

CORPORATE AFFAIRS STANDARD (CAS) -1

(Issued by the Institute of Chartered Accountants of India)

Business Valuation

Business Valuation Practise Standard
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CHAPTER I – PREAMBLE**1.1. Background**

During last decade profound changes have taken place in economic and business environment. The pace of growth has been phenomenal. The continuity in the growth in business and emergence of new generation entrepreneurs has tremendously increased participation of the public in the financial market and development of new financial products. Normal corollary to economic growth is the stakeholders' curiosity and interest in valuations of their respective investee institutions or potential investments or divestments. All these have led to a greater demand for valuation services as investors and shareholders are interested in up-to-date information on their assets. Since there are no standards for valuation in India, the valuation services lack the uniformity and generally accepted practices in valuation. A significant number of ICAI members are actively engaged in the valuation services. The business valuation discipline has advanced as a profession. Though there is a greater consensus amongst professional valuers with regard to generally accepted approaches, methods, and procedures. Nonetheless, numerous conceptual controversies still remain, even among the most prominent practitioners. Therefore, the need for education, training, regulation and standardization of the prevalent practices keeping in view the inherent limitations to the subject is necessary.

Business valuation is a complex process and it involves a multitude of factors ranging from financial matters to historical perspectives. It is a broad and technically challenging discipline. The valuation is performed in a variety of contexts and for a variety of purposes. **The word value means different things to different people and the result will not be the same, should the context change.** A valuation is not an exact science. The value is subjective term and can have a different connotation. Valuation involves use of professional judgement, knowledge

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of business, analysis of facts, interpretations and used of different methods and procedures, which may result into different value in each given situation. This implies that the business value must be measured and defined by a 'standard of value' that is relevant, meaningful and reliable.

In this backdrop, considering the growing need, variety and complexity involved in the valuation exercises, **ICAI has decided to develop Business Valuation Practice Standards** (BVPS) which would establish uniform concepts, principles, practices and procedures for Valuers performing valuation services.

1.2. Purpose & Objective of the Standard

1.2.1. Purpose

Valuations of businesses, business ownership interests, securities, tangible or intangible assets (hereinafter collectively referred to as business valuations) may be performed for a wide variety of purposes including the following:

- Valuation for financial transactions such as acquisitions, mergers, leveraged buyouts, initial public offerings, employee stock ownership plans and other share based plans, partner and shareholder buy-ins or buyouts, and stock redemptions.
- Valuation for Dispute Resolution and/ or litigation/pending litigation relating to matters such as marital dissolution, bankruptcy, contractual disputes, owner disputes, dissenting shareholder and minority ownership oppression cases, employment disputes and intellectual property disputes.
- Valuation for Compliance-oriented engagements, for example:
 - a. **Financial reporting** and

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b. Tax matters such as corporate reorganizations; income tax, Property tax, and Wealth tax compliance; purchase price allocations; and charitable contributions.

- Other purposes like valuation for planning, Internal use by the owners etc.

The same business may have different values if different standard of value is used and different approaches are adopted. The rising demand for valuation services has given new avenues for the finance professionals. Going forward more and more professional would be engaged in performing valuation services. Recognizing these facts the ICAI has developed this Business Valuation Practise Standard for the following purposes:

- Provide guidance to the Valuers in performing valuation services
- Define general valuation concepts, principles, approaches, practice, procedures and methods
- Define basis of valuation and premise of valuation
- Set out a code of conduct

1.2.2. Objective

The objective is to provide common standards for business valuers who are performing business valuation engagements. Business valuations methods and procedures followed in estimating values vary however, they require similar principles whatever their purpose may be. Therefore, the overall objective is to develop a common standard whereby all types of valuations are covered under one head and a consistent and prudent approach is followed.

In particular, the objectives of the BVPS are:

- To promote ‘best practices’ and fairness in valuation services
- To promote credibility, relevancy & transparency of valuation information.
- To enhance quality, consistency, comparability and uniformity of valuation practice
- To cover valuation of all assets, liabilities and businesses (cash flows)
- To enhance reliance on the valuation amongst stakeholder
- To improve corporate governance
- **To improve public confidence in valuation**
- To improve market efficiency

1.3. Introduction and Scope of the Standard

This Business Valuation Practice Standard (BVPS) propose to set out concepts, principles, practices and procedures in context of estimation of value of a subject matter which are generally accepted internationally and which the Council of the Institute considers desirable in the light of prevailing legal framework, procedures and practices in India. This Standard is designed to provide guidance to Valuers and to provide a structure for regulating the development and reporting of business valuations through uniform practices and procedures. The Valuers should be aware of any Governmental regulations and other professional standards applicable to the engagement, including the ICAI’s Code of Ethics and Schedule 1 and 2 to the “Chartered Accountants Act, 1949”.

This Standard establishes standards for Valuers who are engaged to value a business, business ownership interest, security, or intangible asset (hereinafter collectively referred to in this Standard as subject interest). For purposes of this Standard, the definition of a business includes not-for-profit entities or activities. **A member who performs an engagement to estimate value is referred to, in this Standard, as a Valuer.** As described in this Standard, the term engagement to estimate value refers to an engagement or any part of an engagement (for example,

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a tax, litigation, or acquisition-related engagement) that involves estimating the value of a subject interest.

In the process of estimating value as part of an engagement, the Valuer shall apply valuation approaches and valuation methods, as described in this Standard, and use professional judgment. **The use of professional judgment is an essential component of estimating value.**

Valuers in India, while performing a valuation engagement, shall follow the requirements of this Standard. Initially the requirement of this standard shall be recommendatory in nature and shall become mandatory from a date to be notified by the Council of ICAI. Valuers outside of India may follow the requirements of this Standard while performing valuation engagement to the extent to which they are not prevented from doing so by specific requirements of local laws and/or regulations prevalent in that country . ICAI may adopt changes to the Standard to keep in tune with changing business scenarios and requirements and issue interpretations of the Standard to assist the valuers in the in the application of the Standard as and when considered necessary.

An in-depth discussion of valuation theory and principles, and how and when to apply them, is not within the scope of this Standard and it only aims to provide a broad framework of generally accepted principles, theories and procedures.

1.4. Exceptions from the Standard

This Standard is not applicable when:

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- 1.4.1. Estimation of value is part of an attest engagement like audit, review, compilation engagement etc. (But the Valuers are encouraged to keep in view the standards in these cases also.)
- 1.4.2. When mechanical computations are carried out that do not rise to the level of an engagement to estimate value; that is, when the Valuer does not apply valuation approaches and methods and does not use professional judgment.
- 1.4.3. Engagements are exclusively for the purpose of determining economic damages (for example, lost profits) unless those determinations include an engagement to estimate value.
- 1.4.4. The value of a subject interest is provided to the Valuer by the client or a third party, and the Valuer does not apply valuation approaches and methods, as discussed in this Standard and such provision of value by the client and adopted by the valuer is duly disclosed and disclaimed by the valuer.
- 1.4.5. It is not practical or not reasonable to obtain or use relevant information; as a result, the Valuer is unable to apply valuation approaches and methods that are described in this Standard

1.4.6. Jurisdictional Exception

Any part of this Standard is in contradiction with any published governmental, judicial, or accounting authority, or such authority specifies valuation procedures, then the Valuer should follow the applicable published authority or stated procedures with respect to that part applicable to the valuation in which the Valuer is engaged. The other parts of this Standard shall continue to apply.

CHAPTER II - QUALITATIVE AND ETHICAL STANDARDS

This Standard describes the basic principles which govern the valuer's professional responsibilities and which shall be complied with whenever an engagement to estimate value is carried out.

2.1 Professional competence

A Valuer shall “undertake only those professional services that the Valuer or the Valuer's firm can reasonably expect to be completed with professional competence.” Performing a valuation engagement with professional competence involves special knowledge and skill. A Valuer should possess a level of knowledge of valuation principles and theory and a level of skill in the application of such principles that will enable him or her to identify, gather, and analyze data, consider and apply appropriate valuation approaches and methods, and use professional judgment in developing the estimate of value (whether a single amount or a range).

Where analyst/firm lacks the necessary knowledge/experience, he must take steps to gain such expertise through additional research and/or consultation with other professionals believed to have such knowledge and/or experience prior to completion of such engagements. An in-depth discussion of valuation theory and principles, and how and when to apply them, is not within the scope of this Standard.

2.2 Professional due care

A Valuer must exercise due professional care in the performance of services, including completing sufficient research and obtaining adequate documentation.

2.3 Independence

If valuation services are performed for a client for which the Valuer or Valuer's firm also performs an attest engagement like audit, review, compilation engagement etc. the Valuer should consider whether it is appropriate to accept valuation engagement or not, so as not to impair the valuer's independence with respect to the client.

The analyst valuing a subject shall act independently, free from all bias. He shall have no financial or other interest in the subject being valued. Where a potential conflict of interest may exist, a Valuer should make the disclosures in the report.

2.4 Financial Interest:

A Valuer shall not express a Conclusion of Value or a Calculated Value unless the Valuer and the Valuer's firm state either of the following:

- a. "I (We) have no financial interest or contemplated financial interest in the property that is the subject of this report."; or
- b. "I (We) have a (specify) financial interest or contemplated financial interest in the property that is the subject of this report."

2.5 Integrity & objectivity

A Valuer shall remain objective, apply professional integrity, shall not knowingly misrepresent facts, or subrogate judgment to others. The Valuer must not act in a manner that is misleading or fraudulent.

Objectivity is a state of mind. The analyst should have objectivity in the performance of valuation engagements. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity. The principle of objectivity imposes the obligation to be impartial, intellectually honest, disinterested, and free from conflicts of interest. If necessary, where a potential conflict of interest may exist, a Valuer should make the disclosures and obtain consent from the client.

2.6 Confidentiality

The analyst should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without first obtaining the express consent of the client or unless there is a legal or professional duty to disclose.

2.7 Skills and Competence

The valuation work should be performed and the valuation report should be prepared with due professional care by persons who have adequate training, experience and competence in the given work.

The valuation analysis requires specialised skills and competence which are acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination recognised for this purpose and practical experience under proper supervision. In addition, the Valuer requires a continuing awareness of developments in pronouncements of ICAI on valuation and related matters, Capital market, Economic Conditions and relevant regulations and statutory requirements.

2.8 Understandings and Communications with Clients.

A Valuer shall establish, with the client, a written or oral understanding of the nature, scope and limitations of services to be performed and the responsibilities of the parties. If circumstances encountered during the engagement require a significant change in these understandings, the Valuer shall notify the client. A Valuer shall inform the client of conflicts of interest, significant reservations concerning the scope or benefits of the engagement, and significant engagement findings or events. A valuer may consider the need for disclosure of such conflict, reservations and findings/events in the valuation report.

2.9 Planning and Supervision

A Valuer shall adequately plan and supervise the performance of any valuation provided. The source data, sourcing of information relevant to valuation engagement need to be

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carefully planned. Implementation of the plan need to be supervised by the valuer responsible for the quality of the engagement.

2.10 Sufficient Relevant Data.

A Valuer shall obtain sufficient relevant data to afford a reasonable basis for conclusions, recommendations or positions relating to any service rendered.

2.11 Remuneration

A Valuer's remuneration for services shall not in any way contingent upon some future events/performance or be linked to the conclusion of value arrived at by him in respect of the subject under consideration. However, In the case of a valuation for the purpose of Direct taxes and duties, the fee may be based on a percentage of value of subject asset/business.

CHAPTER III – VALUATION SERVICES

When valuing a business, business ownership interest, security or intangible asset, a Valuer may express either a Conclusion of Value or Calculated Value. When performing such valuation services, Valuers shall comply with these standards promulgated by ICAI.

There are broadly two types of engagements to estimate value—a **valuation engagement** and a **calculation engagement**. The valuation engagement requires more procedures than does the calculation engagement. The valuation engagement results in a conclusion of value. The calculation engagement results in a calculated value. The type of engagement is established in the understanding with the client per Terms of Engagement (para 4.1):

3.1 Valuation engagement

The objective of a valuation engagement is to express an unambiguous opinion as to the value of a business, business ownership interest, security or intangible asset which opinion is supported by all procedures that the appraiser deems to be relevant to the valuation. A Valuation Engagement requires that a Valuer apply valuation approaches or methods deemed in the analyst’s professional judgment to be appropriate under the circumstances. In such an engagement, a Valuer is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. A valuation engagement has the following qualities:

- 3.1.1. Its conclusion of value is expressed as either a single amount or a range
- 3.1.2. It considers all relevant information as of the appraisal date available to the Valuer at the time of performance of the valuation

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3.1.3. The Valuer conducts appropriate procedures to collect and analyze all information expected to be relevant to the valuation

3.1.4. The valuation considers all conceptual approaches deemed to be relevant by the Valuer

3.2. *Calculation engagement*

A Valuer performs a calculation engagement when the Valuer and the client agree on the valuation approaches and methods the Valuer will use and the extent of procedures. The Valuer will perform in the process of calculating the value of a subject interest (these procedures will be more limited than those of a valuation engagement) and the Valuer calculates the value in compliance with the agreement. The Valuer expresses the results of these procedures as a calculated value. The calculated value is expressed as a range or as a single amount. A calculation engagement does not include all of the procedures required for a valuation engagement (para 3.1)

CHAPTER IV - OVERALL ENGAGEMENT CONSIDERATIONS

4.1. Terms of engagement (TOE)

The Valuer should establish an understanding with the client, preferably in writing, regarding the engagement to be performed. If the understanding is oral, the Valuer should document that understanding by appropriate memoranda or notations in the working papers. Defining the Terms of engagement is the logical beginning of the valuation process providing focus for all the valuation considerations and efforts to be undertaken. The Terms of Engagement, oral or in writing, shall clearly specify the nature, scope and limitations of services to be performed and the responsibilities of the parties. If the analyst encounters significant change in these understandings during the engagement, he shall communicate the same to the client. Inadequate specifications often result in misdirected efforts and invalid conclusions. The understanding of Terms of engagement with the client reduces the possibility that either the Valuer or the client may misinterpret the needs or expectations of the other party.

Terms of engagement should generally but not restricted identify the following issues before accepting the engagement of valuation.

- 4.1.1. Subject and interest to be valued (Business interest, securities, intangibles etc.)
- 4.1.2. Nature of Engagement (Valuation engagement or calculation engagement) (para 3.1 and 3.2)
- 4.1.3. Purpose or intended use of valuation
- 4.1.4. Scope of work

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4.1.5. Effective Date of valuation

4.1.6. Standard of value applicable to the valuation (e.g., fair market value, fair value, investment value, or other) (para 5.1.1)

4.1.7. Premise of value (e.g., going concern, liquidation) (para 5.1.2)

4.1.8. Nature of Business

4.1.9. Knowledge of the Industry

4.1.10. Sources of information available

4.1.11. Governing laws and Regulation

4.1.12. Intended Users

4.1.13. Assumption, Limiting conditions and scope limitations (Para 4.3 & 4.4]

4.1.14. Any hypothetical conditions used in the assignment (Para 4.5)

4.1.15. Fee for Engagement

*A Sample Engagement Letter is annexed in “**Appendix B**” for the benefit of valuers. The given Engagement letter is a sample only which can be used by the Valuer, but is not required, and need to be modified according to the requirement of particular engagement.*

4.2. Understanding the Nature And Risks Of The Valuation Services

It is essential for the Valuer to understand the nature of valuation services supposed to be provided and assess the inherent risk embedded in that. In understanding the nature and risks of the valuation services to be provided, and the expectations of the client, the Valuer should consider the matters specified in para 4.1 and in addition, at a minimum, the following:

- 4.2.1. The proposed terms of the valuation engagement
- 4.2.2. The identity of the client
- 4.2.3. The nature of the interest and ownership rights in the business, business interest, security, or intangible asset being valued, including control characteristics and the degree of marketability of the interest
- 4.2.4. The procedural requirements of a valuation engagement and the extent, if any, to which procedures will be limited by either the client or circumstances beyond the client's or the Valuer's control
- 4.2.5. The use of and limitations of the report, and the conclusion or calculated value
- 4.2.6. Any obligation to update the valuation.

4.3. Assumptions and Limiting conditions

Assumptions and limiting conditions are common to valuation engagements. The assumptions and limiting conditions should be disclosed in the valuation report. The valuer should examine whether the assumptions considered in valuation engagement are broadly reliable, relevant, logical, achievable and realistic in terms of the overall business conditions and circumstances. In case the assumptions materially depart from the professional judgement of the valuer, the valuer may consider not to issue any Report or may withdraw from the engagement.

If the limiting conditions are so material in nature that the impact on the overall engagement is very significant in the professional judgment of the valuer, the valuer may consider not to issue any report or may withdraw from the engagement.

Examples of typical assumptions and limiting conditions for a business valuation are provided in **Appendix C**, “Illustrative List of Assumptions and Limiting Conditions for a Business Valuation.”

4.4. Scope Restrictions or Limitations

A restriction or limitation on the scope of the Valuer’s work, or the data available for analysis, may be present and known to the Valuer at the outset of the valuation engagement or may arise during the course of a valuation engagement. Such a restriction or limitation should be disclosed in the valuation report.

If the scope restriction is so material in nature that significantly impact the basic concepts and principles of the valuation or it becomes very difficult to arrive at

valuation conclusion due to the scope restriction, the valuer may consider not to issue any valuation report or may withdraw from the engagement.

4.5. Hypothetical Conditions

Hypothetical conditions affecting the subject interest may be required in some circumstances. When a Valuer uses hypothetical conditions during a valuation or calculation engagement, he or she should indicate the purpose for including the hypothetical conditions and disclose these conditions in the valuation or calculation report. The hypothetical conditions should be consistent with the overall objective, nature, scope and subject matter of valuation.

4.6. Using work of expert

In performing an engagement to estimate value, the Valuer may have to use the services of a third party specialist (for example, a real estate or equipment appraiser). The Valuer should note in the assumptions and limiting conditions the level of responsibility, if any, being assumed by the Valuer for the work of the third party specialist. At the option of the Valuer, the written report of the third party specialist may be included in the Valuer's report. While using the work of an expert in valuation, the Valuer shall take due consideration of the following:

- 4.6.1. Valuer shall evaluate the skills, qualification, experience, reputation and competence of the expert. Expert is responsible for all the methods and assumptions used by him. He must determine that the expert has sufficient resources to perform the work in specified time frame and also explore the relationship which might give rise to conflict of interest.

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4.6.2. If the work of a third party expert, such as a real estate or equipment appraiser, was relied upon in the engagement, a description of the reliance and level of Valuer's responsibility should be documented.

4.6.3. Valuer/Valuation firm should specifically mention the nature of work done by expert in its valuation report and he should give a disclaimer in the report that for this particular task he has taken advice of an expert and he is not responsible for any non consistent or misleading work done by that expert.

CHAPTER V – VALUATION METHODOLOGY

In performing a valuation engagement, the Valuer should:

- Define the Standard and Premise of Value (para 5.1)
- Analyze the subject interest and collect the necessary Information (para 5.2)
- Adjust the Financial Statement appropriately (para 5.3)
- Consider and apply appropriate valuation approaches and methods (para 5.4)
- Valuation adjustments (para 5.5)
- Conclusion of value(para 5.6)
- Subsequent Events(para 5.7)
- Prepare and maintain appropriate documentation (para 5.8)

Even though the above mentioned procedure is presented in a manner that suggests a sequential valuation process, valuations involve an ongoing process of gathering, updating, and analyzing information. Accordingly, the sequence of the requirements and guidance in this Standard may be implemented differently at the option of the Valuer.

5.1. Valuation Bases (standard of value) and Premise

5.1.1 Valuation bases (standard of value)

Standard of value means the indication of the type of value being used in a specific engagement. Business interests are valued in a variety of contexts and for a variety of purposes. Different standards of value may lead you to different conclusions of Value. Therefore, it is most important for the Valuer to identify a standard or definition of value pertinent to the case. There are broadly four standards of value:

- Fair market value
- Fair value
- Investment value
- Intrinsic value or fundamental value

5.1.2 Valuation premise

Determining the business value depends upon the situation in which the business is valued, i.e, what is likely to happen to the business beyond the valuation date influences what the business is worth today. The premise of value describes the type of market conditions the seller of the business interest might reasonably encounter and should always reflect the facts and circumstances underlying each valuation engagement.

Two basic premise of Valuation are:

- Going concern: Value in continued use
- Liquidation: Value in liquidation

5.2. Analysis of the Subject Interest

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The analysis of the subject interest will assist the Valuer in considering, evaluating, and applying the various valuation approaches and methods to the subject interest. The nature and extent of the information needed to perform the analysis will depend on, at a minimum, the following:

- Nature of the subject interest
- Scope of the valuation engagement
- Valuation date
- Intended use of the valuation
- Applicable standard of value
- Applicable premise of value
- Assumptions and limiting conditions
- Applicable governmental regulations or other professional standards

In analyzing the subject interest, the Valuer shall gather, analyze and adjust the relevant information necessary to perform a valuation appropriate to the nature or type of the engagement. Such information shall include:

- Non-financial information
- Ownership details
- Financial Information
- General Information

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The type, availability, and significance of such information vary with the subject interest.

5.2.1. Non-financial information

The Valuer should, as available and applicable to the valuation engagement, obtain sufficient non-financial information to enable him or her to understand the subject entity, including its:

- Nature, background, and history of the business
- Facilities
- Organizational structure
- Management team (which may include officers, directors, and key employees)
- Classes of equity ownership interests and rights attached thereto
- Products or services, or both
- Capital markets providing relevant information; e.g., available rates of return on alternative investments, relevant public stock market information and relevant merger and acquisition information
- Prior transactions involving the subject business, or involving interests in, the securities of, or intangible assets in the subject business
- Economic environment
- Geographical markets

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- Industry markets
- Key customers and suppliers
- Competition
- Business risks
- Future outlook of the business
- Strategy and future plans
- Governmental or regulatory environment

5.2.2. Ownership Information

The Valuer should obtain, where applicable and available, ownership information regarding the subject interest to enable him or her to:

- Determine the type of ownership interest being valued and ascertain whether that interest exhibits control characteristics
- Analyze the different ownership interests of other owners and assess the potential effect on the value of the subject interest
- Understand the classes of equity ownership interests and rights attached thereto
- Understand the rights included in, or excluded from, each intangible asset
- Understand other matters that may affect the value of the subject interest, such as:

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- For a business, business ownership interest, or security: shareholder agreements, partnership agreements, operating agreements, voting trust agreements, buy-sell agreements, loan covenants, restrictions, and other contractual obligations or restrictions affecting the owners and the subject interest

- For an intangible asset: legal rights, licensing agreements, sublicense agreements, nondisclosure agreements, development rights, commercialization or exploitation rights, and other contractual obligations

5.2.3. Financial Information

The Valuer should obtain, where applicable and available, financial information on the subject entity such as:

- Historical financial information (including annual and interim financial statements and key financial statement ratios and statistics) for an appropriate number of years

- Prospective financial information (for example, budgets, forecasts, and projections)

- Comparative summaries of financial statements or information covering a relevant time period

- Comparative common size financial statements for the subject entity for an appropriate number of years

- Comparative common size industry financial information for a relevant time period

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- Income tax returns for an appropriate number of years
- Information on compensation for owners including benefits and personal expenses
- Information on key man or officers' life insurance
- Management's response to inquiry regarding:
 - Advantageous or disadvantageous contracts
 - Contingent or off-balance-sheet assets or liabilities
 - Information on prior sales of company stock

The Valuer should read and evaluate the information to determine that it is reasonable for the purposes of the engagement.

5.2.4. General Information:

The analyst shall gather and analyze the relevant general information which may affect the business directly or indirectly and/or which are deemed relevant by the Valuer.

5.3. Financial Statement Adjustments

The historical financial statements should be analyzed and, if appropriate, adjusted to reflect the appropriate asset value, income, cash flows and/or benefit stream, as applicable, to be consistent with the valuation method(s) selected by the Valuer. Financial statements to be analyzed include those of the subject entity and any entities used as comparable companies.

Financial statement adjustments are modifications to reported financial information that are relevant and significant to the appraisal process. Adjustments may be appropriate for the following reasons, among others:

- 5.3.1. To present financial data of the subject and comparable companies on a consistent basis
- 5.3.2. To adjust from reported values to current values
- 5.3.3. To adjust revenues and expenses to levels that are reasonably representative of continuing results
- 5.3.4. To adjust for non-operating assets and liabilities, and any revenues and expenses related to the non-operating items

Financial statement adjustments are made for the sole purpose of assisting the Valuer in reaching a conclusion of value. All adjustments made should be fully described and supported.

5.4. Valuation Approached & Methods

In developing the valuation, the Valuer should consider the three most common valuation approaches are:

- Asset (Asset-based) approach (used for businesses, business ownership interests, and securities) or cost approach (used for intangible assets)
- Market (Market-based) approach
- Income (Income-based) approach

The analyst shall select and apply appropriate valuation approaches, methods and procedures. He shall develop a conclusion of value considering the relevant valuation approaches, methods and procedures, the information available and appropriate premiums and discounts, if any. General guidance on the use of approaches and methods is produced in following paras, but detailed guidance on specific valuation approaches and methods and their applicability is outside the scope of this Standard.

5.4.1. Asset-based approach and Cost Approach

The asset-based approach is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods based on the value of the assets net of liabilities. A frequently used method under the asset approach is the adjusted net asset method. When using the adjusted net asset method in valuing a business, business ownership interest, or security, the Valuer should consider, as appropriate, the following information:

- Identification of the assets and liabilities
- Value of the assets and liabilities (individually or in the aggregate)
- Liquidation costs (if applicable)

The asset-based approach should not be the sole valuation approach used in assignments relating to operating companies valued as going concerns unless this approach is customarily used by sellers and buyers. In such cases, the selection of this approach shall be supported by the Analyst.

When using methods under the cost approach to value intangible assets, the Valuer should consider the type of cost to be used (for example, reproduction cost or replacement cost), and, where applicable, the appropriate forms of depreciation and obsolescence. The analyst should consider direct and indirect costs associated with reproduction or replacement, as the case may be, as well as any loss of value due to functional or economic obsolescence, or reduced life expectancy.

5.4.2. Market approach

The market approach is a general way of determining a value indication of a business, business ownership interest, security or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities or intangible assets that have been sold.

Three frequently used valuation methods under the market approach for valuing a **business, business ownership interest, or security** are:

- Guideline public company method
- Guideline company transactions method
- Guideline sales of interests in the subject entity, such as business ownership interests or securities

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Three frequently used market approach valuation methods for **intangible assets** are:

- Comparable uncontrolled transactions method (which is based on arm's-length sales or licenses of comparable intangible assets)
- Comparable profit margin method (which is based on comparison of the profit margin earned by the subject entity that owns or operates the intangible asset to profit margins earned by comparable companies)
- Relief from royalty method (which is based on the royalty rate, often expressed as a percentage of revenue that the subject entity that owns or operates the intangible asset would be obligated to pay to a hypothetical third-party licensor for the use of that intangible asset)

While applying the Market approach methods, the Valuer should consider the following:

5.4.2.1. Reasonable basis for comparison:

The business, business ownership interest, security or intangible asset used for comparison must serve as a reasonable basis for comparison to the subject. Some of the factors to be considered in judging whether a reasonable basis for comparison exists include:

- A sufficient similarity of qualitative and quantitative investment characteristics
- The amount and verifiability of data known about the similar investment
- Whether or not the price of the similar investment was observed in an arm's-length transaction, or in a forced or distressed sale

5.4.2.2. Selection of valuation ratios:

Comparisons are normally made through the use of valuation ratios. The computation and use of such ratios should provide meaningful insight about the value of the subject, considering all relevant factors. Accordingly, Valuer shall exercise due care with respect to issues such as:

- The selection of the underlying data used to compute the valuation ratios
- The selection of the time periods and/or the averaging methods used for the underlying data
- The computation of the valuation ratios
- The timing of the price data used in the valuation ratios (in relationship to the effective date of the appraisal)
- How the valuation ratios were selected and applied to the subject's underlying data

In general, comparisons should be made by using comparable definitions of the components of the valuation ratios. However, where appropriate, valuation ratios based on components that are reasonably representative of ongoing results may be used.

5.4.2.3. Guideline Intangible Assets:

For the methods involving guideline intangible assets, the Valuer should consider the subject intangible asset's remaining useful life relative to the remaining useful life of the guideline intangible assets, if available. In applying the methods to determine valuation pricing multiples or metrics for valuation of intangibles, the Valuer should consider:

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- Qualitative and quantitative comparisons
- Arm's-length transactions and prices
- The dates and, consequently, the relevance of the market data

5.4.3. Income approach (Cash Flows)

The income approach is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods through which anticipated benefits are converted into value.

Anticipated benefits, as used in the income approach, are expressed in monetary terms. Anticipated benefits may be reasonably represented by such items as dividends or distributions, or various forms of earnings or cash flow.

Anticipated benefits should be estimated by considering such items as the nature, capital structure and historical performance of the related business entity, the expected future outlook for the business entity and relevant industries, and relevant economic factors.

Two frequently used valuation methods under the income approach include the capitalization of benefits method (for example, earnings or cash flows) and the discounted future benefits method (for example, earnings or cash flows).

5.4.3.1. Capitalization of benefits method.

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In capitalization of benefits methods, a representative benefit level is divided or multiplied by an appropriate capitalization factor to convert the benefit to value. When applying these methods, the Valuer should consider a variety of factors, including but not limited to, the following:

- Normalization adjustments
- Nonrecurring revenue and expense items
- Taxes
- Capital structure and financing costs
- Appropriate capital investments
- Non cash items
- Factors such interest rates, the rates of return expected by investors on alternative investments and the specific risk characteristics etc. to compute capitalization rates
- Expected changes (growth or decline) in future benefits (for example, earnings or cash flows)

5.4.3.2. **Discounted future benefits method.**

In discounted future benefits methods, benefits are estimated for each of several future periods. These benefits are converted to value by applying an appropriate discount rate and using present value procedures. In addition to the items stated in para 5.4.3.1 above, the Valuer should consider:

- Forecast/projection assumptions
- Forecast/projected earnings or cash flows

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- Terminal value

5.4.3.3. The Valuer should select the appropriate benefit stream, such as pre-tax or after-tax income and/or cash flows, and select appropriate capitalization/discount rate(s) to be consistent with the valuation method(s) selected. The Valuer must consider appropriate capitalization and/or discount rates, consistent with the valuation method(s) selected and the types of anticipated benefits used. For example, pre-tax factors or discount rates should be used with pre-tax benefits, common equity factors or discount rates should be used with common equity benefits and net cash flow factors or discount rates should be used with net cash flow benefits.

The capitalization/discount shall be determined taking into consideration the following risk factors:

- The nature of the business;
- The stability or regularity of earnings;
- level of interest rates
- the rate of return expected by investors on alternative investments
- The specific risk characteristics of the anticipated benefits.
- The stability, depth and experience of management; and
- Other risk factors when appropriate in the opinion of the analyst.

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5.4.3.4. For an intangible asset, the Valuer should also consider, when relevant:

- Remaining useful life
- Current and anticipated future use of the intangible asset
- Rights attributable to the intangible asset
- Position of intangible asset in its life cycle
- Appropriate discount rate for the intangible asset
- Appropriate capital or contributory asset charge, if any
- Research and development or marketing expense needed to support the intangible asset in its existing state
- Allocation of income (for example, incremental income, residual income, or profit split income) to intangible asset
- Whether any tax amortization benefit would be included in the analysis
- Discounted multi-year excess earnings
- Market royalties
- Relief from royalty

5.4.3.5. In discounted future benefits methods, expected growth is considered in estimating the future stream of benefits. In capitalization of benefits methods, expected growth is incorporated in the capitalization factor.

5.4.4. Rules of thumb

Although technically not a valuation method, a rule of thumb or benchmark indicator is used as a reasonableness check against the values determined by the use of other valuation approaches in a valuation engagement. Rule of thumb may provide insight into the value of a business, business ownership interest, security or intangible asset. However, it should not be used as the only method to determine the value of the subject interest. Value indications derived from the use of rules of thumb should not be given substantial weight unless they are supported by other valuation methods and it can be established that knowledgeable buyers and sellers place substantial reliance on them. The source of rule of thumb data should be documented.

The Valuer should set forth in the report the rationale and support for the valuation methods used.

5.5. Valuation Adjustments

The purpose, applicable standard of value, or other circumstances of an engagement may indicate the need to account for differences between the base value and the value of the subject interest. If so, appropriate discounts or premiums should be applied. Examples of valuation adjustments for valuation of a business, business ownership interest, or security include a **discount for lack of marketability** or liquidity and a **discount for lack of control**.

5.5.1. To determine whether any adjustment is required to pre adjusted value, following must be considered by the Valuer if applicable:

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- **Marketability and Liquidity**, or the lack thereof, considering the nature of the business, business ownership interest or security, the effect of relevant contractual and legal restrictions on transferability of the interest being valued and the condition of the market for the interest being valued;
 - **Ability of the interest to control** the operation, sale and liquidation of the related business enterprise;
 - other levels of value consideration such as impact of strategic or synergistic contributions to value; and
 - Such other similar factors when appropriate in the opinion of the Valuer.
- 5.5.2. When valuing a controlling ownership interest under the income approach, the value of any non operating assets, non operating liabilities, or excess or deficient operating assets should be excluded from the computation of the value based on the operating assets and should be added to or deleted from the value of the operating entity. When valuing a non controlling ownership interest under the income approach, the value of any non operating assets, non operating liabilities, or excess or deficient operating assets may or may not be used to adjust the value of the operating entity depending on the Valuer's assessment of the influence exercisable by the non controlling interest. In the asset-based or cost approach, it may not be necessary to separately consider non operating assets, non operating liabilities, or excess or deficient operating assets.
- 5.5.3. Valuer shall adhere to followings while making any adjustment in pre adjusted value:
- The base value to which the discount or premium is applied must be specified and defined.
 - Each discount or premium to be applied to the base value must be defined.

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- The primary reasons why each selected discount or premium applies to the appraised interest must be stated.
- The evidence considered in deriving the discount or premium must be specified.
- The analyst's reasoning in arriving at a conclusion regarding the size of any discount or premium applied must be explained.

5.6. Conclusion of Value

The conclusion of value reached by the analyst shall be based upon the applicable standard of value, the purpose and intended use of the valuation, and all relevant information available as of the valuation date in carrying out the type of engagement for the assignment and on value indications resulting from one or more valuation methods performed under the valuation process.

In arriving at a conclusion of value, the Valuer should:

- 5.6.1. Correlate and reconcile the results obtained under the different approaches and methods used.
- 5.6.2. Assess the reliability of the results under the different approaches and assign weights to value indications reached on the basis of various methods. The selection of and reliance on appropriate methods and procedures depends on the judgment of the analyst and not on any prescribed formula. One or more approaches may not be relevant to a particular situation, and more than one method under an approach may be relevant. The analyst must use informed judgment when determining the relative weight to be accorded to indications of value reached on the basis of various methods, or whether an indication of value from a single method

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should be conclusive. In any case, the analyst should provide the rationale for the selection or weighting of the method or methods relied on in reaching the conclusion.

5.6.3. In assessing the relative importance of indications of value determined under each method, or whether an indication of value from a single method should dominate, the Valuer should consider factors such as:

- The applicable standard of value
- The purpose and intended use of the valuation
- Whether the subject is an operating company, a real estate or investment holding company, or a company with substantial non-operating or excess assets
- The quality and reliability of data underlying the indication of value
- Such other factors that, in the opinion of the analyst, are appropriate for consideration

5.6.4. Additional factors to consider

As appropriate for the valuation assignment as defined, and if not considered in the process of determining and weighting the indications of value provided by various procedures, the analyst should separately consider the following factors in reaching a final conclusion of value:

- Marketability or lack thereof, considering the nature of the business, the business ownership interest, security or intangible asset
- The effect of relevant contractual and/or other legal restrictions

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- The condition of the market(s) in which the valued interest might trade
- The ability of an owner of the valued interest to control the operation, sale, or liquidation of the relevant business
- Such other factors that, in the opinion of the analyst, are appropriate for consideration

5.6.5. Determine, based on items *a*, *b*, *c* and *d*, whether the conclusion of value should reflect (1) the results of one valuation approach and method or (2) a combination of the results of more than one valuation approach and method.

5.7. Subsequent Events

The valuation date is the specific date at which the Valuer estimates the value of the subject interest and concludes on his or her estimation of value. Generally, the Valuer should consider only circumstances existing at the valuation date and events occurring up to the valuation date. An event that occurs subsequent to the valuation date could affect the value; such an occurrence is referred to as a *subsequent event*.

Subsequent events are indicative of conditions that were not known or knowable at the valuation date, including conditions that arose subsequent to the valuation date. The valuation would not be updated to reflect those events or conditions. Moreover, the valuation report would typically not include a discussion of those events or conditions because a valuation is performed as of a point in time - the valuation date - and the events described in this subparagraph, occurring subsequent to that date, are not relevant to the value determined as of that date. In situations in which a valuation is meaningful to the intended user beyond the valuation date, the events may be of such nature and significance as to warrant disclosure (at the option of the Valuer) in a separate section of the report in order to keep users informed. Such disclosure should clearly indicate that information regarding the events is provided for informational purposes only and does not affect the determination of value as of the specified valuation date.

To conclude, events subsequent to the valuation date should not be taken into consideration when valuing business interests, except when at least one of the following conditions is true:

- The subsequent events were reasonably foreseeable as of the valuation date.

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- The subsequent events are relevant to the valuation, and appropriate adjustments are made to take into account the differences between the facts and circumstances on valuation date and the date of such subsequent events.
- The subsequent events are not used to arrive at the valuation, but only as a means to confirm the value already arrived at.
- Subsequent events may be evidence of value rather than as something that affects value.

5.8. Valuation Documentation

Documentation is the principal record of information obtained and analyzed, procedures performed, valuation approaches and methods considered and used, and the conclusion of value. The quantity, type, and content of documentation are matters of the Valuer's professional judgment. Sufficient documentation should be retained for information relied upon in the valuation process. Inclusion of such information in the report satisfies this standard. Documentation may include:

- Information gathered and analyzed to obtain an understanding of matters that may affect the value of the subject interest (para 5.2)
- Assumptions and limiting conditions (para 4.3)
- Any restriction or limitation on the scope of the Valuer's work or the data available for analysis (para 4.4)
- Basis for using any *valuation assumption* during the valuation engagement

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- Valuation approaches and methods considered (para 5.4)

- Valuation approaches and methods used including the rationale and support for their use

- If applicable, information relating to subsequent events considered by the Valuer (para 5.7)

- For any rule of thumb used in the valuation, source(s) of data used, and how the rule of thumb was applied (para 5.4.4)

- Other documentation considered relevant to the engagement by the Valuer

The Valuer should retain the documentation for a period of time sufficient to meet the needs of applicable legal, regulatory, or other professional requirements for records retention.

CHAPTER VI – REPORTING STANDARDS

One of the final stages in the valuation process is the communication of the results of the valuation to the client or other user of the report. The form of any particular report will depend on the nature of the engagement, its purpose, its findings and the needs of the decision-makers who receive and rely upon it. The purpose of these standards is to establish minimum reporting criteria and to ensure consistency and quality of valuation reports issued by Valuers in India.

A valuation report is a written or oral communication to the client containing the conclusion of value or the calculated value of the subject interest. Reports issued for purposes of certain controversy proceedings are exempt from this reporting standard (para 6.4).

The three types of written reports that a Valuer may use to communicate the results of an engagement to estimate value are: for a valuation engagement, a detailed report or a summary report; and for a calculation engagement, a calculation report.

For a Valuation Engagement

6.1. Detailed Report: This report may be used to communicate the results of a valuation engagement (conclusion of value) in detail (para 3.1).

6.2. Summary Report: This report may be used to communicate the results of a valuation engagement (conclusion of value) in an abridged form (para 3.1).

For a valuation engagement, the determination of whether to prepare a detailed report or a summary report is based on the level of reporting detail agreed to by the Valuer and the client.

For a Calculation Engagement

6.3. Calculation Report: This type of report should be used only to communicate the results of a calculation engagement (calculated value); it should not be used to communicate the results of a valuation engagement (conclusion of value) (para 3.2).

Reports should be carefully prepared, communicate the results and identify the information relied upon in the valuation process. The wording used in the report should effectively communicate important thoughts, methods and reasoning, as well as identify the supporting documentation in a simple and concise manner, so that the user of the report can replicate the process followed by the Valuer.

When valuation reports are transmitted electronically, Valuer shall take reasonable steps to protect the integrity of the data/text in the report and to ensure that no errors occur in transmission. Software should provide for security of transmission.

The Valuer should indicate in the valuation report the restrictions on the use of the report (which may include restrictions on the users of the report, the uses of the report by such users, or both).

6.4. Reporting Exemption for Certain Controversy Proceedings

A valuation performed for a matter before a court, an arbitrator, a mediator or other facilitator, or a matter in a governmental or administrative proceeding, is exempt from the reporting provisions of this Standard. The reporting exemption applies whether the matter proceeds to trial or settles. The exemption applies only to the reporting provisions of this Standard. The developmental provisions of the Standard (chapter V) still apply whenever the Valuer expresses a conclusion of value or a calculated value.

Form and Contents of Report

6.1. Detailed Valuation Report

The *detailed report shall* provide sufficient information to permit intended users to understand the data, reasoning, and analyses underlying the Valuer's conclusion of value. A detailed report should include, as applicable, the following sections:

- Letter of Transmittal
- Table of contents
- Introduction
- Sources of information
- Analysis of the subject entity and related nonfinancial information
- Financial statement/information analysis
- Valuation approaches and methods considered
- Valuation approaches and methods used
- Valuation adjustments
- Non operating assets, non operating liabilities, and excess or deficient operating assets (if any)
- Representation of the Valuer
- Reconciliation of estimates and conclusion of value
- Qualifications of the Valuer
- Appendices and exhibits

A brief insight of the contents of each section is produced in the following paragraphs. It may be positioned in the body of the report or elsewhere in the report at the discretion of the Valuer.

6.1.1. Introduction

This section should provide an overall description of the valuation engagement. The information in the section should be sufficient to enable the intended user of the report to understand the nature and scope of the valuation engagement, as well as the work performed. The introduction section may include, among other things, the following information:

- Identity of the client
- Purpose and intended use of the valuation
- Intended users of the valuation
- Identity of the subject entity
- Description of the subject interest
- Whether the business interest has ownership control characteristics and its degree of marketability
- Valuation date
- Report date
- Type of report issued
- Applicable premise of value
- Applicable standard of value

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- Assumptions and limiting conditions (alternatively, these often appear in an appendix)
- Any restrictions or limitations in the scope of work or data available for analysis
- Any hypothetical conditions used in the valuation engagement, including the basis for their use
- If the work of a specialist was used in the valuation engagement, a description of how the specialist's work was relied upon
- Disclosure of subsequent events in certain circumstances
- Any application of the jurisdictional exception
- Any additional information the Valuer deems useful to enable the user(s) of the report to understand the work performed

If the above items are not included in the introduction, they should be included elsewhere in the valuation report.

6.1.2. Sources of Information

This section of the report should identify the relevant sources of information used in performing the valuation engagement. It may include, among other things, the following:

- a. For valuation of a business, business ownership interest, or security, whether and to what extent the subject entity's facilities were visited
- b. For valuation of an intangible asset, whether the legal registration, contractual documentation, or other tangible evidence of the asset was inspected

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- c. Names, positions, and titles of persons interviewed and their relationships to the subject interest
 - d. Financial information (Para 6.1.2.1 & 6.1.2.3)
 - e. Tax information (Para 6.1.2.2)
 - f. Industry data
 - g. Market data
 - h. Economic data
 - i. Other empirical information
 - j. Relevant documents and other sources of information provided by or related to the entity
- 6.1.2.1. If the financial information includes financial statements that were reported on (audit, review, compilation, or attest engagement) by the Valuer's firm, the valuation report should disclose this fact and the type of report issued. If the Valuer or the Valuer's firm did not audit, review, compile, or attest to the financial information, the Valuer should so state and should also state that the Valuer assumes no responsibility for the financial information.
- 6.1.2.2. The financial information may be derived from or may include information derived from tax returns. With regard to such derived information and other tax information, the Valuer should identify the tax returns used and any existing relationship between the Valuer and the tax preparer. If the Valuer or the Valuer's firm did not audit, review, compile, or attest to any financial information derived from tax returns that is used during the valuation engagement, the Valuer should so state and should also state that the Valuer assumes no responsibility for that derived information.

6.1.2.3. If the financial information used was derived from financial statements prepared by management that were not the subject of an audit, review, compilation, or attest engagement, the valuation report should:

- Identify the financial statements
- State that, as part of the valuation engagement, the Valuer did not audit, review, compile, or attest to the financial information and assumes no responsibility for that information.

6.1.3. Analysis of the Subject Entity and Related Nonfinancial Information

The Valuer should include a description of the relevant nonfinancial information listed and discussed in para 5.2.1.

6.1.4. Financial Statement / Information Analysis

This section should include a description of the relevant information listed in para 5.2.3. Such description may include:

- The rationale underlying any normalization or *control adjustments* to financial information
- Comparison of current performance with historical performance
- Comparison of performance with industry trends and norms, where available

6.1.5. Valuation Approaches and Methods Considered

In this section, the Valuer should identify the valuation methods (as discussed in para 5.4) used under each valuation approach and the rationale for their use.

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This section should also identify the following for each of the three approaches (if used):

- *Income approach:*
 - Composition of the representative benefit stream
 - Method(s) used, and a summary of the most relevant risk factors considered in selecting the appropriate **discount rate**, the capitalization rate, or both

- *Asset-based approach or cost approach:*
 - *Asset-based approach:* Any adjustments made by the Valuer to the relevant balance sheet data
 - *Cost approach:* The type of cost used, how this cost was estimated, and, if applicable, the forms of and costs associated with depreciation and obsolescence used under the approach and how those costs were estimated

- *Market approach:*
 - For the Guideline public company method:
 - The selected Guideline companies and the process used in their selection
 - The pricing multiples used, how they were used, and the rationale for their selection. If the pricing multiples were adjusted, the rationale for such adjustments

 - For the Guideline transactions method: the sales transactions and pricing multiples used, how they were used, and the rationale for their

selection. If the pricing multiples were adjusted, the rationale for such adjustments

When a rule of thumb is used in combination with other methods, the valuation report should disclose the source(s) of data used and how the rule of thumb was applied.

6.1.6. Valuation Adjustments

This section should (a) identify each valuation adjustment considered and determined to be applicable, for example, discount for lack of marketability, (b) describe the rationale for using the adjustment and the factors considered in selecting the amount or percentage used, and (c) describe the pre-adjustment value to which the adjustment was applied as discussed in para 5.5.

6.1.7. Non operating Assets and Excess Operating Assets

When the subject interest is a business, business ownership interest, or security, the valuation report should identify any related non operating assets, non operating liabilities, or excess or deficient operating assets and their effect on the valuation.

6.1.8. Representation of the Valuer

Each written report should contain the representation of the Valuer. The representation is the section of the report wherein the Valuer summarizes the factors that guided his or her work during the engagement. Examples of these factors include the following:

- a. The analyses, opinions, and conclusion of value included in the valuation report are subject to the specified assumptions and limiting conditions,

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and they are the personal analyses, opinions, and conclusion of value of the Valuer.

- b. The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the Valuer believes to be reliable (any exceptions should be noted). The Valuer has not performed any corroborating procedures to substantiate that data.
- c. The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
- d. The Valuer used the work of one or more outside specialists to assist during the valuation engagement. If the work of such a specialist was used, the specialist should be identified. The valuation report should include a statement identifying the level of responsibility, if any, the Valuer is assuming for the specialist's work.
- e. The Valuer has no obligation to update the report or the opinion of value for information that comes to his or her attention after the date of the report.
- f. The Valuer and the person(s) assuming responsibility for the valuation should sign the representation in their own name(s). The names of those providing significant professional assistance should be identified.
- g. The Valuer shall confirm that:
 - The statements of fact presented in the report are correct to the best of knowledge of valuer
 - The reported analyses, opinion and conclusions are limited only by the reported assumptions and limiting conditions.

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- He or she has no bias with respect to the subject of this report or to the parties involved with this assignment.
- He or she has no (or if so, a specified) present or prospective interest in the subject business or has no personal interest in the parties involved.
- His or her fee is not contingent upon an action or event resulting from the analyses, opinions or conclusions in, or the use of, this report.
- **The valuation engagement was performed in accordance with the Indian Institute of Chartered Accountants Business Valuation Practise Standard.**
- He or she has necessary skills and competence to perform the engagement to estimate value.

6.1.9. Representations Regarding Information Provided to the Valuer

It may be appropriate for the Valuer to obtain written representations from the management (or client) regarding information that the subject entity's management provides to the Valuer for purposes of his or her performing the valuation engagement. The decision whether to obtain a representation letter is a matter of judgment for the Valuer.

A Sample Management Representation Letter is annexed in "Appendix D" for the benefit of valuers. The given Management Representation letter is a sample only which can be used by the Valuer, but is not required, for taking representation from the management. It needs to be modified according to the requirements of particular engagement.

6.1.10. Qualifications of the Valuer

The report should contain information regarding the qualifications of the Valuer.

6.1.11. Conclusion of Value

This section should present a reconciliation of the Valuer's estimate or various estimates of the value of the subject interest. In addition to a discussion of the rationale underlying the conclusion of value, this section should include the following or similar statements:

- a. A valuation engagement was performed, including the subject interest and the valuation date.
- b. The analysis was performed solely for the purpose described in this report, and the resulting estimate of value should not be used for any other purpose.
- c. The valuation engagement was conducted in accordance with the Business Valuation Practise Standard of the Institute of Chartered Accountants of India.
- d. A statement that the estimate of value resulting from a valuation engagement is expressed as a conclusion of value.
- e. The scope of work or data available for analysis is explained, including any restrictions or limitations.
- f. A statement describing the conclusion of value, either a single amount or a range.
- g. The conclusion of value is subject to the assumptions and limiting conditions (para 4.3) and to the Valuer's representation (para 6.1.9).
- h. The date of the valuation report is included.
- i. The Valuer has no obligation to update the report or the conclusion of value for information that comes to his or her attention after the date of the report.

6.1.12. Appendices and Exhibits

Appendices or exhibits may be used for required information or information that supplements the detailed report. Often, the assumptions and limiting conditions and the Valuer's representation are provided in appendices to the detailed report.

An example of report language that could be used is given in "Appendix E". The given report language is a sample only which can be used by Valuer, but is not required, when reporting the results of a valuation engagement.

6.2. Summary Valuation Report

A summary report is structured to provide an abridged version of the information that would be provided in a detailed report, and therefore, need not contain the same level of detail as a detailed report. However, a summary report should, at a minimum, include the following:

- Identification of the subject being valued;
- Description of the interest being valued;
- Ownership size, nature, restrictions and agreements;
- Valuation date;
- Report date;
- Purpose and use of the valuation;
- Intended users of the valuation
- Type of report issued
- Definition of the standard of value;

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- Identification of the premise of value;
- Valuation approaches and method(s) utilized by the Valuer;
- Historical financial statement summaries, when applicable;
- Identification of the assumptions, limiting conditions and scope limitations;
- Reliance on a specialist;
- Jurisdictional exceptions and requirements;
- Limitations on use of the report—all valuation services vary as to specific assumptions, limiting conditions and scope, therefore, the Valuer must identify material matters considered;
- Sources of information;
- A statement of Financial Interest;
- Whether or not Valuer is obligated to update the report;
- Disclosure of any contingency fee;
- Qualifications of Valuer; and
- Disclosure of subsequent events in certain circumstances
- Responsible Valuer signature—the Valuer who has primary responsibility for the determination of value must sign or be identified in the report;

Appendices or exhibits may be used for required information or information that supplements the summary report. Often, the assumptions, limiting conditions, and the Valuer's representation are provided in appendices to the summary report.

6.3. Calculation Report

A calculation report is the only report that should be used to report the results of a calculation engagement. The report should state that it is a calculation report. The calculation report should include the representation of the Valuer similar to that given in para 6.1.9 of detailed valuation report but adapted for a calculation engagement.

The calculation report should identify any hypothetical conditions used in the calculation engagement, including the basis for their use, any application of the jurisdictional exception, and any assumptions and limiting conditions applicable to the engagement. If the Valuer used the work of a specialist, the Valuer should describe in the calculation report how the specialist's work was used and the level of responsibility, if any, the Valuer is assuming for the specialist's work. The calculation report may also include a disclosure of subsequent events in certain circumstances.

Appendices or exhibits may be used for required information or information that supplements the calculation report (para 6.1.12). Often, the assumptions and limiting conditions and the Valuer's representation are provided in appendices to the calculation report.

The calculation report should include a section summarizing the calculated value. This section should include the following (or similar) statements:

- Certain calculation procedures were performed; include the identity of the subject interest and the calculation date.
- Describe the calculation procedures and the scope of work performed or reference the section(s) of the calculation report in which the calculation procedures and scope of work are described.
- Describe the purpose of the calculation procedures, including that the calculation procedures were performed solely for that purpose and that

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the resulting calculated value should not be used for any other purpose or by any other party for any purpose.

- A description of the business interest's characteristics, including whether the subject interest exhibits control characteristics, and a statement about the marketability of the subject interest.
- The estimate of value resulting from a calculation engagement is expressed as a calculated value.
- A general description of a calculation engagement is given, including that (1) a calculation engagement does not include all of the procedures required for a valuation engagement and (2) had a valuation engagement been performed, the results may have been different.
- The calculated value, either a single amount or a range, is described.
- The date of the valuation report is given.
- The Valuer has no obligation to update the report or the calculation of value for information that comes to his or her attention after the date of the report.

An example of report language that could be used for Calculation Engagement is given in "Appendix F". The given report language is a sample only which can be used by Valuer, but is not required, when reporting the results of a Calculation Engagement.

Effective Date

This Standard applies to engagements to estimate value accepted on or after the first day of April 2010. The standard is recommendatory in nature.

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