REGISTERED VALUER

1. Meet eligibility requirements, qualification and experience prescribed under Rule 4 of the Companies (Registered Valuers and valuation) Rules, 2017
2. Seek enrolment as a valuer member of ICMAIRVO
3. Complete 50 Hours Educational Course
4. Register and pass computer based Examination conductedby IBBI
5. Submit required Form along with fee in favourof IBBI and supporting documents to ICMAI RVO
6. ICMAI RVO shall verify Form& other Requirements and forward the same along with its recommendation to IBBI
7. On receipt of Form along with recommendation of ICMAI RVO, fee and other documents,IBBI shall Process the application for registration
8. After registration with IBBI, take up COP training with ICMAI RVO
9. On completion of training ICMAI RVO shall issue a Certificate of Practice to the Registered Valuer
10. Valuation certificate can be issued only after obtaining Certificate of Practice

OPPORTUNITIES FOR REGISTERED VALUERS

Companies Act, 2013

- *Private placement of shares*
- *Issue of Share on Preferential basis*
- *Issue of Shares for consideration other than cash*
- *Issue of Sweat Equity Shares*
- *Non- cash transaction involving directors*
- *Merger and Amalgamations*
- *Demergers*
- *Scheme of compromise or arrangement with creditors/members*
- *Submission of report by company liquidator*
- *Purchase of minority shareholding*

SEBI Regulations

- *SEBI (Issue and listing of Securitised debt Instruments and Security receipts) Regulation,2008*
- *SEBI (Infrastructure Investment Trusts) Regulations, 2014*
- *SEBI (Real Estate Investment Trusts) Regulations,2014*
- *SEBI (Listing Obligations and Disclosure Requirements) Regulations,2015*
- *SEBI (Issue of capital and Disclosure requirements) regulations,2018*
- *SEBI(Appointment of Administrator and procedure for refunding to the investors) Regulations,2018*

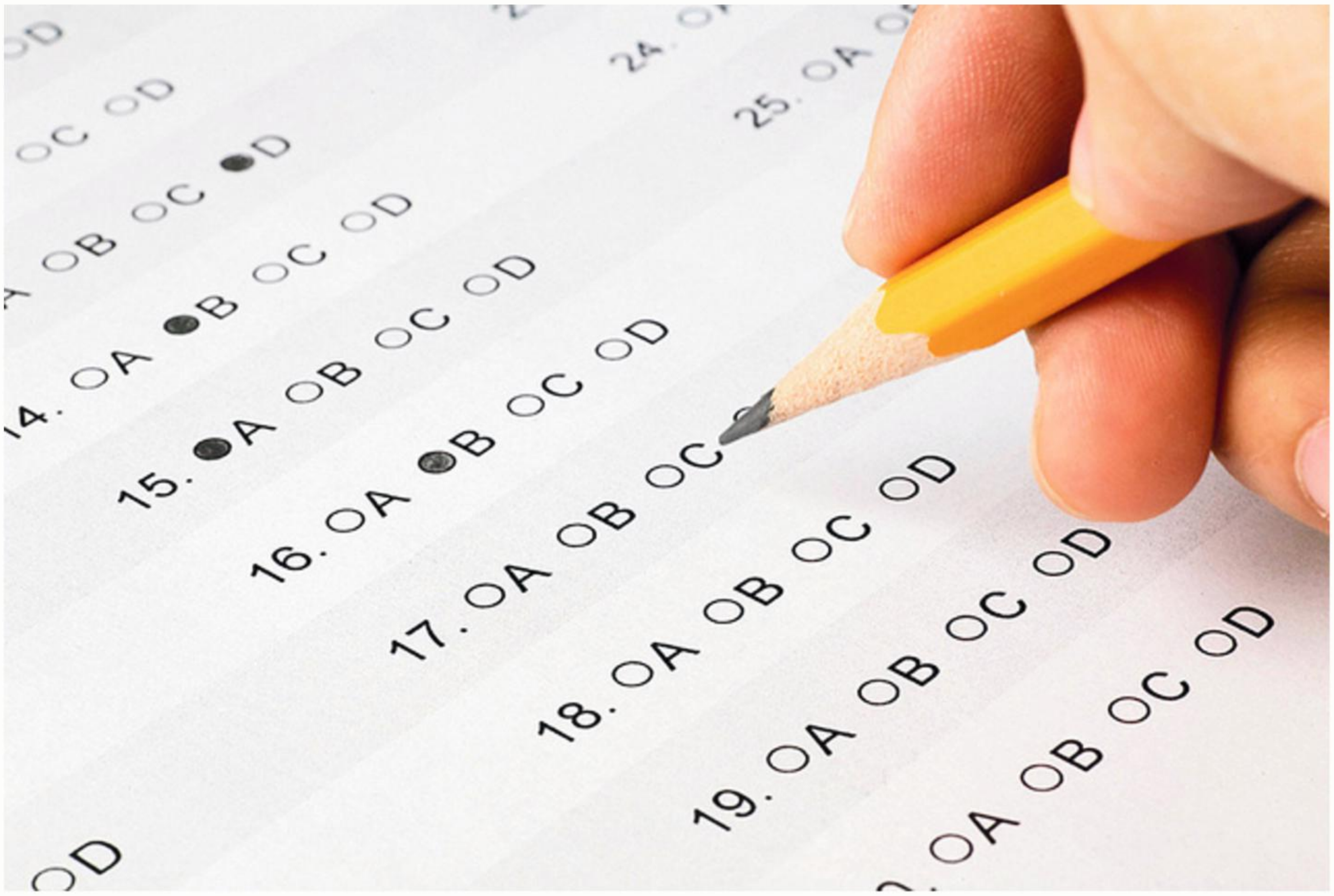
Insolvency and Bankruptcy Code 2016

- *Determination of value of assets, realizable value, Fair value and liquidation value as the case may be*

Income Tax Act, 1961

- *Valuation Methodology for Issue of Unquoted Equity Shares – Rule 11UA(2)2 56(2)*
- *Issue of Unquoted Shares (Other Than Equity Shares) – Rule 11UA(1)(c)(c)*
- *Transfer of Shares and other Securities*
- *Valuation for Capital Gains*
- *Transfer Pricing – International Transactions between Associated Entities*
- *Indirect Transfer Pricing – Capital Gain arising to Non-Resident on transfer of shares of foreign company*
- *Valuation of Equity Shares held by the Minority share Holders.*

MULTIPLE CHOICE QUESTIONS



ICMAI Registered Valuers Organisation

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MULTIPALE CHOICE QUESTION

1.If we compare GDP and GNP, then:
a)GNP = GDP - net income from abroad
b)GNP = GDP + net income from abroad
c)GNP = NNP - net incomefrom abroad
d)GNP = NNP + net income from abroad

Ans) GNP = GDP + net income from abroad

2.The value of national income adjusted for inflation is called
a)Per capita income
b)Disposable income
c)Inflation rate
d)Real national income

Ans) Real national income

3.The net value of GDP after deducting depreciation from GDP is
a)Net national product
b)Net domestic product
c)Gross national product
d)Disposable income

Ans) Net domestic product

4.Risk in capital budgeting implies that the decision maker knows _ of the cash flows.
a)Variability
b)Certainity
c)Probability
d)UnCertainity

Ans) Probability

5.Retained earnings are
a)an indication of a company's liquidity
b)the same as cash in the bank.
c)not important when determining dividends.
d)the cumulative earningsof the company after dividends.

Ans) the cumulative earningsof the company after dividends.

6.The market value of the firm is the result of__________
a)dividend decisions
b)working capital decisions
c)capital budgeting decisions
d)trade off betweenrisk and return

Ans) trade off between risk and return

7.Dividends are the ---------- of a company distributed amongst members in proportion to their shares
a)Divisible profits
b)Indivisible profits
c)Reserves
d)Fund

Ans) Divisible profits

8.Financial decision involve Investment decision, Dividend decisions, Financing decisions or Liquidity decisions
a)Investment, financingand dividend decisions
b)Investment and financing
c)Investment,financing and liquidity decisions
d)financing and liquidity decisions

Ans) Investment, financingand dividend decisions

9.Which of the following is not a capital budgeting deci-sion?
a)Expansion Programme
b)Merger
c)Replacement of an Asset
d)Inventory Level

Ans) Inventory Level

10.What type of audit opinion is preferred when analyzing financial statements?
a)Qualified
b)Adverse
c)Unqualified
d)All of the above

Ans) Unqualified

11.Which of the following helps in analyzing return to equity shareholders?
a)Net Profit Ratio
b)Earnings Per Share
c)Return of Assets
d)Return on Investments

Ans) Earnings Per Share

MCQ

12.In 'Percentage of Sales' Method of preparation of projected financial statements, the operating expenses should be projected on the basis of:
a)% of Gross Profit
b)% of Cost of Goods Sold
c)% of Profit before Tax
d)% of Sales

Ans) % of Sales

13.The best ratio to evaluate short-term liquidity is:
a)Cash Ratio
b)Current Ratio
c)Working Capital Ratio
d)Debt to Asset Ratio

Ans) Cash Ratio

14.Under which of the following kinds of business concepts it is assumed that the organization will last for a long time.
a)Accounting Entity
b)Going Concern Entity
c)Money Measuring Entity
d)Accounting Period

Ans) Going Concern Entity

15.The going concern concept is concerned with the following:
a)Accounting for all enterprises as a going concern
b)Allowing predictions to be used in the preparation of financial statements
c)Valuing assets at their realisable amounts
d)Preparing financial statements based on the assumption that they will operate into the foreseeable future, and abandoning the concept if this assumption does not hold

Ans) Preparing financial statements based on the assumption that they will operate into the foreseeable future, and abandoning the concept if this assumption does not hold

16.Companies not disclosing an immanent bankruptcy would violate the_
a)Business Entity Concept
b)Going Concern Concept
c)Consistency Concept
d)Monetary Unit Assumption

Ans) Going Concern Concept

17.A declaration of solvency is required to be signed by the directors of the company in order for:
a)the liquidation to proceed as a creditors voluntary winding-up;
b)the liquidation to proceed as a members voluntary winding-up;
c)the court to make an order for liquidation;
d)a liquidator to resign and the company to continue trading.

Ans) the liquidation to proceed as a members voluntary winding-up;

18.Under which of the following condition can an Adjudicating Authority order the liquidation of corporate debtor:
a)When the committee of creditors of corporate debtor decides to liquidate after thconfirmation of resolution plan
b)When half of the committee of creditors of corporate debtor decides to liquidatebefore the confirmation of resolution plan
c)When half of the committee of creditors of corporate debtor decides to liquidate after the confirmation of resolution plan
d)When the committee of creditors of corporate debtor decides to liquidate before the confirmation of resolution plan

Ans) When the committee of creditors of corporate debtor decides to liquidate before the confirmation of resolution plan

19.What is the nature of liquidation order:
a)Deemed to be a notice of discharge to the officers of the corporate debtor
b)Deemed to be a notice of discharge to the financial creditor
c)Deemed to be a notice of discharge to the officers and workmen of the corporatedebtor
d)Deemed to be a notice of discharge to the officers, employees and workmen of the corporate debtor

Ans) Deemed to be a notice of discharge to the officers, employees and workmen of the corporate debtor

20.The fees for the liquidation process shall be paid to the liquidator from the proceeds of ________________:
a)Realised liabilities of corporate debtor
b)Liquidation estate
c)Liquidation fund
d)Capital Reserves of the corporate debtor

MCQ

Ans) Liquidation estate

21.Which of the following assets are included in the liquidation estate:
a)assets held in trust for any third party
b)bailment contracts
c)tangible assets, whether movable or immovable
d)sums due to any workman or employee from the provident fund, the pension fund and the gratuity fund

Ans) tangible assets, whether movable or immovable

22.Which of the following assets are not included in the liquidation estate:
a)tangible assets, whether movable or immovable
b)contractual arrangements which do not stipulate transfer of title but only use of theassets
c)assets that may or may not be in possession of the corporate debtor including but not limited to encumbered assets
d)assets subject to the determination of ownership by the court or authority

Ans) contractual arrangements which do not stipulate transfer of title but only use of the assets

23.Which of the following is to be recovered first from the proceeds of liquidation estate
a)insolvency resolution process costs and the liquidation costs
b)debts owed to a secured creditor
c)workmen's dues for a period of twenty-four months preceding the liquidation commencement ate
d)preference shareholders

Ans) insolvency resolution process costs and the liquidation costs

24.Which of the following is to be recovered last from the proceeds of liquidation estate:
a)debts owed to a secured creditor for any amount unpaid following the enforcementof security interest
b)any remaining debts and dues
c)workmen's dues for the period of twenty-four months preceding the liquidation commencement date
d)equity shareholders or partners

Ans) equity shareholders or partners

25.The Indian Stamp Act, 1899 came into force on:
a)1st June 1899
b)1st July 1899
c)1st November 1899
d)1st December 1899

Ans) 1st July 1899

26.Any mark of seal or endorsement by any agency or person duly authorized by the state government, for the purpose of duty chargeable under Indian Stamp Act, 1899 is called .... :
a)Bond
b)Receipt
c)Bill of Exchange
d)Stamp

Ans) Stamp

27.Every instrument written upon paper stamped with an impressed stamp shall be written in such manner that the stamp may appear on the .... and cannot be used for or applied to any other instrument:
a)Face of the instrument
b)Back of the instrument
c)Both (a) and (b)
d)None of the above

Ans) Face of the instrument

28.All instruments chargeable with duty and executed by any person in India shall be stamped .... :
a)Before execution
b)At the time of execution
c)Before or at the time of execution
d)None of the above

Ans) Before or at the time of execution

29.Every instrument chargeable with duty executed only out of India, and not being a bill of exchange or promissory note, may be stamped within .... after it has been first received in India:
a)One month
b)Two months
c)Three months
d)Six months

Ans) Three months

30.In which of the following instruments, expenses of providing proper stamp shall be borne by the person drawing, making or executing such instrument?
a)Bill of exchange
b)Debenture
c)Promissory note
d)All of the above

MCQ

Ans) All of the above

31.Who has the adjudicating authority with respect to proper stamping?
a)Magistrate
b)Collector
c)Bank Official
d)None of the above

Ans) Collector

32.Fair value is focused on the assumptions of the market place and is not entity specific. Which of the following assumptions does Ind AS113 take into account?
a)It takes into account any assumptions about the highest price that can be paid
b)It takes into account any assumptions about reliability
c)It takes into account any assumptions about risk
d)It takes into account any assumptions about going concern

Ans) c

33.IFRS 13 does not specify the unit of account for measuring fair value. This means that it is left to the individual standard to determine the unit of account for fair value measurement. What is meant by the 'unit of account'?
a)The collection of assets or liabilities of which these elements form part
b)The market value of the asset or liability
c)The single asset or liability or group of assets or liabilities
d)The value of the asset or liability

Ans) c

34.Prices to be used under Ind AS113 are those in 'an orderly transaction'. what is meant by an orderly transaction?
a)One that assumes exposure to the market for a period before the date of measurement to allow for normal marketing activities and to ensure that it is a forced transaction
b)One that assumes exposure to the market for a period before the date of measurement to allow for normal marketing activities and to ensure that it is not a forced transaction
c)One that assumes exposure to the market for a period before the date of measurement to allow for normal marketing activities and there has been significant trading in the asset or liability
d)One that assumes no exposure to the market for a period before the date of measurement to allow for normal marketing activities and to ensure that it is not a forced transaction

Ans) b

35.Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used. What inputs are required for a fair value measurement to be classified as level 3 inputs?
a)Inputs other than quoted prices that are directly or indirectly observable for that asset or liability
b)Unadjusted quoted prices in active markets for items identical to the asset or liability being measured
c)Inputs based on the highest and best use of the asset as determined by a market participant
d)Inputs which must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability

Ans) d

36.The guidance includes enhanced disclosure requirements that could result in more work for reporting entities. Which of the following disclosures are not required by IFRS 13?
a)Transfers between Levels 2 and 3
b)Information about the hierarchy level into which fair value measurements fall
c)Disclosures for Level 3 measurements that include a reconciliation of opening and closing balances
d)Methods and inputs to the fair value measurements

Ans) a

37.Fair value is based on, which of the following concept?
a)Market
b)Cost
c)Market or cost which ever is lower
d)Market or cost which ever is higher

Ans) Market

38.Which of the following is external factors that can affect value?
a)Product or service diversification
b)Management competence
c)Inflation
d)Inventory control
Ans) Inflation

MCQ

39.Principal methods of Valuation are:
a)Market approach, Asset approach, Income approach
b)Discounted cash flow method,Net assets method, Market price method
c)Market approach, discounted cashflow method, Asset approach
d)Asset approach, Income approach, discounted cash flow method

Ans) Market approach, Asset approach, Income approach

40.Investment value is the value
a)to a particular investor
b)to a hypothetical investor
c)in the marketplace
d)in tax valuations

Ans) to a particular investor

41.What are price-earnings valuations usually based on?
a)Gross profit.
b)Operating profit.
c)EBITDA
d)Free cash flow.

Ans) EBITDA

42.For which of the following types of company would Net AssetValue (NAV) probably be an unsuitable basis for valuation?
a)A property investment company like Land Securities.
b)An investment trust like Alliance Trust.
c)An advertising agency like M&C Saatchi
d)A mining company like BHP Billiton

Ans) An advertising agency like M&C Saatchi

43.Allowing for bankruptcy costs and an increasing probability of bankruptcy with increasing financial leverage, we should expect __________ than would be the case without bankruptcy costs.
a)the premium for business risk to be higher
b)the premium for business risk to be lower
c)the premium for financial risk should rise by less
d)the premium for financial risk should rise by more

Ans) the premium for financial risk should rise by more

44......... is the use of historic data to determine the direction of future trends:
a)Due diligence
b)Due care
c)Forecasting
d)Projected report

Ans) Forecasting

45.What is forecasting?
a)A random target set as per the current performances
b)A scientific guesswork based upon serious study
c)Guessing the future outcome as per whims and whence of the forecasting
d)None of the above

Ans) A scientific guesswork based upon serious study

46.Which of the following is not a forecasting tool?
a)Cash Flow Statement
b)Production chart
c)Organization
d)None of the above

Ans) None of the above

47.......... assume that a relationship exists between one or more items and that a change in one item will cause a change in the other:
a)Scenario writing
b)Time series analysis
c)Causes model
d)Delphi technique

Ans) Causes model

48.Which of the following is/are a forecasting technique?
a)Judgemental
b)Time series
c)Associative
d)All of the above

Ans) All of the above

49.......... elements of a time series sit above or below the trend line and may recur for a year or longer:
a)Cyclical
b)Trend
c)Seasonal
d)Irregular

Ans) Cyclical

50.One of the quantitative techniques of forecasting is:
a)Causes model
b)Time series analysis

MCQ

c)Delphi technique
d)Scenario writing

Ans) Time series analysis

51........... assumes that forecasts from a group of individuals, with relevant expertise and experience, working in a systematic way, will be more useful than those from unstructured discussion group, where the individuals will have little opportunity to
a)Delphi Technique
b)Causes model
c)Time series analysis
d)Scenario writing

Ans) Delphi Technique

52.In cash flow statement, the item of interest is shown in:
a)Financing Activities
b)Investing Activities
c)Operating Activities
d)Both (a) and (b)

Ans) Both (a) and (b)

53.An example of a cash flow from a financing activity is:
a)Receipt of cash from sale of land
b)Receipt of cash from collection of accounts receivable
c)Payment of cash for acquisition of treasury stock
d)Payment of cash for new machinery

Ans) Payment of cash for acquisition of treasury stock

54.Which of the following is not a cash inflow?
a)Decrease in creditors
b)Decrease in debtors
c)Sale of fixed assets
d)Issue of shares

Ans) Decrease in creditors

55.Which of the following is not a cash outflow?
a)Increase in stocks
b)Increase in prepaid expenses
c)Increase in creditors
d)Increase in debtors

Ans) Increase in creditors

56.Discounted cash flow analysis is also classified as:
a)Time value of bonds
b)Time value of money
c)Time value of gold
d)Time value of stock

Ans) Time value of money

57.Where cash flows are more than capital invested for rate of return than Net Present Value will be:
a)Positive
b)Independent
c)Zero
d)Negative

Ans) Positive

58.In capital budgeting, a technique which is based upon Discounted Cash Flow is classified as:
a)Net future value method
b)Net equity budgeting method
c)Net present value method
d)Net capital budgeting method

Ans) Net present value method

59.If compounding is done quarterly in a year, the effective rate of interest is equal to:
a)(1+nominal rate of interest)/4
b)(1+nominal rate of interest/4)4
c)4*nominal rate of interest
d)(Nominal rate of interest)/4

Ans) (1+nominal rate of interest/4)4

60.Which of the following statements is correct concerning the weighted average cost of capital (WACC):
a)The WACC may decrease as a firm's debt-equity ratio increases
b)In the computation of WACC, weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock
c)A firm's WACC will decrease as the corporate tax rate decreases
d)The weight of the common stock used in the computation of the WACC is based on the number of shares outstanding multiplied by the book value per share

Ans) The WACC may decrease as a firm's debt-equity ratio increases

MCQ

61............ is to provide a foundation for developing future expectations about the subject company by eliminating non-recurring, non-operating or discretionary items and to present the past results of the subject company on a consistent basis:
a)Normalizing adjustments
b)Valuation premises
c)Valuation base
d)None of the above

Ans) Normalizing adjustments

62........... is based on the premise that an asset which is readily marketable commands a higher value than an asset which requires longer marketing period to be sold or an asset having restriction on its ability to sell:
a)Discount for Lack of Control (DLOC)
b)Discount for lack of marketability (DLOM)
c)Both (a) and (b)
d)None of the above

Ans) Discount for lack of marketability (DLOM)

63.Higher the liquidity and control, ... would be the discount on valuation of the financial instrument:
a)Higher
b)Lower
c)Both ways
d)None

Ans) Lower

64.Funding Cost adjustment adjusts:
a)Value for the implied benefit of upfront payments on derivatives
b)Value for implied cost of upfront payments on derivatives
c)The cost/benefit of interest on cash collateral
d)The cost of providing initial margin

Ans) Value for implied cost of upfront payments on derivatives

65.Which of the following is the major difference between fixed maturity plans and fixed deposits?
a)Fixed period investments
b)Guaranteed returns
c)Maturity periods options
d)All of the above

Ans) Guaranteed returns

66.Which of the following is not the feature to invest in fixed income securities:
a)Liquidity
b)Can be used as a collateral
c)Diversification
d)Cannot be used as a collateral

Ans) Cannot be used as a collateral

67.Which of the following is a fixed income security?
a)PPF
b)NSE
c)Post office monthly income scheme
d)All of the above

Ans) All of the above

68.A fixed income security is issued by:
a)Government
b)Corporations
c)Other entity
d)All of the above

Ans) All of the above

69.Medium-term bonds have a maturity of:
a)1 to 3 years
b)1 to 5 years
c)3 to 5 years
d)3 to 10 years

Ans)3 to 10 years

70.A bond whose price is equal to its face value is called to be sold at:
a)Par
b)Below par
c)Above par
d)None of the above

Ans) Par

71.Treasury bills are issued at:
a)Face value
b)Discount
c)Market value
d)Maturity value

Ans) Discount

72.Treasury bills pay interest at:
a)Coupon rate monthly
b)Coupon rate semi-annually

MCQ

c)Coupon rate yearly
d)Bank rate yearly
Ans) Coupon rate semi-annually

73.Government securities commonly referred as:
a)G-Secs
b)Govt Securities
c)G Securities
d)Government Securities

Ans) G-Secs

74.A commercial paper can be issued for the maximum duration of:
a)45 days
b)90 days
c)180 days
d)364 days

Ans) 364 days

75.What is the minimum maturity of a commercial paper:
a)3 days
b)7 days
c)15 days
d)30 days

Ans) 7 days

76.Interest rate and bond prices are:
a)Move in same direction
b)Move in opposite direction
c)Have no relationship
d)Sometimes in same direction, sometimes in opposite direction

Ans) Move in opposite direction

77.Which of the following risk is involved in debt instrument?
a)Liquidity risk
b)Reinvestment risk
c)Default risk
d)All of the above

Ans) All of the above

78.Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?
a)Indenture
b)Debenture
c)Bond
d)Bond Trustee

Ans) Bond Trustee

79.What is the zest of the Supreme Court decision in the case of Hindustan Lever Employee's Union (Supra) (1995) Supp (1) SCC 499:
a)The Jurisdiction of the court in sanctioning a claim of merger is not to ascertain mathematical accuracy if the determination satisfied the arithmetical test
b)A company court does not exercise an appellate jurisdiction. It exercises a jurisdiction founded on fairness
c)Both (a) and (b)
d)None of the above

Ans) Both (a) and (b)

80.In the case of Hindustan Lever Employee's Union (Supra) (1995) Supp (1) SCC 499, the Supreme Court accepted the ratio of .... as income, market and asset approach on which the valuation was based:
a)0.042372685185
b)0.043078703704
c)0.084733796296
d)0.084050925926

Ans) 0.084733796296

The following information relates to Questions 81-84
Darshan is an analyst and is responsible for issuing either a buy, hold, or sell rating for the shares of Company A and Company B. The appropriate valuation model for each company was chosen based on the following characteristics of each company:

Company A is an employment services firm with no debt and has fixed assets consisting primarily of computers, servers, and commercially available software. Many of the assets are intangible, including human capital. The company has a history of occasionally paying a special cash dividend.

Company B operates in three unrelated industries with differing rates of growth: tobacco (60% of earnings), shipbuilding (30% of earnings), and aerospace consulting (10% of earnings). The company pays a regular dividend that is solely derived from the earnings produced by the tobacco division.

Darshan considers the following development in making any necessary adjustments to the models before assigning ratings:

Company B has finalized the terms to acquire 70% of the outstanding shares of Company X, an actively traded tobacco company, in an all- stock deal.

Darshan assigns ratings to each of the companies and provides a rationale for each rating. The director of research asks Darshan: "How did you arrive at these recommendations? Describe how you used a top- down approach, which is the policy at our company."

Darshan replies, "I arrived at my recommendations through my due diligence process. I have studied all of the public disclosure documents; I have participated in the company conference calls, being careful with my questions in such a public forum; and I have studied the dynamics of the underlying industries. The valuation models are robust and use an extensive set of company-specific quantitative and qualitative inputs."

81. Based on Company A's characteristics, which of the following absolute valuation models is most appropriate for valuing that company?

a) Asset based
b) Dividend discount
c)Free cash flow to the firm
d)none of the above

Ans) Free cash flow to the firm

82.Based on Company B's characteristics, which of the following valuation models is most appropriate for valuing that company?

a) Asset based
b) Sum of the parts
c)Dividend discount
d)none of the above

Ans) Sum of the parts

83.Which of the following is most likely to be appropriate to consider in Company B's valuation of Company X?

a) Blockage factor
b) Control premium
c)Lack of marketability discount
d)none of the above

Ans) Control premium

84. Based on Darshan's response to the director of research, Darshan's process could have been more consistent with the firm's policy by:

a) incorporating additional micro- level inputs into her valuation models.
b) evaluating the impact of general economic conditions on each company.
c)asking more probing questions during publicly available company conference calls.
d)none of the above

Ans) evaluating the impact of general economic conditions on each company

Company	Book Value of Equity 2015 (millions of $)	Sales 2015 (millionsof $)	SharesOutstanding e 2015 (millions)	Pric ($)
Pfeiffer, Inc.	19,950	32,373	6,162	31.37
Mapps, Inc.	61,020	32,187	10,771	25.63

PeerGroup	Mean P/B	Median P/B	Mean P/S (salesin millionsof $)	Median P/S (sales in millions of $)
Medical-Drugs	5.622	4.250	8.708	4.5 30
Applications Software	4.100	2.140	3.420	1.4 40

Pfeiffer belongs to the Medical-Drugs group and Mapps belongs to the Applications Software group.

85.The current price-to-book and price-to-sales ratios for Pfeiffer are closest to:

P/B P/S
a)3.238 5.254
b)3.238 5.971
c)9.688 5.971
d)none of the above

Ans) 3.238 5.971

86.The current price-to-book and price-to-sales ratios for Mapps are closest to:

P/B P/S
a)4.524 8.578
b)5.665 2.988
c)4.524 2.988
d)none of the above

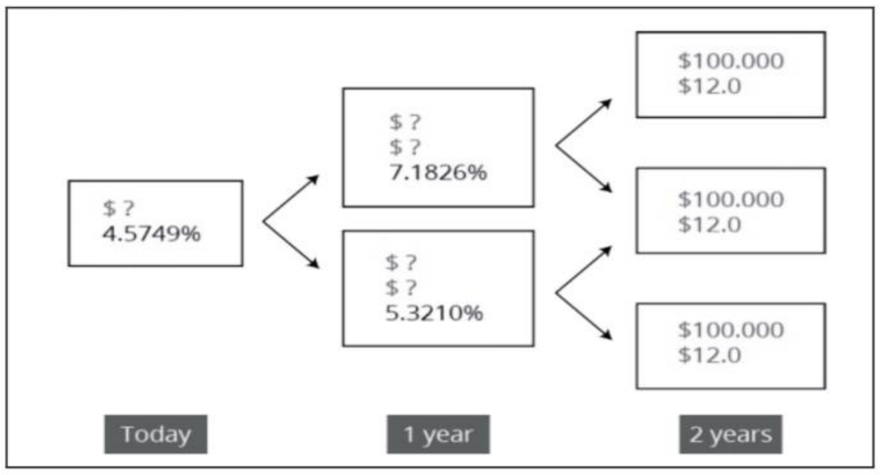
Ans) 4.524 8.578

MCQ

87.Which of the following statements is most accurate, given the financial data on Pfeiffer, Mapps, and the two industries?

a) Both stocks are relatively overvalued.
b) Both stocks are relatively undervalued.
c)One stock is relatively overvalued and the other is relatively undervalued.
d)none of the above

Ans) Both stocks are relatively overvalued.



The following information relates to Questions 88-90

88.The value today of an option-free, 12% annual coupon bond with two years remaining until maturity is closest to:

a)110.525.
b)111.485.
c)**112.282.**
d)none of the above

Ans) 112.282.

89.The value of the bond and the value of the embedded call option, assuming the bond in Question 2 is callable at $105 at the end of Year 1, are closest to:

Callable bond value	Embedded call option value
a) 110.573	1.709
b) 110.573	0.642
c) 111.640	0.642
d) none of the above	

Ans) 111.640 0.642

90.The value of the bond and the value of the embedded put option, assuming the bond in Question 2 is putable at $105 at the end of Year 1, are closest to:

	Putable bond value	Embedded put option value
a)	112.523	0.241
b)	112.523	1.646
c)	113.928	1.646
d)	none of the above	

Ans) 112.523 0.241

GUIDELINES FOR ARTICLES

The articles sent for publication in the journal "The Valuation Professional" should conform to the following parameters,
which are crucial in selection of the article for publication:

- **The article should be original, i.e. Not Published / broadcasted / hosted elsewhere including any website.**
- **A declaration in this regard should be submitted to ICMAI-RVO in writing at the time of submission of article.**
- **The article should be topical and should discuss a matter of current interest to the professionals / readers.**
- **It should preferably expose the readers to new knowledge area and discuss a new or innovative idea that the**
- **professionals / readers should be aware of.**
- **The length of the article should not exceed 2500-3000 words.**
- **The article should also have an executive summary of around 100 words.**
- **The article should contain headings, which should be clear, short, catchy and interesting.**
- **The authors must provide the list of references, if any at the end of article.**
- **A brief profile of the author, e-mail ID, postal address and contact numbers and declaration regarding the originality of the article as mentioned above should be enclosed along with the article.**
- **In case the article is found not suitable for publication, the same shall be communicated to the members, by e-mail.**

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