

1 Introduction

2 **The Indian Valuation Standards Committee**

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5 **The Indian Valuation Standards Committee**

6

7 **Introduction**

8 Rapid economic changes during the 1990s served to enhance the recognition given by
9 market participants to the importance of professional property valuations. The quickening
10 pace in the globalization of investment markets further underscored the need for internationally
11 accepted standards for reporting the value of property.

12 It became obvious that in absence of the Indian Valuation Standards there was considerable
13 potential for confusion. Differences of viewpoints among national professional valuation
14 bodies might lead to unintentional misunderstandings.

15

16 ***The Indian Valuation Standards is based on International Valuation Standards***

17 which is product of members of a technical committee of the Royal Institution of Chartered
18 Surveyors (RICS) and representatives of Uniform Standard of professional appraisal practice,
19 organisations began a dialogue in the late 1970s, which led to the founding of The Inter-
20 national Assets Valuation Standards Committee (TIAVSC) in 1981. The Committee changed
21 its name in 1994 and is now known as The International Valuation Standards Committee .

22 and Practising Valuer Association (India) ,PVAI become a member of The International
23 Valuation Standards Committee in the month of Dec.2005, PVAI can publish the Indian
24 Valuation Standards for India.

25

26 ***The Indian Valuation Standards Committee has*** started to study International Valuation
27 Standard (IVS) & Uniform Standards of Professional Practice (USPAP) Since 1998, The Indian
28 Valuation Standards published by Practising Valuers Association (India) being an incorporated
29 Association, comprising of Practising professional Valuers from India, and bound by Articles
30 of Incorporation.

31

32 The objectives of The Indian Valuation Standards have been two fold:

33

34 A] To formulate and publish, in the public interest, valuation Standards for asset valuation and to
35 promote their worldwide acceptance; and

36

37 B] To harmonise Standards among the Indian States and to identify and make disclosure of
38 differences in statements and / or applications of Standards as they occur.

39

40 **The Indian Valuation Standards** recognise the diversity of purposes for which asset valuations
41 are required, including use in financial statements, decisions on loans and mortgages secured
42 by property, transactions involving transfers of ownership, and litigation and tax settlements.

43 The Indian Valuation Standard committee also publishes Guidance Notes regarding specific
44 valuation issues and the application of Standards in more specific business and service-
45 providing situations.

46 In particular, The Indian Valuation Standards committee has sought that The Indian Valuation
47 Standards (InVS) be recognised in accounting and other reporting standards, and that Valuers
48 recognise what is needed for them under standards of other disciplines.

49

50 The evolution of these standards attests to the recognition by **InVSC**, that change is inevitable and
51 continuous even when gradual and not easily discernable. The ongoing development of
52 Standards reflects the commitment of the Indian Valuation Standards to ensure that
53 fundamental valuation definitions and guidance stay current in a dynamic world Membership.

54 The Indian Valuation Standards Committee has become a truly Indian body in terms of both
55 its membership and mission.

56 The Committee, which was founded with a membership of National Association (PVAI), has
57 grown by the year 1998 to include national association representing India,

58 Association in India subscribe to The Indian Valuation Standards Committee objectives
59 concerning valuation and must have a sufficient number of their members capable of
60 conducting valuations that comply with Standards.

61 PVAI support the Standards and Guidance Notes published by The Indian Valuation
62 Standards Committee and endeavour to secure recognition of the Standards where
63 appropriate in their respective States. Member associations are enjoined to disclose to The
64 Indian Valuation Standards Committee any significant differences between domestic and
65 International Standards so that such differences can be reported to the international
66 community.

67

68 The Indian Valuation Standards Committee recognises that Valuers must act legally and
69 comply with the laws and regulations of the Places in which they practise.

70 PVAI work with controlling and regulatory authorities, both statutory and voluntary, and

83

71 other professional societies to ensure that valuations comply with The Indian Valuation
72 Standard's Committee, Standards and Guidance Notes. They also play an educative and
73 consultative role in the area of valuation standard's within their respective States.

74

75 **Achievements of The Indian Valuation Standards Committee**

76

77 [1] Non-Government Organisations (NGO) through Practising Valuers Association (India) is
78 member of "International Valuation Standard Committee" which works and maintains liaison
79 with international agencies, such as the Organisation for Economic Cooperation and
80 Development (OECD), the World Bank, the International Monetary Fund (IMF), the World
81 Trade Organisation (WTO), the Commission of the European Union, and the Bank for
82 International Settlements (BIS).

83 [2] Also maintains a close relationship with standard-setting bodies, such as the
84 International Accounting Standards Board (IASB), the International Federation of
85 Accountants (IFAC), Asian Development Bank (ADB) and the International Organisation
86 of Security Commissions (IOSCO). Indian Accounting Standards.

87

88 [3] Indian Valuation Standards also take care of Valuation guideline provided under Wealth
89 Tax-Act under section 34, Reserve Bank Guidelines, State Co-operative Bank Federations
90 guidelines.

91

92 The Indian Valuation Standards Committee provides the Valuation profession with advice and
93 counsel relating to valuation, seeks to coordinate its Standards and work programs with those
94 of related professional disciplines in the public interest, and cooperates with Asian &
95 International bodies in determining and promulgating new Standards. In order to ensure that
96 the Indian standards governing valuation practise are consistent with the requirements of
97 Valuers under International financial reporting standards.

98 The Indian Valuation Standards Committee will review each new edition after every five years
99 and of the International Financial Reporting Standards (IFRSs), which include the International
100 Accounting Standards (IASs), published for private sector accounting by the International
101 Accounting Standards Board (IASB), and the International Public Sector Accounting Standards
102 (IPSASs) published by the International Federation of Accountants (IFAC).

103 The Indian Valuation Standards take reference to these accounting standards wherever they
104 apply to the work of Valuers.

105

106 **Headquarter**

107 The Indian Valuation Standards Committee headquarter is in Mumbai.

108

109 and for all Correspondence **office is at 1, Prospect Chambers, near G.P.O., opp.**
110 **Bhalekar School, Trimbak-Road, Nashik-422001, M.S., India.**

111 Financial matters and orders are handled by the Committee at Nashik,

112

113 Information about the Committee and ongoing development of the Standards can be obtained
114 through The Indian Valuation Standards Committee,

115 web site at <http://www.pvai.org>, <http://www.pvai.info>, & indianvaluationstandard.org

116

117 **The Indian Valuation Standards Committee officers**, (members) appointed
118 representatives from all parts of India chosen through a peer selection of all national
119 representation.

120

121 The Indian Valuation Standards Committee is directed by a Management Board, of Practising
122 Valuers Association (India) which includes Full and Elected Board Members as well as the
123 Chairman, the two Vice Chairman, and the Immediate Past President. The Management Board
124 of PVAI delegates responsibility for reviewing current standards and guidance, and producing
125 new drafts, where appropriate to The Indian Valuation Standards Committee,
126 for the development of high quality, Indian Valuation Standards.

127 The Indian Valuation Standards Committee Bye-Laws and Articles of Incorporation set forth
128 detailed provisions for the membership, management, and Standards Board Members are
129 drawn from a wider constituency from India.

130 In determining the membership of the Standards Board, The Indian Valuation Standards
131 Committee management Board seeks to draw together a group of people with the best
132 available combination of technical skills and background experience in relevant international
133 business and property markets, who can contribute operations of the organisation and are
134 available to view on the Practising Valuers Association web site www.pvai.org &
135 www.pvai.info

136

137Members of The Indian Valuation Standards Committee Management Board of**138Directors** as on 1st August 2006 are:

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144 **Objectives and Scope**

145

146 The development of The Indian Valuation Standards (InVS) has been guided by three
147 principal objectives:

148

149 [1] To facilitate cross-state border transactions and contribute to the viability of international
150 property markets by promoting transparency in financial reporting as well as the reliability
151 of valuations performed to secure loans and mortgages, for transactions involving
152 transfers of ownership, and for settlements in litigation or tax matters;

153 [2] To serve as a professional benchmark, or beacon, for Valuers from India thereby enabling
154 them to respond to the demands of international property markets for reliable valuations
155 and to meet the financial reporting requirements of the global business community; and

156 [3] To provide Standards of valuation and financial reporting that meet the needs of
157 emerging and newly industrialised development of our country.

158 Users of valuations under InVS should be able to rely on such valuations as having been
159 carried out by competent professionals who subscribe to high standards of ethical
160 conduct. As the scope of valuation practice becomes broader, the term *property*
161 *valuation* has gained currency over the more restrictive term **asset valuation**, a term
162 referring to valuations performed primarily for use in financial reporting.

163

164 **A Professional Property Valuer** is a person who possesses necessary qualifications,
165 ability, and experience to estimate property value for a diversity of purposes including
166 transactions involving transfers of property ownership, property considered as collateral to
167 secure loans and mortgages, property subject to litigation or pending settlement on taxes,
168 and property treated as fixed assets in financial reporting.

169

170 **A Professional Property Valuer** may also possess the specific expertise to perform
171 valuations of other categories of property, i.e., personal property, businesses, and
172 financial interests.

173

174 The Indian Valuation Standards represent accepted or best practice in the Valuation
175 profession, also known as Generally Accepted Valuation Principles (GAVP). It is intended that
176 The Indian Valuation Standards and the national standards of respective Member States
177 shall be complimentary and mutually supportive.

178

179 The Indian Valuation Standards advocate that differences between statements and/or
180 applications of national and International Valuation Standards be disclosed.

181

182 The Indian Valuation Standards may sometimes require an approach that differs from local
183 practice and/or national regulation. In situations where the two diverge, practitioners are
184 expected to quantify and explain the consequent differences in value. Detailed examination
185 of methodology and its application to specific property types or markets is the province of
186 specialist education and literature. For this reason,

187

188 The Indian Valuation Standards encourage all professional Valuers to avail themselves of
189 Continuing Education Program for 20 hours every year throughout their careers.

190

191 The Indian Valuation Standards prescribe what Valuers should do rather than explain how
192 specific procedures or methodologies are applied.

193

194 The **InVS** recognise that every application is tied to a specific valuation problem, the solution
195 of which depends on the Valuer's ability to select relevant techniques and exercise
196 appropriate judgement.

197 Where the standards of other disciplines, such as accounting, may apply to Valuations.

198

199 The Indian Valuation Standards advise property Valuers to understand the accounting use to
200 which their valuations are put.

201 When financial reporting or other accounting application is to be made of a valuation, the
202 Valuer shall comply with both accounting standards requirements and those that pertain to
203 property valuations.

204 If any conflict between the two sets of standards arise the Valuer shall make disclosure of
205 the situation.

206

207 **Organisation of The Indian Valuation Standards**

208

209 Various valuation principles and techniques are understood within the valuation profession

210and are well established throughout the global business community.

211

212The abbreviated discussions of such principles and techniques included in the Standards,
213Applications, and Guidance Notes should not be considered exhaustive. Therefore, it is
214important to the understanding and use of these Standards that, although the individual
215Standards, Applications, or Guidance Notes may be published as separate sections, each
216is a component part of the entirety.

217

218 Thus, definitions, preface statements, valuation concepts and principles, and other common
219elements are to be understood as pertaining to each component. Although an attempt has
220been made to develop each part of the Standards document as a Self contained item, the
221requirements of The Indian Valuation Standards Code of Conduct and Valuation
222Reporting, apply to all elements.

223

224Thus, the reader will benefit most from reading the entire document. Extensive cross-
225referencing facilitates the task of tracing related areas throughout the text. While portions of
226the text in the Standards, Applications, and Guidance Notes are set in black lining, the
227entire document is mandatory, and any valuation prepared under the InVS must comply
228with all parts thereof. Technical Papers published on Practising Valuers Association (India)
229website supplement the Standards, Applications and Guidance Notes but are not
230considered as integral to the Standards document.

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231 **Structure of the Standards Documents**

232

FUNDAMENTALS	HISTORY INTRODUCTION, CONSTITUTION, ORGANISATION AND FORMAT OF STANDARDS, GENERAL VALUATION CONCEPT AND PRINCIPLES
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233

Code of Conduct

234

PROPERTY TYPE	REAL PROPERTY	PERSONAL PROPERTY	BUSINESS	FINANCIAL INTERESTS
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235

MARKET VALUE	[OTHER THAN MARKET VALUE] NON MARKET VALUE	COMMUNICATING THE VALUATION
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236

STANDARDS	STANDARD 1 MARKET VALUE VALUATIONS	STANDARD 2 NON-MARKET VALUE VALUATIONS	SEE NON-MARKET VALUE CHART	STANDARD 3 VALUATION REPORTING
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APPLICATIONS	VALUATION APPLICATION FOR FINANCIAL REPORTING	VALUATION APPLICATION FOR LENDING PURPOSES
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GUIDANCE NOTES	GUIDANCE NOTE NO.1 VALUATION OF REAL PROPERTY	GUIDANCE NOTE NO.2 VALUATION OF LEASE INTERESTS	GUIDANCE NOTE NO.3 VALUATION OF PLANT & EQUIPMENT	GUIDANCE NOTE NO.4 VALUATION OF INTANGIBLE ASSETS	GUIDANCE NOTE NO.5 VALUATION OF PERSONAL PROPERTY
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GUIDANCE NOTE NO.6 BUSINESS VALUATION	GUIDANCE NOTE NO.7 CONSIDERATION OF HAZARDOUS AND TOXIC SUBSTANCES IN VALUATION	GUIDANCE NOTE NO.8 COST APPROACH FOR FINANCIAL REPORTING (DRC)	GUIDANCE NOTE NO.9 DISCOUNTED CASH FLOW ANALYSIS	GUIDANCE NOTE NO.10 VALUATION OF AGRICULTURAL PROPERTIES
--	--	---	---	---

240

GUIDANCE NOTE NO.11 REVIEWING VALUATIONS	GUIDANCE NOTE NO.12 VALUATION OF SPECIALISED PROPERTY	GUIDANCE NOTE NO.13 MASS APPRAISAL FOR PROPERTY TAXATION	GUIDANCE NOTE NO.14 VALUATION OF PROPERTIES IN THE EXTRACTIVE INDUSTRIES	GUIDANCE NOTE NO.15 Valuation for Banking
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WHITE PAPER	VALUATION IN EMERGING MARKETS
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ADDENDA	GLOSSARY OF TERMS
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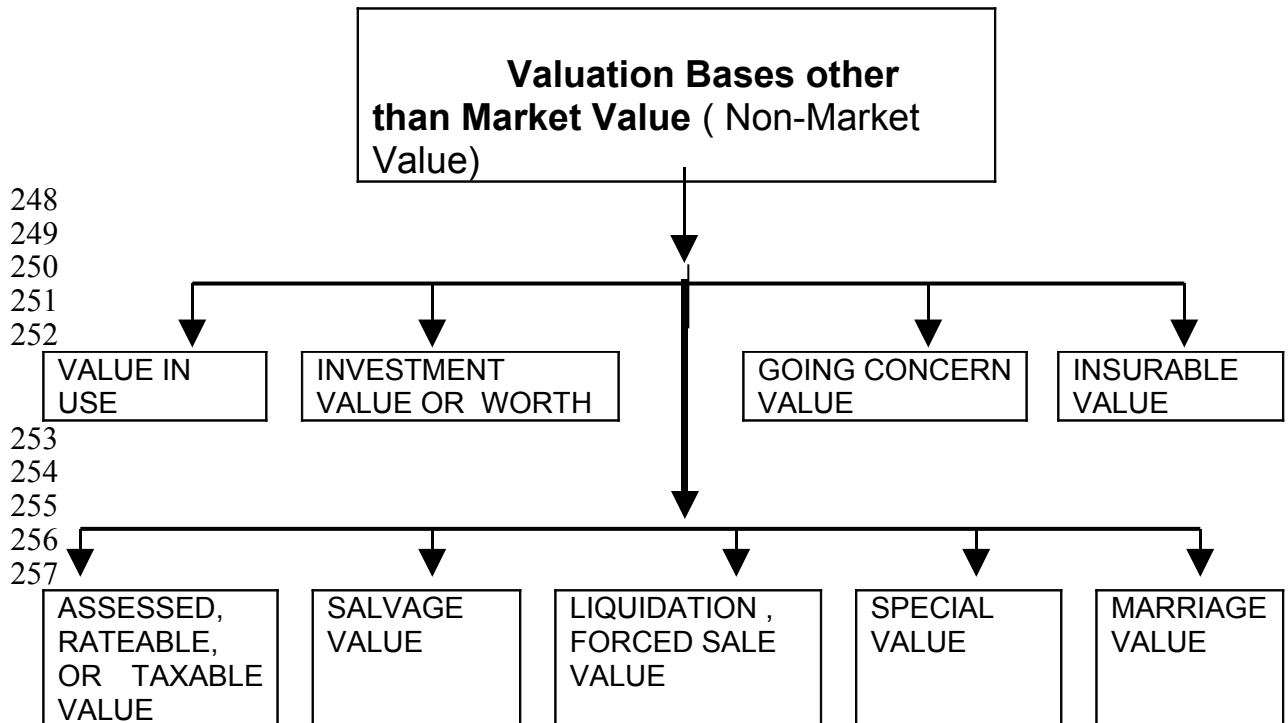
243

2910

244 **Valuation Bases other than Market Value (Non-Market**
 245 **Value) Components**

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260 The Indian Valuation Standards Committee recognises the complexity of professional valuation
 261 procedures, the diversity of property situations, the difficulty other professional disciplines may
 262 have in interpreting valuation activities, problems in the usage and translation of terminology, and
 263 the paramount need of the public for well-founded professional valuations developed in
 264 accordance with generally accepted standards. Accordingly, the content and format of these
 265 Standards have been designed with these issues in mind and an understanding of the
 266 structure of the Standards is, therefore, important to their application.

267

268 **The organisation of The Standards.**

269

270 The Standards have been organised as follows:

271

272 **[1] Introduction** - The introduction offers an overview of the origins of The Indian
 273 Valuation Standards, based on the work of the International Valuation Standards and the
 274 general context of the Standards. the organisation of the Standards is explained and their
 275 intended applicability is discussed.

276

277 **[2] General Valuation Concepts and Principles-** A full discussion of the body of
 278 knowledge constituting valuation methods and practices is beyond the scope of these
 279 Standards. To foster understanding among professional disciplines and to alleviate difficulties
 280 arising from language barriers, this section aims at providing commentary on basic legal,
 281 economic, and conceptual frameworks upon which the valuation discipline and its Standards
 282 are based. Comprehension of these concepts and principles is crucial to understanding valuation
 283 and to the application of these Standards.

284

285 **[3] Code of Conduct** - A code of conduct addresses the ethical and competency
 286 requirements of Valuers in professional practice. Ethical conduct serves the public interest,
 287 sustains the trust financial institutions necessarily place in the services of Valuers, and works
 288 to the benefit of the valuation profession itself. It ensures that the results of valuations are
 289 reliable, consistent, and unbiased.

290

291 **[4] Property Types** - Real property, the foundation of any system of
 292 wealth, is distinguished from other categories of property such as personal property,
 293 businesses, and financial interests. These four property types and the distinctions between
 294 them are discussed.

295

3211

296**[5] Introduction to the Standards** - All valuations may be classified under two
297categories: -

298

299[i] Those prepared on the Basis of Market Value and

300

301[iii] Those prepared on Bases Other than Market Value [Non Market Value]

302After the valuation is completed, the Valuer has to clearly explain the results and to communi-
303cate how those results were obtained. This introductory section discusses differences between
304Market and Non-Market bases of value and the importance of clearly and informatively
305communicating the Valuation.

306

307**[6] Standards** - within the organisation of **Standards, Applications, and Guidance Notes**,
308the **Standards are considered** as most fundamental and permanent.

309

310 The Indian Valuation Standards deal with Market Value and valuation bases other than
311Market Value. Standard sets forth the requirements for Valuation Reporting. The Standards also
312serve as a foundation for the Indian Valuation Applications (InVS), which deal with the
313application of valuation for financial reporting and lending.

314

315**[7] Applications** - Valuations are prepared for a variety of purposes. The application of private
316and public sector asset valuation to financial statements or related accounts, and to decisions
317involving loan or mortgage security is described.

318

319**[8] Guidance Notes** - Issues that relate to the application of the Standards frequently arise
320in valuation practice and from those who use valuation services. The Guidance Notes provide
321guidance on specific valuation issues and how Standards are to be applied in more specific
322business and service-providing situations. The Guidance Notes complement and expand on the
323Standards and Applications, with which they have equal importance. Compliance with the
324Guidance Notes as with the Standards and Applications is, therefore, mandatory for all Valuers
325preparing assignments under The Indian Valuation Standards.

326

327**[9] White Papers** - Because valuation practice is neither uniform nor static,
328The Indian Valuation Standards committee will publish papers on issues involving the
329performance of valuation around the world.

330

331**[10] Glossary** - The glossary cross-references divergent usage of terminology in the
332Commonwealth, North America, and other English-speaking communities; includes definitions
333from ancillary disciplines; and provides appropriate citations of where terms are defined
334within the Standards and Guidance Notes.

335

336The three principal elements of The Indian Valuation Standards, i.e., the Standards, Applications
337and Guidance Notes, have equal weight, and all valuations prepared in compliance with the
338InVS must conform to the principles and procedures elaborated throughout the entire
339document.

340

341**Format of the Standards, Applications and Guidance Notes**

342

343Each of the three Standards is written to address a broadly related area of valuation
344practice. As appropriate, each Standard contains the following nine sections.

345

3461] Introduction

3472] Scope

3483] Definitions

3494] Relationship to Accounting Standards

3505] Statement of Standard

3516] Discussion

3527] Disclosure Requirements

3538] Departure Provisions

3549] Effective Date

355 STANDARDS

356

357 **The Indian Valuation Standards have the following sections:**

358

359 1] Introduction

360 2] Scope

361 3] Definitions

362 4] Relationship to Accounting Standards

363 5] Statement of Standard

364 6] Discussion

365 7] Disclosure Requirements

366 8] Departure Provisions

367 9] Effective Date

368

369 Each of the Guidance Notes deal with issues relating to the application of the Standards that
370 arise in valuation practice or from those who use valuation services. As appropriate, each
371 Guidance Note contains the following six sections:

372

373 1] Introduction

374 2] Scope

375 3] Definitions

376 4] Relationship to Accounting Standards

377 5] Guidance

378 6] Effective Date

379

380 The Guidance Notes (GNs) may be divided into three groups.

381

382 Four of the GNs address considerations specific to the valuation of different property
383 categories, including Real Property, Lease Interests, Plant and Equipment, and Personal
384 Property.

385

386 Three of the GNs deal with property or assets that are valued on a cash flow basis,
387 including Intangible Assets, Businesses, and Specialised Trading Property.

388

389 Two of the GNs provide guidance in the application of valuation methodologies (The Cost
390 Approach for Financial Reporting-[DRC] and Discounted Cash Flow [DCF] Analysis). The
391 reader may find it helpful to read these groups of GNs together because of such common
392 basic elements. of the remaining five GNs.

393

394 One of the GNs addresses environmental issues (Consideration of Hazardous and Toxic
395 Substances),

396

397 Two of the GNs deal with the valuation of specialised property (agricultural properties and
398 properties in the extractive industries),

399

400 One of the GNs provides guidance in an area of professional practice (Reviewing
401 Valuations), and one of the GN discusses a cognate area of valuation practice (Mass Appraisal
402 for Property Taxation).

403

404 **Adoption Dates for Standards Documents**

405 The Indian Valuation Standard became effective from the date --

406

407 The following Standards were adopted by International Valuation Standards as stated
408 below ,

409

410 Market value definition as stated in International Valuation Standards and the first two
411 International Valuation Standard were adopted on march 24th 1994.

412 Two others standards adopted at this time IVS3 & IVS4 were revised & converted,
413 became applications in July 2000.

414 The Third International Valuation standards became effective from 30th April 2003.

415 All of the above International Valuation standard have been revised and revised versions
416 were adopted on 31st Jan. 2005.

417 The Guidance Note on the Consideration of Hazardous and Toxic Substances in
418 Valuation was adopted on 19th April 1996 by the International Valuation Standards

419 Committee.

420The Guidance Notes on Real Property, Lease Interests, Intangible Assets, and
421Business Valuation were adopted on 1st July 2000 and that on Personal Property, by
422International Valuation Standards Committee on 30th April 2003; these have all been
423revised and revised versions became effective from 31st January 2005.

424

425The Guidance Notes on Discounted Cash Flow (DCF) Analysis Valuation of Agricultural
426Properties, and Reviewing Valuations were adopted on 30th April 2003.

427

428The Guidance Notes on the Valuation of Specialised Trading Property, Mass Appraisal for
429Property Taxation, and Valuation of Properties in the Extractive Industries were
430adopted on 31st January 2005.

431

432Guidance Note 8, The Cost Approach for Financial Reporting-(DRC), represents a
433thorough-going revision of the sixth-edition Guidance Note 8 on depreciated replacement
434cost. The current revision was adopted on 31st January 2005.

435

436During the next stage, the Committee will continue to develop Standards, Applications
437and Guidance Notes as the users of valuations and the market require.

438In case of further revision in Standards, GNs and application made by International Valuation
439Standards Committee, suitable amendment will be made by Indian Valuation Standards
440Committee.

441 **General Valuation Concepts and Principles**

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442

443 **General Valuation Concepts and Principles**

444

445 **[1.0] Introduction**

446

4471.1 The experience of Professional Property Valuers and dialogue among States
448through The Indian Valuation Standards Committee have demonstrated that, with few
449exceptions, there is common worldwide agreement regarding fundamentals that underpin
450the valuation discipline. Local laws and economic circumstances may, on occasion,
451require special (and sometimes limited) applications, but fundamentals of valuation meth-
452ods and techniques are generally similar throughout the world. It is an objective of The
453Indian Valuation Standards Committee to avow and promote these fundamentals.

454

4551.2 **The Indian Valuation Standards Applications** and Guidance Notes (GNs) are
456based on these fundamentals, but it is the position of the Committee that it is
457inappropriate to attempt to articulate all appropriate fundamentals within the body of
458each Standard. Instead, this section supplements each Standard and provides an overview
459of fundamentals that are particularly important to understanding the valuation profession
460and to applying the Standards.

461

462 **[2.0] Land and Property Concepts**

463

4642.1 Land is essential to our lives and our existence. Its importance brings land into
465focus for consideration by lawyers, geographers, sociologists, and economists. As each of
466these disciplines relates to land and to uses of land, the societies and nations of our world
467are affected.

468

4692.2 Valuation of land as if vacant or of land and improvements to or on the land, is an
470economic concept. Whether vacant or improved, land is also referred to as *real estate*.
471Value is created by real estate's utility, or capacity to satisfy the needs and wants of human
472societies. Contributing to value are real estate's general uniqueness, durability, fixity of
473location, relatively limited supply, and the specific utility of a given site.

474

4752.3 Property is a legal concept encompassing all the interests, rights and
476benefits related to ownership. Property consists of the rights of ownership, which entitle the
477owner to a specific interest or interests in what is owned. To distinguish between real estate,
478which is a physical entity, and its ownership, which is a legal concept, the ownership of real
479estate is called *real property*. The combination of rights associated with the ownership of real
480property is, in some States, referred to as the *bundle of rights*. The bundle-of-rights concept
481likens property ownership to a bundle of sticks with each stick representing a distinct and
482separate right of the property owner, e.g., the right to use, to sell, to lease, to give away, or to
483choose to exercise all or none of these rights.

484

4852.4 Ownership of an interest in items other than real estate is referred to as *personal property*.
486The word *property*, used without further qualification or identification, may refer to real property,
487personal property, or other types of property such as businesses and financial interests, or a
488combination thereof. (See section 3 below and Property Types).

489

4902.5 Property Valuers, Asset Valuers, and Appraisers are those who deal with the special
491discipline of economics associated with preparing and reporting valuations. As professionals,
492Valuers must meet rigorous tests of education, training, competence, and demonstrated skills.
493They must also exhibit and maintain a Code of Conduct (ethics and competency) and
494Standards of professional practice and follow Generally Accepted Valuation Principles

4415

495(GAVP).

4962.6 Price changes over time result from specific and general effects of economic and social
497forces. General forces may cause changes in price levels and in the relative purchasing
498power of money. Operating on their own momentum, specific forces such as technological
499change may generate shifts in supply and demand, and can create significant price changes.

500

5012.7 Many recognised principles are applied in valuing real estate. They include the
502principles of supply and demand; competition; substitution; anticipation, or expectation;
503change; and others. Common to all these principles is their direct or indirect effect on the
504degree of utility and productivity of a property. Consequently, it may be stated that the utility of
505real estate reflects the combined influence of all market forces that come to bear upon the value
506of property.,

507

5083.0 Real Estate, Property, and Asset Concepts

509

5103.1 **Real estate** is defined as the physical land and those human-made items which attached to
511the land. It is the physical, Tangible "Thing" which can be seen and touched, together with all
512additions on, above, or below the ground. Local laws within each State prescribe the basis for
513distinguishing real estate from personal property. Although these legal concepts may not be
514recognised in all States, they are adopted here to distinguish important terms and concepts.

515

5163.2 **Real property** includes all the rights, interests, and benefits related to the ownership of
517real estate. An interest or interests in real property is normally demonstrated by some evidence
518of ownership (e.g., a title deed) separate from the physical real estate. Real property is a non-
519physical concept.

520

5213.3 **Personal property** includes interests in tangible and intangible items
522which are not real estate. Items of tangible personal property are not permanently affixed to real
523estate and are generally characterised by their more ability.

524

5253.4 In accounting terminology, **assets** are resources controlled by an entity as a result of
526past events and from which some future economic benefits are expected to flow to the entity.
527Ownership of an asset is itself an intangible. However, the asset owned may be either
528tangible or intangible.

529

5303.4.1 The future economic benefits embodied in an asset may flow to the entity in a number of
531ways. For example, an asset may be: (a) used singly or in combination with other assets in
532the production of goods or services to be sold by the entity; (b) exchanged for other assets;
533(c) used to settle a liability; or (d) distributed to the owners of the entity. (International Financial
534Reporting Standards [IFRSs], Framework, 55)

535

5363.4.2 An asset is recognised in the balance sheet when it is probable that the future
537economic benefits will flow to the entity and the asset has a cost or value that can be
538measured reliably. (IFRSs, Framework, 89)

539

5403.5 International Financial Reporting Standards distinguish among tangible and intangible
541assets. Of particular importance are the following terms and concepts:

542

5433.5.1 **Current assets.** Assets not intended for use on a continuing basis in the activities of an
544entity. Examples include stocks, obligations owed to the entity, short-term investments, and cash
545in bank and in hand. In certain circumstances real estate, normally treated as a fixed asset, may
546be treated as a current asset. Examples include land or improved real estate held in
547inventory for sale.

548

5493.5.2 **Non-current assets {fixed, or long-term, assets}.** These are tangible and intangible
550assets which fall into the following two broad categories:

551

5523.5.2.1 **Property, plant and equipment.** Assets intended for use on a continuing basis in
553the activities of an entity including land and buildings; plant and equipment; and other
554categories of assets, suitably identified; less accumulated depreciation. Property, plant and
555equipment are tangible, or physical assets.

556

5573.5.2.2 **Other non-current assets.** Assets not intended for use on a continuing basis in
558the activities of an entity, but expected to be held in long-term ownership including long-
559term investments; long-term receivables; goodwill; expenditures carried forward; and patents,
560trademarks, and similar assets. This asset category includes both tangible, or physical

4716

561 assets and intangible, or non-physical assets. *Intangible assets* are considered items of
562 intangible personal property, and may include management and marketing skill, credit
563 rating, goodwill, and various legal rights or instruments (patents, trademarks, copyrights,
564 franchises, and contracts).

565

566 3.5.3 Where either historic or current cost accounting conventions are upheld, a
567 distinction is drawn between operational and investment assets. Operational assets are
568 considered requisite to the operations of the going concern or corporation. Investment assets
569 that are owned by a corporation are considered extraneous to the operational
570 requirements of the corporate owner.

571

572 3.6 Accounting terminology differs somewhat from terms more common to Valuers. Within the
573 classifications discussed in para. 3, Valuers are principally involved with fixed assets.
574 Technically it is the ownership of the asset, or the right of ownership, that is valued rather
575 than the tangible or intangible asset itself. This concept distinguishes the economic concept
576 of valuing an asset objectively based upon its ability to be purchased and sold in a
577 marketplace from some subjective concept such as assuming an intrinsic or other *non-Market*
578 *Value* basis. The objective market concept does, however, have special applications for
579 limited or non-market property valuation as discussed in International Valuation Standard 2.

580

581 3.7 The term **depreciation** is used in different contexts in valuation and in financial reporting.
582 In the context of asset valuation, *depreciation*, refers to the adjustments made to the cost of
583 reproducing or replacing the asset to reflect physical deterioration and functional (technical)
584 and economic (external) obsolescence in order to estimate the value of the asset in a hypo-
585 thetical exchange in the market when there is no direct sales evidence available (see para.
586 9.2.1.3, General Valuation Concepts and Principles). In financial reporting *depreciation*
587 refers to the charge made against income to reflect the systematic allocation of the
588 depreciable amount of an asset over its useful life to the entity. It is specific to the
589 particular entity and its utilisation of the asset, and is not necessarily affected by the
590 market.

591

592 4.0 Price, Cost, Market, and Value

593

594 4.1 Imprecision of language, particularly in an international community can and does
595 lead to misinterpretations and misunderstandings. This is particularly a problem where words
596 commonly used in a language also have specific meanings within a given discipline. That is
597 the case with the terms *price*, *cost*, *market*, and *value* as they are used in the valuation
598 discipline.

599

600 4.2 **Price** is a term used for the amount asked, offered, or paid for a good or service. Sale
601 price is an historical fact, whether it is publicly disclosed or kept confidential. Because of the
602 financial capabilities, motivations, or special interests of a given buyer and/or seller, the price
603 paid for goods or services may or may not have any relation to the value which might be as-
604 cribed to the goods or services by others. Price is, however, generally an indication of a
605 relative value placed upon the goods or services by the particular buyer and/or seller under
606 particular circumstances.

607

608 4.3 **Cost** is the price paid for goods or services or the amount required to create or
609 produce the good or service. When that good or service has been completed, its cost is an
610 historical fact. The price paid for a good or service becomes its cost to the buyer.

611

612 4.4 A **market** is the environment in which goods and services trade between buyers and
613 sellers through a price mechanism. The concept of a market implies that goods and/or
614 services may be traded among buyers and sellers without undue restriction on their activities.
615 Each party will respond to supply-demand relationships and other price-setting factors as well
616 as to the party's own capacities and knowledge, understanding of the relative utility of
617 the goods and/or services, and individual needs and desires. A market can be local,
618 regional, national, or international.

619

620 4.5 **Value** is an economic concept referring to the price most likely to be concluded
621 by the buyers and sellers of a good or service that is available for purchase. Value is not a
622 fact, but an estimate of the likely price to be paid for goods and services at a given time in
623 accordance with a particular definition of value. The economic concept of value reflects
624 a market's view of the benefits that accrue to one who owns the goods or receives the
625 services as of the effective date of valuation.

626

5017

6274.6 There are many types and associated definitions of value (for examples see The
628Indian Valuation Standards Committee some defined values are commonly used in valua-
629tions. Others are used in special situations under carefully identified and disclosed
630circumstances. It is of paramount importance to the use and understanding of
631valuations that the type and definition of value be clearly disclosed, and that they
632be appropriate to the particular valuation assignment. A change in the definition of
633value can have material effect on the values that would be assigned to properties.

634

6354.7 Professional Valuers, who possess intimate knowledge of a property market;
636understand the interaction of participants in the market; and are, thereby, able to judge the
637most likely prices to be concluded between buyers and sellers of property in that market
638avoid the unqualified term *value* by preceding the term with some adjective describing the
639particular type of value involved **Market Value** or in some States *Open Market Value* is the
640most common type of value associated with property valuations and is discussed in **Indian**
641**Valuation Standard** 1. Although common usage possibly dictates an understanding that
642*Market Value* is intended in the absence of a statement to the contrary, it is especially
643important that *Market Value*, or whichever basis of value is used, be clearly identified and
644defined in each such assignment.

645

6464.8 The value concept contemplates a monetary sum associated with a transaction.
647However, sale of the property valued is not a condition requisite to estimating the price
648for which property should sell if it were sold on the date of valuation under conditions
649prescribed in the definition of *Market Value*.

650

6514.9 The **Market Value** of real estate is a representation of its market-recognised
652utility rather than its purely physical status. The utility of assets to a given entity or individual
653may differ from that which would be recognised by the market or by a particular industry.

6544.9.1 Considerations similar to those expressed above are applied to the valuation of property
655other than real estate. Financial reporting will require application of *Market Value* methods
656and a clear distinction between such methods and *non-Market Value* methods.

657

6584.10 The total cost of a property includes all direct and indirect costs of its production. If
659supplemental capital costs are incurred by a purchaser subsequent to acquisition, they will be
660added to the historical acquisition cost for cost accounting purposes. Depending upon how
661the utility of such costs is perceived by the market, they may or may not be fully
662reflected in the property's *Market Value*.

663

6644.11 A cost estimate for a property may be based on either an estimate of reproduction
665cost or replacement cost. *Reproduction cost* is the cost to create a virtual replica of the
666existing structure, employing the same design and similar building materials. **A**
667**replacement cost estimate** envisions constructing a structure of comparable utility,
668employing the design and materials that are currently used in the market. (In some States,
669the term *modern equivalent asset* is used to describe a structure, whose cost is estimated on
670a replacement basis.)

671

672**5.0 Market Value**

6735.1 The concept of *Market Value* reflects the collective perceptions and actions of a market
674and is the basis for valuing most resources in market-based economies. Although precise
675definitions may vary, the *Market Value* concept is commonly understood and applied.

676

677**5.2 Market Value** is defined as: The estimated amount for which a property should
678exchange on the date of valuation between a willing buyer and a willing seller in an arm's-
679length transaction after proper marketing wherein the parties had each acted
680knowledgeably, prudently, and without compulsion.

681

6825.3 It is important to stress that the professionally derived *Market Value* estimate is an
683objective valuation of identified ownership rights to specific property as of a given date. Implicit
684within this definition is the concept of a general market comprising the activity and motivation
685of many participants rather than the preconceived view or vested interest of a particular
686individual. *Market Value* is a market-supported estimate developed in accordance with these
687Standards.

688

6895.4 Real property is distinguished from most goods and services because of the relatively
690longer period required to market what is a relatively illiquid commodity in order to achieve a
691price that represents its *Market Value*. This characteristically longer exposure time, the
692absence of a 'spot market' (a market in which commodities are available for immediate

5318

693sale), and the nature and diversity of properties and property markets give rise to the need for
694Professional Valuers and Valuation Standards.

695

6965.5 The legal term *Fair Market Value* is used synonymously with the term *Market Value*.
697*Fair Market Value* should not be confused with the accounting term, *Fair Value*. (See para.
698below) .

699

7006.0 **Highest and Best Use [HABU]**

701

7026.1 Land is regarded as a permanent asset, but improvements upon or to the land have a
703finite life. Because of the immobility of land, each real estate parcel possesses a unique location.
704Land's permanence also means that it will normally be expected to outlast uses and
705improvements, which have a finite life.

706

7076.1.1 The unique characteristics of land determine its optimal utility. When improved land is
708valued separately from improvements to or upon the land, economic principles require that
709improvements to or on the land be valued as they contribute to or detract from the total value
710of the property. Thus, the *Market Value* of land based upon the "highest and best use"
711concept reflects the utility and the permanence of land in the context of a market, with
712improvements constituting the difference between land value alone and total *Market Value* as
713improved.

714

7156.2 Most properties are valued as a combination of land and improvements. In such
716cases, the Valuer will normally estimate *Market Value* by considering the highest and best use
717of the property as improved.

718

7196.3 **Highest and best use** is defined as: the most probable use of a property which is
720physically possible, appropriately justified, legally permissible, financially feasible, and which
721results in the highest value of the property being valued.

722

7236.4 A use that is not legally permissible or physically possible cannot be considered a
724highest and best use. A use that is both legally permissible and physically possible may
725nevertheless require an explanation by the Valuer justifying why that use is reasonably
726probable. Once analysis establishes that one or more uses are reasonably probable uses,
727they are then tested for financial feasibility. The use that results in the highest value, in
728keeping with the other tests, is the highest and best use.

729

7306.5 Application of this definition permits Valuers to assess the effects of deterioration
731and obsolescence in buildings, the most appropriate improvements for land, the feasibility of
732rehabilitation and renovation projects, and many other valuation situations.

733

7346.6 In markets characterized by extreme volatility or severe disequilibrium between supply
735and demand, the highest and best use of a property may be a holding for future use. In other
736situations, where several types of potential highest and best use are identifiable, the Valuer
737should discuss such alternative uses and anticipated future income and expense levels. Where
738land use and zoning are in a state of change, the immediate highest and best use of a property
739may be an interim use.

740

7416.7 The concept of highest and best use is a fundamental and integral part of *Market*
742*Value* estimates.

743

7447.0 **Utility**

745

7467.1 The key criterion in the valuation of any real or personal property is its utility. Procedures
747employed in the valuation process have the common objective of defining and quantifying the
748degree of utility or usefulness of the property valued. This process calls for interpretation of the
749utility concept.

750

7517.2 Utility is a relative, or comparative term, rather than an absolute condition. For example,
752the utility of agricultural land is ordinarily measured by its productive capacity. Its value is a
753function of the quantity and quality of produce, which the land will yield in an agricultural sense,
754or of the quantity and quality of buildings essential to the agricultural operation. If the land
755has development potential, however, its productivity is measured by how productively it will
756support a residential, commercial, industrial, or mixed use. Consequently, land value is
757established by evaluating its utility in terms of the legal, physical, functional, economic, and
758environmental factors that govern its productive capacity.

5619

7597.3 Fundamentally, property valuation is governed by the way specific property is used
760and/or how it would ordinarily be traded in the market. For some property, optimum utility
761is achieved if the property in question is operated on an individual basis. Other property
762has greater utility if operated as part of a group of properties, e .g., properties owned and
763managed by a business entity such as a chain of multiple retail outlets, fast food restaurants,
764or hotels. Therefore, a distinction must be made between a property's utility viewed
765individually and when considered as a part of a group. A Valuer will regard the property as
766the market views it, whether as a discrete entity or as part of an aggregate or portfolio.
767Typically, the Valuer estimates and reports the value of the property as an individual entity.
768If the value of the property, taken as part of an aggregate or portfolio, is other than its
769individual value, such value should be considered and reported.

770

7717.4 Free-standing properties that are self-contained, independent operations normally
772change hands on an individual basis and are valued as such. Should such properties possess
773greater (or lesser) value arising from a functional or economic association with other
774properties, such additional, or special, value may be addressed in the valuation process and
775reported accordingly, pursuant to either the Valuer's own observations or in accordance with
776disclosed instructions from a client. Any such value estimate should not, however, be referred
777to as *Market Value* without a supporting explanatory statement.

778

7797.5 An individual property may possess an additional, or special, value above its value as a
780separate entity by reason of its physical or functional association with an adjoining property
781owned by others or its attractiveness to a purchaser with other special interests. The extent
782or amount of such additional, or special, value is generally reported separately from *Market*
783*Value*.

784

7857.6 Utility is measured from a long-term perspective, ordinarily over the normal useful life
786of a particular property or group of properties. However, there are times when particular
787property may become temporarily redundant. otherwise removed from production,
788adapted to an alternative use or function, or perhaps simply idled for a prescribed
789period of time. In other instances, external market circumstances, economic or political,
790may dictate the curtailment of production for an indefinite period of time. Valuations in
791such situations require special expertise and training, and reporting should be done in
792accordance with Indian Valuation Standards of particular importance, is that the Valuer
793should ensure that full explanation and disclosure is made of the definition of value, data
794upon which the valuation is based, and the extent of special assumptions or limitations
795(if any) upon which the valuation is made.

796

7977.7 Similarly, property may not have a readily discernible degree of utility on the date
798of valuation because of external or economic factors, e.g., property situated in remote
799regions, in States experiencing volatile market conditions, in places not having a market
800economy, or in States experiencing a change in economic systems.

801 The reporting requirements under The Indian Valuation Standards for valuations under
802these circumstances call for full disclosure of the definition of value, the data which
803support the valuation, and the extent to which special assumptions or limitations (if
804any) govern the valuation.

805

8067.8 A common effect of political or economic uncertainty is a change in utility,
807whether in terms of capacity or efficiency. The Valuer's responsibility in such situations is
808to assess the market expectancy of the time span for such events. Temporary shut-
809downs or closures may have little or no impact on property or asset values, whereas
810prospects for long-term cessation of activities may result in a permanent diminution in
811value. The property or asset valued must be viewed in the light of all internal and
812external factors bearing on its operating performance.

813

8148.0 Other Important Concepts

815

8168.1 The expression *Market Value* and the term *Fair Value* as it commonly appears in
817accounting standards are generally compatible, if not in every instance exactly
818equivalent concepts. *Fair Value*, an accounting concept, is defined in International
819Financial Reporting Standards and other accounting standards as the amount for which
820an asset could be exchanged, or a liability settled, between knowledgeable, willing parties
821in an arm's-length transaction. *Fair Value* is generally used for reporting both *Market* and
822*Non-Market Values* in financial statements. Where the *Market Value* of an asset can be
823established, this value will equate to *Fair Value*.

824

5920

8258.2 **Specialised property** is property that is rarely, if ever, sold in the market except by way
826of a sale of the business or entity of which it is part, due to uniqueness arising from its
827specialised nature and design, its configuration, size, location, or otherwise. Where there is
828limited or no directly comparable market information for Valuers to consider, the valuation
829process may become more complex. However, it is the Valuer's responsibility to develop
830data and reasoning from the market to support and/or explain the value conclusion. Each
831of the valuation methods may be applied, and all applicable methods should be considered.
832Where possible, the Valuer develops land value, cost, and accumulated depreciation
833estimates from market information, and explains the basis for the value estimate.

834

8358.3 Where normal market conditions are disrupted or suspended, or where supply and
836demand imbalances lead to market prices that do not meet the *Market Value* definition, the
837Valuer may face a difficult valuation problem. by using the *Market Value* concept and
838definition, and by applying market data and reasoning to the valuation process, Valuers
839ensure the relevance and usefulness of asset values reported in financial statements. As
840availability and/or applicability of market data decrease, the valuation assignment may
841require a higher degree of professional Valuer vigilance, experience, and judgement.

842

8438.4 A Valuer may be required to apply a particular definition of *Market Value* to meet
844legal or statutory requirements. If so required, the Valuer must make specific disclosure
845of the fact and describe the impact of any differences upon the value estimated. Where an
846assignment is undertaken in accordance with Indian Valuation Standards, the term *Market*
847*Value* will always conform to the InVS definition.

848

8498.5 All valuation reports should make clear the *purpose* and *intended use* of the valuation.
850In addition to other reporting requirements, where financial reporting is involved the report
851should specifically identify the asset class into which each asset is placed and the basis for
852such placement. Each asset class should be explicitly explained.

853

8548.6 The estimation and reporting of property and asset values, and related guidance, are the
855scope of these Indian Valuation Standards, Applications, and related Guidance Notes. How the
856results of valuations are to be compiled, conveyed, and incorporated with the findings of other
857professionals is of crucial importance to Valuers. Proper understanding of terminology is
858essential for Valuers and those who read their reports. The sound use of experience and
859expertise and correct application of methodology are also essential. These Standards are
860intended to serve the common objectives of those who prepare property and asset valuations
861and those who must rely on their results.

862

8639.0 Valuation Approaches

864

8659.1 Valuations of any type, whether undertaken to estimate *market value* or a defined *non-*
866*market value*, require that the Valuer apply one or more valuation approaches. The term
867*valuation approach* refers to generally accepted analytical methodologies that are in common
868use. In various places these approaches may be referred to as *valuation methods*.

869

8709.2 Market based valuations normally employ one or more of the *valuation approaches* by
871applying *the principle of substitution*, using market-derived data. This principle holds that a
872prudent person would not pay more for a good or service than the cost of acquiring an equally
873satisfactory substitute good or service, in the absence of the complicating factors of time,
874greater risk, or inconvenience. The lowest cost of the best alternative, whether a substitute
875or the original, tends to establish *Market Value*.

876

8779.2.1 Market based valuation approaches include:

8789.2.1.1 *Sales Comparison Approach*. This comparative approach considers the sales of similar
879or substitute properties and related market data, and establishes a value estimate by
880processes involving comparison. In general, a property being valued (a subject property) is
881compared with sales of similar properties that have been transacted in the market. Listings and
882offerings may also be considered.

883

8849.2.1.2 *Income Capitalisation Approach*. This comparative approach considers income and
885expense data relating to the property being valued and estimates value through a capitalisation
886process. Capitalisation relates income (usually a net income figure) and a defined value type by
887converting an income amount into a value estimate. This process may consider direct
888relationships (known as *capitalisation rates*), *yield* or *discount rates* (reflecting measures of
889return on investment), or both. In general, the principle of substitution holds that the income
890stream which produces the highest return commensurate with a given level of risk leads to the

6221

891 most probable value figure.

892

893 9.2.1.3 **Cost Approach.** This comparative approach considers the possibility that, as a
894 substitute for the purchase of a given property, one could construct another property that is
895 either a replica of the original or one that could furnish equal utility. In a real estate context,
896 one would normally not be justified in paying more for a given property than the cost of
897 acquiring equivalent land and constructing an alternative structure, unless undue time,
898 inconvenience, and risk are involved. In practice, the approach also involves an estimate of
899 *depreciation* for older and/or less functional properties where an estimate of cost new
900 unreasonably exceeds the likely price that would be paid for the appraised property. (See
901 GN 8, The Cost Approach for Financial Reporting-[DRC].)

902

903 9.3 **Non-market based valuations** may apply similar approaches, but typically involve
904 purposes other than establishing Market Value. For example:

905

906 9.3.1 An entity may apply a cost approach to compare the cost of other buildings with
907 the cost of a proposed building to the entity, thereby ascertaining the bargain or premium
908 accruing a particular property at variance with the market at large. This application
909 focuses on a particular property and what may be a non-market cost.

910

911 9.3.2 An owner of land may pay a premium price for adjacent property. In applying a sales
912 comparison approach to determine a maximum price that owner is willing to pay for adjacent
913 land, a Valuer arrives at a figure that may well exceed its *Market Value*. Such an estimate
914 called *Special Purchaser Value*.

915

916 9.3.3 An investor may apply a rate of return that is non-market and particular only to that
917 investor. In applying an income capitalisation approach to determine the price that investor is
918 willing to pay for a particular investment based on the investor's anticipated rate of return, a
919 Valuer arrives at an estimate of Investment Value or Worth rather than *Market Value*.

920

921 9.4 *Depreciated replacement cost* is an application of the cost approach used in
922 assessing the value of specialised assets for financial reporting purposes, where direct market
923 evidence is limited or unavailable.

924

925 9.5 Each valuation approach has alternative methods of application. The Valuer's
926 expertise and training, local standards, market requirements, and available data
927 combine to determine which method or methods are applied. The reason for having
928 alternative approaches and methods is to provide the Valuer with a series of analytical
929 procedures which will ultimately be weighed and reconciled into a final value estimate,
930 depending upon the particular type of value involved.

931

932 9.6 Valuation approaches and methods are generally common to virtually all types of
933 valuation, including real property, personal property, businesses, and financial interests.
934 However, valuation of different types of property involves different sources of data
935 that appropriately reflect the market in which the property (and/or service or
936 business) is to be valued. For example, individual buildings are commonly sold and
937 valued in the relevant real estate market whereas the values of the shares of stock
938 in a property company that owns a number of buildings are reflected by pricing in
939 the relevant shares market.

940

941 10.0 Summary

942

943 10.1 The Indian Valuation Standards are intended to facilitate **cross-border transactions**
944 involving property and contribute to the viability of global markets by promoting transparency in
945 financial reporting. Emphasis is placed on the use of factual market information from which
946 informed professional judgement regarding property valuations can be drawn.

947 Code of Conduct

948

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949

950 Code of Conduct

951

9521.0 Introduction

953

954 It is fundamental to the operation of The Indian Valuation Standards that valuations
955 performed in compliance therewith should be provided by honest and competent
956 Professional Valuers, free of bias or self-interest, whose reports are clear, will not mislead,
957 and will disclose all matters essential to the proper understanding of the valuation. Valuers
958 should always promote and preserve public trust in the valuation profession.

959

9602.0 Scope

961

9622.1 Valuers comply with these Standards either by choice or by requirement placed upon
963 them by law or regulation or at the instructions of clients, intended users, and/or national
964 societies or organisations. A valuation claiming to be prepared under Indian Valuation
965 Standards binds the Valuer to follow this Code of Conduct.

966

9672.2 This Code does not have any formal authority in law, neither is it intended to be
968 other than complementary to the rules, by-laws and regulations of national societies or
969 organisations controlling or monitoring the activities of Valuers.

970

9712.3 Valuations prepared under these Standards would only normally be acceptable to end
972 users when prepared by a trained professional member of a recognized national
973 professional body that itself enforces standards of qualification, competence, experience,
974 ethics, and disclosure in valuation

975

976

9773.0 Definitions

978

9793.1 *Assumptions* are suppositions taken to be true. Assumptions involve facts,
980 conditions, or situations affecting the subject of, or approach to, a valuation but which may
981 not be capable or worthy of verification. They are matters that, once declared, are to be
982 accepted in understanding the valuation.

983 All assumptions underlying a valuation should be **reasonable**.

984 All valuations are dependent to some degree on the adoption of assumptions. In
985 particular, the definition of Market Value incorporates assumptions to ensure consistency
986 of approach and the Valuer may need to make further assumptions in respect of facts
987 which cannot be known or facts which could not be determined.

988

9893.2 *Limiting Conditions* are constraints imposed on valuations. Limiting conditions
990 may be imposed: by clients (e.g., where the Valuer is not permitted to investigate fully one
991 or more of the significant factors likely to affect valuation); by the Valuer (e.g., where the
992 client may not publish the whole or any part of the Valuation Report or Valuation
993 Certificate without the Valuer's prior written approval of the form and context in which it
994 may appear); or by local statutory law.

995

9963.3 A *Valuer* is a person who possesses the necessary qualifications, ability, and
997 experience to execute a valuation.

998 As per "**Competency clause for Valuer**".

999 The Valuer shall be a person of good repute. who

- 1000 • has obtained an appropriate degree at a recognised centre of learning, or an
- 1001 equivalent academic qualification; refer to clause 5,
- 1002 • has suitable experience and is competent in valuing in the market and category of
- 1003 the asset;

6823

- 1004 • is aware of, understands, and can correctly employ those recognised methods and
- 1005 techniques that are necessary to produce a credible valuation;
- 1006 • is a member of a recognised national professional valuation body;
- 1007 • pursues a programme of professional learning throughout his or her career; and
- 1008 • follows all the requirements of this Code of Conduct.

1009

1010 3.4 An **Internal Valuer** is a Valuer who is in the employment of either the entity that
1011 owns the assets or the accounting firm responsible for preparing the entity's financial
1012 records and/or reports. An Internal Valuer is generally capable of meeting all the
1013 requirements of independence and professional objectivity required under this Code of
1014 Conduct, but for reasons of public presentation and regulation may not always be
1015 acceptable to fill the role of independent Valuer in certain types of assignments.

1016

1017 3.5 An **External Valuer** is a Valuer who, together with any associates, has no material
1018 links with the client, an agent acting on behalf of the client, or the subject of the
1019 assignment.

1020

1021 3.6 Since all Valuers undertaking assignments under Indian Valuation Standards must
1022 meet the requirements of impartiality, professional objectivity and disclosure required under
1023 this Code of Conduct, such Valuers should meet the requirements for independence which
1024 may attach to many assignments. With some clients, and in certain States, additional
1025 restraints may be applied, by regulation or law, to the term *Independent Valuer* under
1026 specific circumstances. It is not the purpose of this Code to define different degrees of
1027 independence beyond the standard of independence already required under this Code.

1028

1029 4.0 Ethics

1030

1031 Valuers should at all times maintain a high standard of honesty and integrity and conduct their
1032 activities in a manner not detrimental to their clients, the public, their profession or their , or
1033 their respective professional valuation body.

1034

1035 4.1 Integrity

1036

1037 4.1.1 A Valuer must not act in a manner that is misleading or fraudulent.

1038

1039 4.1.2 A Valuer must not knowingly develop and communicate a report that contains false,
1040 inaccurate, or biased opinions and analysis.

1041

1042 4.1.3 A Valuer must not contribute to, or participate in, a valuation service that other reasonable
1043 Valuers would not regard to be justified.

1044

1045 4.1.4 A Valuer must act legally and comply with the laws and regulations of the State in which he or
1046 she practice or where an assignment is undertaken.

1047

1048 4.1.5 **A Valuer must not claim**, or knowingly let pass, erroneous interpretation of professional
1049 qualifications that he or she does not possess.

1050

1051 4.1.6 A Valuer should not knowingly use false, misleading or exaggerated claims or
1052 advertising in an effort to secure assignments.

1053

1054 4.1.7 A Valuer shall ensure that any staff person or subordinate assisting with the assignment
1055 adhere to this Code of Conduct.

1056

1057 4.2 Conflicts of Interest

1058

1059 4.2.1 A Valuer must not act for two or more parties in the same matter, except with the written
1060 consent of those concerned.

1061 4.2.2 A Valuer must take all reasonable precautions to ensure that no conflicts of duty arise
1062 between the interests of his or her clients and those of other clients, the Valuer, his or her firm,
1063 relatives, friends, or associates. Potential conflicts should be disclosed in writing before accepting
1064 instructions. Any such conflicts of which the Valuer subsequently becomes aware must be
1065 disclosed immediately. If such conflicts come to the attention of the Valuer after completion of the
1066 valuation, disclosure must be made within a reasonable time.

1067

1068

1069

1070**4.3 Confidentiality**

10714.3.1 A Valuer must at all times deal with clients' affairs with proper discretion and confidentiality.
1072

10734.3.2 A Valuer must not disclose sensitive factual data obtained from a client, or the results
1074of an assignment prepared for a client, to anyone other than those specifically authorised by
1075the client except when legally required to do so as in situations where a Valuer must comply
1076with certain quasi-judicial proceedings within the recognised national professional valuation
1077body of which the Valuer is a member.
1078

1079**4.4 Impartiality**

1080

10814.4.1 A Valuer must perform an assignment with the strictest independence, objectivity,
1082and impartiality, and without accommodation of personal interests.
1083

10844.4.2 A Valuer must not accept an assignment that includes the reporting of predetermined
1085opinions and conclusions.
1086

10874.4.3 Fees connected with an assignment must not depend on the predetermined outcome
1088of any valuation or other independent, objective advice contained in the valuation report.
1089

10904.4.4 Whether the Valuer's fee is or is not contingent upon any aspect of the report must
1091be disclosed.
1092

10934.4.5 A Valuer must not rely upon critical information supplied by a client, or any other
1094party, without appropriate qualification or confirmation from an independent source unless
1095the nature and extent of such reliance is specified as a limiting condition.
1096

10974.4.6 A Valuer should not accept an assignment to report on assumed hypothetical
1098conditions that are unlikely to be realized in any reasonable timescale.
1099

11004.4.7 Hypothetical conditions that are a reasonable possibility may be reported on
1101provided they are accompanied by some discussion both of the prospects of realising the
1102hypothesis and a consideration of value that reflects the true situation prevailing, e.g., a
1103situation where a client wants to know what the value of land will be pending detoxification.
1104

11054.4.8 A Valuer should not use or rely on unsupported conclusions based on prejudice of any
1106kind or report conclusions reflecting an opinion that such prejudice is necessary to maintain or
1107maximise value.
1108

11094.4.9 In reviewing another Valuer's report, a Valuer shall exhibit impartial judgement and
1110justify his or her reasons for agreeing or disagreeing with the conclusions of the report.
1111

1112**5.0 Competence of Valuer**

1113

1114A Valuer must have the knowledge, skill, and experience to complete the assignment
1115efficiently in relation to an acceptable professional standard. Only those Valuers able to
1116conform to the definition of the Valuer set out in Definitions should undertake work in
1117connection with these Standards.
1118

1119**5.1 Acceptance of Instructions**

1120Prior to accepting an assignment or entering into an agreement to perform any assignment, a
1121Valuer must properly identify the problem to be addressed and be certain he or she has the
1122experience and knowledge, or in the event of an assignment overseas, will be able to
1123associate with a professional possessing the experience and knowledge of the market forces,
1124language, and law to complete the assignment competently.
1125

1126**5.2 Outside Assistance**

11275.2.1 When engaging the services of outside assistance necessary to complement a
1128Valuer's own skills, a Valuer should first establish that those assisting have the requisite skills
1129and ethical principles.
1130

11315.2.2 The client's consent should be obtained when outside assistance is required, and the
1132identity of the assistants and extent of their role should be disclosed in the Valuer's report.
1133

1134

1135**5.3 Efficiency and Diligence**

7425

1136

11375.3.1 Valuer should act promptly and efficiently in carrying out the client's instructions and should
1138keep the client informed of the Valuer's progress.

1139

11405.3.2 Instructions should be declined where circumstances preclude sufficient diligent enquiry,
1141quality of work, and completion within a reasonable time.

1142

11435.3.3 Before the valuation is reported, written instructions should be received from the client
1144and/or confirmed in writing by a Valuer in sufficient detail to avoid any misinterpretation.

1145

11465.3.4 A Valuer should make diligent enquiries and investigations to ensure that the data for
1147analysis in the valuation are correct and can be relied upon.

1148

11495.3.5. Valuer should prepare a work file for each assignment which, upon completion,
1150should contain a true copy, in paper or electronic form (suitably backed up), of all written
1151reports, correspondence, and memoranda plus adequate file notes which substantiate the
1152Valuer's opinions by way of enquiry, objective comparison, deduction, and calculation.

1153

11545.3.6. the work file for each assignment should be retained for a period of at least five
1155 years after completion of the assignment.

1156

1157**Competence for Valuers in India**

1158

1159**[5.4] Valuer of Immovable Property**

1160 (other than agricultural lands, plantations, forests, mines and quarries) shall have the
1161 following qualifications, namely:- He / She must

1162(A) be graduate in Civil Engineering, Construction Engineering, Architecture or Town
1163 Planning of a recognised university

1164(B) possess a qualification recognised by the central Government for recruitment to
1165 superior services or post under the central government in the field of Civil Engineering,
1166 Architecture or Town Planning.

1167(C) be graduate or Post Graduate in Valuation of a recognised university approved by
1168 AICTE or Director of Technical Education of State Government

1169(D) be graduate in Civil Engineering, Architecture or Town Planning. Equivalent degree of
1170 foreign University

1171(E) at least Five years experience as a Valuer of Immovable Property

1172

1173 **[5.5] Valuer of Movable Property (Plant & Machinery Valuer)** shall have the following
1174 qualifications, namely:-

1175(A) He / She must be graduate in Mechanical or Electrical Engineering, Production
1176 Engineering / Automobile Engineering / Marine / Aeronautical Engineering of a
1177 recognised university

1178(B) possess a qualification recognised by the central Government for recruitment to
1179 superior services or post under the central government in the field of Mechanical /
1180 Electrical / Production Engineering, / Marine / Aeronautical Engineering

1181(C) be graduate or Post Graduate in Valuation of a recognised university approved by
1182 AICTE or Director of Technical Education of State Government

1183(D) be graduate in Mechanical or Electrical Engineering, Production Engineering / Marine
1184 / Aeronautical Engineering Equivalent degree of foreign University.

1185(E) atleast Five years experience as a Valuer of Movable Property.

1186

1187 **[5.6] Valuer of Agricultural Property**

1188 shall have the following qualifications, namely:- other than Plantation

1189 (A) He / She must be graduate in Agricultural Economics or Agricultural Science with
1190 atleast Five years experience as a Farm Valuer or Agriculture Valuer

1191 (B)He / She should have been in the service of a State Government for a total period of not
1192 less than Five years

1193 (C) be graduate or Post Graduate in Valuation of a recognised university approved by
1194 AICTE or Director of Technical Education of State Government

1195 (D) be graduate in above or Equivalent degree of foreign University.

1196

1197 **[5.7] Valuer of Tea / Coffee / Rubber / Cardamom Plantations:-**

1198 shall have the following qualifications, namely:-

1199 (A) He / She must be graduate in Agricultural Economics or Agricultural Science with
1200 atleast Five years experience as a Farm Valuer or Agriculture Valuer or

1201 (B) He / She must be the owner or manager of a Coffee / Tea / Rubber / Cardamom

7726

- 1202 Plantation of the size of at least 40 Hectors ; and
1203 (C) He / She must have at least 20 years experience in the plantation line.
1204 (D) be graduate or Post Graduate in Valuation of a recognised university approved
1205 by AICTE or Director of Technical Education of State Government
1206 (E) be graduate in Agriculture Science or Equivalent degree of foreign University.
1207
1208 **[5.8] Valuer for Standing Forests :**
1209(A) He / She must be graduate in Agricultural Economics or Agricultural Science with
1210 atleast Five years experience as a Farm Valuer or Agriculture Valuer
1211(B) He / She should have been in the service of a State or the Central Government as a
1212 Gazette Forest Officer for a period of not less than 20 years.
1213 (C) be graduate or Post Graduate in Valuation of a recognised university approved
1214 by AICTE or Director of Technical Education of State Government
1215 (D) be graduate in Agricultural Economics or Agricultural Science or Equivalent
1216 degree of foreign University.
1217
1218 **[5. 9] Valuer for Chemical :** shall have the following qualifications, namely:-
1219 (A) He / She must be graduate in Chemical Engineering of a recognised university
1220 (B) He / She graduate or Post Graduate in Valuation of a recognised university approved
1221 by AICTE or Director of Technical Education of State Government
1222 (C) He / She graduate in Chemical Engineering or Equivalent degree of foreign University.
1223 (D) atleast Five years experience as a Valuer
1224
1225 **[5.10] Valuer of Jewellery, Precious Stones and Ornaments:**
1226
1227 (A) He / She must have been engaged in the business of Jewellery, precious Stones or
1228 Ornaments for a period of not less than ten years; and
1229 (B) He / She must be in business or the business in which He / She is a partner must have
1230 had an annual turnover of not less than rupees 25lakh in Jewellery, precious stones or
1231 ornaments in each of the last three accounting years.
1232 (C) be graduate or Post Graduate in Valuation of a recognised university approved by
1233 AICTE or Director of Technical Education of State Government
1234 (D) be graduate in above or Equivalent degree of foreign University.
1235
1236 **[5.11] Valuer of Works of Art:**
1237 He / She must be :
1238 (A) A member or an ex-member of the Art Purchase Committee.
1239 (B) Principal or ex-principal of a Government School of Art.
1240 (C) Artist member or ex-Artist Member of the General Council of Fellow of the National
1241 Academy of Art (Lalit Kala Akadami).
1242 (D) Director or ex-Director, Assistant Director or ex-Assistant Director of the National
1243 Museum, New Delhi.
1244 (E) Officer-in-charge or ex-Officer-in-charge, Director or ex-Director, Assistant Director
1245 or ex-Assistant Director, Salarjung Museum, Hyderabad.
1246 (F) Director or ex-Director, Prince of Wales Museum, Bombay.
1247 (G) Superintendent or ex-Superintendent, Madras Museum.
1248 (H) Director or ex-Director, Indian Museum, Calcutta.
1249 (I) Curator or ex-Curator of the National Gallery of Modern Arts, New Delhi.
1250 (J) Director General or ex-Director General of Archaeology, Superintendent or ex-
1251 Superintendent or Archaeology.
1252 (K) be graduate or Post Graduate in Valuation of a recognised university approved
1253 by AICTE or Director of Technical Education of State Government
1254 (L) be graduate in above or Equivalent degree of foreign University.
1255
1256 **[5.12] Valuer of Actuary: life interest, reversion and interest in expectancy**
1257
1258 (A) He / She must be a graduate of recognised University,
1259 (B) He / She must be a member of an Institute of Actuaries which entitles him to act as
1260 an Actuary under the Insurance Act, 1938 and
1261 (C) He / She must have been in practice as an Actuary for not less than ten years.
1262 (D) be graduate or Post Graduate in Valuation of a recognised university approved by
1263 AICTE or Director of Technical Education of State Government
1264 (E) Be graduate in Actuary or Equivalent degree of foreign University.
1265
1266
1267**(5.13) Valuer of Metallurgical Engineering & Mining Engineering**

8027

- 1268 (A) He / She must be a graduate in Metallurgical Engineering / Mining Engineering
1269 (B) He / She must have atleast 10 years experience in Metallurgical / Mining Engineering.
1270 (C) be graduate or Post Graduate in Valuation of a recognised university approved by
1271 AICTE or Director of Technical Education of State Government
1272 (D) Be graduate in Metallurgical Engineering / Mining Engineering or Equivalent degree of
1273 foreign University.
1274(E) atleast Five years experience as a Valuer of Metallurgical Engineering & Mining
1275 Engineering
1276

1277 **(5.14) Valuer of Stock & Trade, Share , Debenture, Securities,**

1278

- 1279 (A) He / She must be a member of the Institute of Chartered Accountants or I.C.W.A. of
1280 India; or Institution of Companies Secretaries
1281 (B) He / She must have been in continuous practice as a Chartered Accountant or cost &
1282 works accountant or a company secretary for a period of not less that ten years.
1283 (C) be graduate or Post Graduate in Valuation of a recognised university approved by
1284 AICTE or Director of Technical Education of State Government
1285 (D) be graduate in above or Equivalent degree of foreign University.
1286

1287 **[5.15] Valuer of Electronics, Computer Technology and Tele-communications**

1288

- 1289 (A) He / She must be a graduate in Electronics, Computer Technology &
1290 Telecommunication Engineering, or Post Graduate in Computer Application
1291 (B) He / She graduate or Post Graduate in Valuation of a recognised university
1292 approved by AICTE or Director of Technical Education of State Government
1293

12946.0] **Disclosure**

1295It is essential that Valuers develop and communicate their analyses, opinions, and
1296conclusions to users of their services through reports that are meaningful and not misleading
1297and that disclose anything that might be taken to affect objectivity.
1298

12996.1 The valuation report should set out a clear and accurate description of the scope of the
1300assignment and its purpose and intended use, disclosing any assumptions, hypothetical
1301scenarios, or limiting conditions that directly affect the valuations and, where appropriate,
1302indicating their effect on the value.
1303

13046.2 The valuation report must provide sufficient information to describe the work performed,
1305the conclusions reached, and the context in which they were shaped.

13066.3 A Valuer must disclose any direct or indirect personal or corporate relationship with the
1307property or company that is the subject of any assignment and that might lead to a potential
1308conflict of interest.
1309

13106.4 Where a Valuer is acting as an Internal Valuer, the relationship with the entity controlling
1311the asset should be disclosed in the valuation report.
1312

13136.5 Where a Valuer is acting as an External Valuer but also has worked in a fee-earning
1314 capacity for the client, such relationship must be disclosed lest a *third* party, having to rely
1315 on the valuation, deem the Valuer's objectivity compromised.
1316

13176.6 Any limitations to quality of the service that a Valuer is able to offer must be disclosed
1318whether this is due to externally imposed constraints or peculiar to the Valuer or the
1319assignment. Where outside assistance has been sought the Valuer must disclose the identity
1320of the assistants, the extent of reliance on, and the nature of, such assistance.
1321

13226.7 A Valuer must place a restriction against the publication of a valuation or its conclusions
1323without consent so that the Valuer can keep a measure of control over the form and context
1324in which his or her valuations are publicly disclosed.
1325

13266.8 A Valuer should disclose any departures from The Indian Valuation Standards
1327

13286.8.1 Standards are devised for the generality of situations and cannot cater to every
1329eventuality. There will be occasions where departure from Standards is inescapable. When
1330such situations arise, departure would be unlikely to constitute a breach of these
1331Standards, provided such *departure* is reasonable, complies with the principles of ethics
1332and measures of competence, and a rationale for such departure is provided in the
1333valuation report.

1334

13357.0 Reporting of Values

1336

1337 Valuation assignments may deal with one or more properties. The style of the valuation report
1338 must be tailored to the nature of the assignment and the needs of the client while meeting
1339 certain minimum requirements as to content.

1340

1341 7.1 This paragraph sets out the minimum contents of any report or certificate the following
1342 items must be included.

1343

1344 • The identity of the Valuer and the date of the report;

1345 • The identity of the client;

1346 • The instructions, date of the value estimate, Purpose and Intended use of the
1347 valuation;

1348 • The basis of the valuation, including type and definition of value;

1349 • The identity, tenure, and location(s) of the interest(s) to be valued;

1350 • The date and extent of inspections;

1351 • The scope and extent of the work used to develop the valuation;
1352 any assumptions and limiting conditions; and any special, unusual, or
1353 extraordinary assumptions;

1354 • a compliance statement that the valuation has been performed in accordance with
1355 these Standards and any required disclosures;

1356 • the professional qualification and signature of the Valuer; and As required in
1357 specific certification by the Valuer in the prescribed form.

1358

1359 7.2 The use of the valuation and the complexity of the property determine the level of
1360 detail appropriate to the report. Where a single or complex property is being reported, it
1361 may be appropriate for the report to go into greater detail on the data upon which the
1362 valuation is based and the reasoning behind the conclusions. Where a report is being
1363 prepared for a portfolio of properties for use in an audit function, the level of detailed data
1364 required for each of the properties within the portfolio may be less extensive.

1365

1366 7.3 This section is not to be taken to represent the enquiries, research and analysis
1367 needed to perform a proper valuation, merely the minimum that must be presented in
1368 the report.

1369

1370 7.4 Experience Clause : for all Valuer Category under clause :5

1371

1372 (A) He / She must have been engaged in service or associate with Professional
1373 Valuer (Professional Valuer Registered under section 34 of wealth Tax and attending 20
1374 hours per also year of Continuing Education Programme (CEP) organised by
1375 Professional Valuer Association of India)

1376

1377 (B) He / She must have been a Student / Licentiate/ Associate member of
1378 Professional Valuers Association conducting 40 hours of Continuing
1379 Education Programme on Valuation subjects / topics so that members can
1380 attend 20 hours of CEP.

1381 (C) He / She must have been attending 20 hours of Continuing Education
1382 Programme on Valuation organised by Professional Valuers Association.

1383

1384

1385 **4] Property Types**

1386

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1387

1388 **Property Types**

1389

1390 1.0 **Introduction**

1391

1392 Real property represents a considerable portion of the world's wealth, and its valuation is
 1393 fundamental to the viability of global property and financial markets. Real property has to be
 1394 distinguished from other categories of property, namely personal property, businesses, and
 1395 financial interests. Without further qualification or identification, the word *property* may refer
 1396 to all or any of these categories. Because Valuers often encounter assignments involving
 1397 property types other than real property or properties whose value includes several property
 1398 categories, an understanding of each property type and its distinguishing characteristics is
 1399 essential. While the customary division of property into four discrete categories has long
 1400 been recognised, new entities and instruments have proliferated over recent decades. The
 1401 accepted frame of reference has readily accommodated these new classes of property and
 1402 familiarity with specialised property types and interests is becoming ever more integral to
 1403 valuation practice. The Indian Valuation Standards Committee recognises the following
 1404 four property types: real property, personal property, businesses, and financial interests.

1405

1406 2.0 **Real Property**

1407

1408 2.1 *Real property* is an interest in real estate. This interest is normally recorded in a
 1409 formal document, such as a title deed or lease. Therefore, property is a legal concept
 1410 distinct from real estate, which represents a physical asset. Real property encompasses all
 1411 the rights, interests, and benefits related to the ownership of real estate. In contrast, real
 1412 estate encompasses the land itself, all things naturally occurring on the land, and all things
 1413 attached to the land, such as buildings and site improvements.

1414

1415 2.1.1 The term *realty* is sometimes used to distinguish either real property or real estate
 1416 from items of personal property, which in certain States are legally referred to as *personalty*.

1417

1418 2.2 The combination of all the rights associated with the ownership of real property is
 1419 sometimes referred to as the *bundle of rights*. These can include the right to use, to occupy,
 1420 to enter, to sell, to lease, to bequeath, to give away, or to choose to exercise any or none of
 1421 the above-mentioned. In many situations, specific rights may be separated from the bundle
 1422 and transferred, leased, or alienated by the State.

1423

1424 2.2.1 Rights or interests in real property derive from *legal estates*. Legal estates are
 1425 defined by the laws of the State in which they exist. Legal estates are usually subject to
 1426 outside limitations imposed by the State, such as taxation (assessments/ratings),
 1427 compulsory acquisition (eminent domain/compulsory purchase/condemnation), regulation
 1428 (police power/ planning/zoning), or appropriation by government in cases of intestacy
 1429 (escheat/ bona vacantia).

1430

1431 2.2.2 Absolute ownership subject only to limitations imposed by the State is known as a
 1432 *fee simple estate*, or *freehold*.

1433

1434 2.2.3 Leases are contractual arrangements, which create other estates in real
 1435 property. Under a lease, the **landlord, or lessor**, maintains the ownership interest, known
 1436 in some States as the leased fee estate, with the right of use and occupancy being
 1437 conveyed or granted to a tenant. The interest which the tenant, or lessee, acquires
 1438 under the lease, known in some States as the *leasehold estate*, is the right of use
 1439 and occupancy for a stated term under certain conditions.

1440

1441 2.2.3.1 **Subleaseholds** are created when the tenant or lessee in a prior lease
 1442 conveys to a third party, a sublessee, the interest that the tenant, or lessee, enjoys, i.e.,

1443the right to use and occupy the property.

1444

14452.2.3.2 A Valuer analyses whether any terms or conditions in a lease may affect
1446property value.

1447

14482.2.4 Besides restrictions by the State, other lawful limitations may be imposed upon
1449the rights inherent in the ownership of real property.

1450

14512.2.4.1 *Deed restrictions* and *restrictive covenants*, which run with the land, may affect the
1452use, development, and conveyance of ownership.

1453

14542.2.4.2 *Easements* are non possessory (incorporeal) interests in landed property
1455conveying use, but not ownership, of a portion of that property. Rights-of-way are rights or
1456privileges, acquired through use or contract, to pass over a portion or strip of landed property
1457owned by another.

1458

14592.2.5 Other important ownership and financial interests may be associated with real property.

1460

14612.2.5.1 *Partial or fractional interests* in real property rights are created by legal divisions of
1462the ownership interest. For example, real property is not only owned in sole proprietorships.
1463It may also be held by corporations (shareholders), partnerships, joint tenancies, and tenancies
1464in common.

1465

14662.2.5.2 Trusts create another type of interest in real property rights. The interest of a
1467beneficiary under a trust is known as the *equitable* or *equity interest* as opposed to the legal
1468interest of the trustee(s). (A beneficiary is said to hold equitable title while legal title is held
1469by the trustee[s].)

1470

14712.2.5.3 Security or *financial interests* are created by mortgage pledges where the property is
1472used as collateral to secure finance or a charge is taken over the property. An owners' equity
1473position in the property is considered a separate financial interest.

1474

14752.3 Real property, in the terminology of accounting, usually falls into the category of
1476fixed, or long-term, assets. Sometimes, real property may be considered a current asset,
1477e.g., where land or improved real estate is held in inventory for sale.

1478

14792.3.1 The asset is the interest held in the real estate, i.e., the asset is the real property.

1480

14812.3.2 It is the ownership of the asset that is valued rather than the real estate as a
1482physical entity.

1483

14842.3.3 Where the ownership of an asset is purchased and sold in a marketplace, market
1485participants ascribe specific values to ownership of particular interests in real estate. These
1486values ascribed by market participants form the objective basis for estimating the *Market*
1487*Value* of real property.

1488

14892.4 Valuation of real property is undertaken for a variety of reasons, which include the
1490following categories: financial reporting, transactions involving transfers of ownership, loans
1491and mortgages to be secured by property, litigation, tax matters, and counseling or investment
1492decision making. With the exception of the last category, *Market Value* is the value basis in all
1493the following groupings:

1494

14952.4.1 Valuations of fixed assets prepared for financial statements and related accounts to
1496reflect the effect of changing prices or current values;

1497

14982.4.2 Valuations to assist a prospective buyer in setting an offering, to assist a
1499prospective seller in establishing an acceptable asking price, or to help both parties in
1500determining the sale price for a proposed transaction; valuations to establish the basis for
1501reorganising or merging the ownership of multiple properties;

1502

15032.4.3 Valuations required to estimate the value of collateral property offered for a proposed
1504mortgage loan or to establish a basis for insuring or underwriting a loan on the property;

1505

15062.4.4 Valuations performed in compulsory acquisition (eminent domain/ condemnation
1507proceedings), in litigation or arbitration involving disputes over contracts and partial interests,
1508and settlements of damages caused by environmental accidents or violations;

9231

15092.4.5 Valuations required to estimate assessed value/rating; to separate assets into
1510depreciable and non-depreciable items and, thereby estimate applicable depreciation; or to
1511determine gift or inheritance taxes;

1512

15132.4.6 Valuations and ancillary assignments performed for a broad spectrum of clients, e.g.,
1514investors, insurers, claims adjusters, auctioneers or liquidators, and zoning boards (on the
1515probable effects of planning proposals) as well as for a diversity of purposes, e.g., market or
1516feasibility analyses, cost/benefit analyses, determination of book value for new stock issues (or
1517revisions thereof), and the setting of prospective rent schedules and lease provisions.

1518

15192.5 In any valuation of real property, the relevant characteristics of the property must be
1520identified. Property characteristics include:

1521

15222.5.1 The location, the physical and legal description, and the economic or income-producing
1523attributes;

1524

15252.5.2 The real property interest (fee simple/freehold, leased fee, lease hold, sub leasehold)
1526to be valued;

1527

15282.5.3 Any personal property, trade fixtures, or intangible items that are not real property but
1529that are included in the valuation.

1530

15312.5.4 Any known easements, restrictions, encumbrances, leases, covenants, or special
1532assessments/ratings on the property or other items of similar nature; and

1533

15342.5.5 Whether the subject property is a partial or fractional interest or a physical
1535segment of a larger land parcel.

1536

15372.6 The valuation of real property may be influenced by special considerations, such
1538as: A

1539

15402.6.1 Requirement to analyses the merger of estates (*Marriage*, or *Assemblage*
1541*Value*) or the separation of property interests (*Component Value*);

1542

15432.6.2 The effects of likely zoning changes and infrastructure development, e.g., the
1544extension of public utility systems or access corridors;

1545

15462.6.3 Depressed markets characterized by weak demand, oversupply, and
1547few sale transactions, where estimates of *Market Value* may be difficult to support on
1548the basis of current or historical evidence. In such circumstances, the focus of market
1549participants may shift to other indicators of property value or performance.

1550

15512.7 The sales comparison, income capitalisation, and cost approaches and the methods
1552associated with these approaches are generally applied to the valuation of real property. A
1553Valuer will commonly reconcile the indications derived from two or more of these approaches
1554and associated methods.

1555All three approaches are based on the principle of substitution, which holds that when several
1556similar or commensurate commodities, goods, or services are available, the one with the
1557lowest price attracts the greatest demand and widest distribution.

1558

15592.7.1 The *sales comparison approach* establishes limits on the *Market Value* for real
1560property by examining the prices commonly paid for properties that compete with the
1561subject property for buyers. Sales are investigated to ensure that the parties to the
1562transaction were typically motivated. Sale prices reflecting motivation other than that of a
1563typical market participant, i.e., transactions of special purchasers who are willing to pay a
1564premium for a particular property, should be eliminated.

1565

15662.7.1.1 The subject property (property being valued) is compared with the sale prices (and
1567listings and offerings) of similar properties that have recently been transacted in the market.
1568Sale prices are analysed by applying appropriate units of comparison and are adjusted for dif-
1569ferences with the subject on the basis of elements of comparison (see the Guidance Note on
1570Real Property Valuation,).

1571

15722.7.1.2 In applying the *sales comparison approach*, a Valuer must consider the property
1573rights to be valued to ensure that the property rights in the subject property are the same as
1574those associated with the comparable properties. If this is not the case, (an) appropriate

1575 adjustment(s) to the comparable sales is necessary.

1576

1577 2.7.1.3 The *sales comparison approach* has especially broad applicability and is persuasive
1578 whenever sufficient market data are available. Data obtained by application of this approach
1579 may be applied in the income capitalisation and cost approaches. The reliability of sales
1580 comparison may be limited, however, when market conditions are marked by rapid change
1581 or volatility, or in valuations of specialised, or special purpose, properties that are rarely
1582 sold.

1583

1584 2.7.2 In the *income capitalisation approach*, the *Market Value* for the real property is
1585 established by the income-producing capacity of the real property. **The income**
1586 **capitalisation approach** also relies on the principle of anticipation, which perceives value
1587 as created by the expectation of future benefits (income streams).

1588

1589 2.7.2.1 Income capitalisation considers comparative income and expense data to establish the
1590 net (operating) income for the subject property. Capitalisation is performed either by application
1591 of a single rate (overall capitalisation rate, or all risks yield) to a single year's income or by application
1592 of a yield or discount rate (reflecting measures of return on investment) to a series of incomes over
1593 a projected period (see the Guidance Note on Real Property Valuation,).

1594

1595 2.7.2.2 Because investors generally focus on the rate of return, the assumptions or inputs
1596 underlying value estimates obtained by income capitalisation may be compared with the
1597 performance of alternative property and financial investments.

1598

1599 2.7.2.3 Income capitalisation is most often applied to 100% ownerships (inclusive of all
1600 shareholders or partners) of equity interests in a leased property.

1601

1602 2.7.3 The *cost approach* establishes the value of the real property by estimating the cost
1603 of acquiring land and building a new property with equal utility or adapting an old property to
1604 the same use with no undue cost due to delay. An estimate of entrepreneurial incentive or
1605 developer's profit/loss is commonly added to land and construction costs. For older properties,
1606 the cost approach develops an estimate of depreciation including items of physical
1607 deterioration and functional obsolescence.

1608

1609 2.7.3.1 An estimate derived from the cost approach represents the value of the fee
1610 simple, or freehold, interest in the property. If the property is leased/held in leased fee, or is
1611 subject to other partial interests, the Valuer must make an adjustment to reflect the specific real
1612 property rights being valued.

1613

1614 2.7.3.2 Cost and *Market Value* are most closely related when properties are new. The cost
1615 approach is often applied in valuations of new or recent construction, and proposed
1616 construction, additions, or renovation. Cost estimates, however, tend to establish the upper
1617 limit of what market purchasers would pay for such properties. The *cost approach* is also
1618 useful in the valuation of specialised or special purpose properties, which are rarely sold. (See
1619 GN 8, The Cost Approach for Financial Reporting-(DRC).)

1620

1621 3.0 Personal Property

1622

1623 3.1 *Personal property* refers to ownership of an interest in items other than real estate.
1624 These items can be tangible, such as a chattel, or intangible, such as a debt or patent.
1625 Tangible personal property represents interests in items *that* are not permanently attached or
1626 affixed to real estate and are generally characterized by their moveability. Items of personal
1627 property are legally recognised as *personalty* in distinction to *realty*.

1628

1629 3.2 Examples of personal property includes interests in:

1630

1631 3.2.1.1 Identifiable, portable, and tangible objects considered by the general public to
1632 be personal, e.g., furnishings, collectibles, and appliances.

1633 Ownership of the current assets of a business, trade inventories, and supplies is considered to be
1634 personal property.

1635

1636 3.2.1.2 In some places the above are referred to as *goods and chattels personal*.

1637

1638 3.2.2 **Non-realty fixtures**, also called *trade fixtures* or *tenant's fixtures (fixtures and*
1639 *fittings)*, are attached to the property by the tenant and used in conducting the trade or business.

1640 *Leasehold improvements, or tenant's improvements, are* fixed improvements or additions to the

9833

1641land or buildings, installed and paid for by the tenant to meet the tenant's needs. Trade or tenant's
1642fixtures are removable by the tenant upon expiration of the lease. Their removal causes no
1643serious damage to the real estate. Leasehold or tenant's improvements are finishing or fittings,
1644such as partitions and outlets constructed on site. The useful life of tenant's improvements may
1645be shorter or longer than the term of the lease. If longer than the lease term, the tenant may be
1646entitled to compensation reflecting the extent to which the leasehold improvements have
1647increased the value of the rented premises.

1648

16493.2.2.1 By extension, the above category may include specialised, non-permanent
1650buildings, machinery and equipment.

1651

16523.2.2.2 The term *Furniture, Fixtures, and Equipment* comprises both of the categories
1653described in para 3.2.1 and 3.2.2.

1654

16553.2.3 Net working capital and securities, or net current assets, are the sum of liquid
1656assets less short-term liabilities. Net working capital may include cash, marketable securities,
1657and liquid supplies less current liabilities such as accounts payable and short-term loans.

1658

16593.2.4 *Intangible assets* are interests held in intangible entities. Examples of intangible property
1660interests include the right to recover a debt and the right to profit from an idea. It is the right, i.e., to
1661recover or to profit, as distinct from the intangible entity itself, i.e., the debt or the idea, which is
1662the property and to which value is ascribed.

1663

16643.3 A valuation that includes both personal property and real property must identify the
1665personal property and consider its effects on the value estimate given.

1666

16673.3.1 Valuations of personal property may be an element of a larger assignment. The definition
1668of value by which the personal property is valued must be consistent with the purpose of the
1669property valuation, whether that purpose is to sell, to renovate, or to demolish the property.
1670Personal property may be valued according to its *Market Value*, *Salvage Value* or *Liquidation*
1671*Value*, e.g., the value of personal property in a hotel that was sold as a trading entity versus the
1672value of personal property in a hotel that was sold after the hotel went out of business.

1673

16743.3.2. A Valuer must be able to distinguish personal property from **real property** and on
1675occasion may be required to exclude it, e.g., in assignments undertaken for government-
1676related functions such as taxation or compulsory acquisition.

1677

16783.3.3 In a valuation of business assets, the Valuer must consider whether such assets
1679are to be valued as part of a going concern or as separate assets.

1680

16813.4 A Valuer should be familiar with local custom regarding whether an item is
1682considered personal property or real property. In certain circumstances, a securely
1683affixed item, nominally treated as personal property, may revert to real property upon
1684termination of occupancy, especially if its removal and relocation would result in costly
1685damage to the item itself or the building in which it is located.

1686

16873.5 The techniques used in the three valuation approaches may be applied to the
1688valuation of personal property. (See GN 5, Valuation of Personal Property.)

1689

16903.5.1 If a Valuer finds that personal property included in the property subject to valuation
1691is either superior or inferior to that typically found in comparable properties, the Valuer should
1692make allowance for the differing contributory value of the personal property.

1693

16943.5.2 In certain assignments, a Valuer may have to determine the degree of physical
1695deterioration, functional obsolescence, and economic obsolescence afflicting items of
1696personal property. Such a determination will also consider the remaining economic life of the
1697building(s) with which the related personal property is associated.

1698

16994.0 **Businesses**

17004.1 A *business* is any commercial, industrial, service or investment entity pursuing an economic
1701activity. Businesses are generally profit-making entities operating to provide consumers with
1702products or services. Closely related to the concept of business entity are the terms *operating*
1703*company*, which is a business that performs an economic activity by making, selling, or trading a
1704product or service, and *going concern*, which is an entity normally viewed as continuing in
1705operation in the foreseeable future with neither the intention nor necessity of liquidation or of
1706curtailing materially the scale of its operations.

10134

17074.2 Business entities are constituted as legal entities. A business may be
1708unincorporated or incorporated.

1709

17104.2.1 Examples of unincorporated entities include sole proprietorships, joint ventures,
1711and general and limited partnerships.

1712

17134.2.2 Examples of incorporated entities include closely-held corporations, or close
1714companies, and publicly-held corporations, or public companies whose stock is available to
1715and held by the public.

1716

17174.2.3 Other legal forms of business entities include *trust arrangements* whereby
1718control is vested in either individual trustees or corporate trustees, and *multiple entities*
1719combining parent and associate or subsidiary corporations, partnership interests, and
1720trusteeships.

1721

17224.3 Business entities cut across an extremely broad range of economic activities,
1723encompassing both private and public sectors. Business activities **include manufacturing,**
1724**wholesaling, retailing, lodging, health care, and financial, legal, educational and**
1725**social services**, among others. Business entities established to provide infrastructure
1726services to the public, i.e., public utilities, are set up as corporations controlled but not
1727owned by the government.

1728

17294.3.1 *Investment businesses or holding companies*, which maintain the controlling interest in
1730subsidiary companies by virtue of ownership of stock in those companies, include property and
1731agricultural businesses, among others.

1732

17334.3.2 Properties such as hotels; fuel stations; restaurants; and movie theatres, or cinemas,
1734variously called *properties associated with a business entity, properties with trading potential,*
1735*specialised trading properties* or *operational entities*, are valued at *Market Value*, but their *Market*
1736*Value* includes value components constituting land, buildings, personal property, intangible assets, and
1737the business itself. Because these properties are commonly sold in the market as an operating
1738package, separate identification of land, building, and other values may be difficult, so additional
1739care should be taken to identify the property components included in the valuation.

1740

17414.4 Under the terminology of accounting, both tangible and intangible assets are included
1742among the assets of a business entity:

1743

17444.4.1 Tangible assets include current assets, and long-term assets such as realty, fixtures,
1745equipment and tangible personal property.

1746

17474.4.2 Intangible assets, which are considered intangible personal property, include
1748management skill, marketing know-how, credit rating, an assembled work force, an operational
1749plant, goodwill, and ownership of various legal rights and instruments (e.g., patents, copyrights,
1750franchises and contracts).

1751

17524.4.2.1 Goodwill may include two distinct components: goodwill that is property-specific, or
1753inherent within the property and transferable to a new owner on sale of the property, and personal
1754goodwill that is associated with the proprietor or manager.

1755

17564.5 The valuation of businesses is undertaken for a variety of purposes including: (See the
1757Guidance Note on Business Valuation.)

1758

17594.5.1 The acquisition and disposition of an individual business, a business merger / demerger or
1760the estimation of the value of the capital stock owned by the shareholders in the business.

1761

17624.5.2 Business valuations are often used as a basis for allocating and reflecting the *Value in*
1763*Use* of the various assets of a business. Business valuations may also provide the basis for
1764estimating the extent of obsolescence of specified fixed assets of a business.

1765

17664. 6 **Business valuations** may be based on the *Market Value* of the business entity. The
1767*Market Value* of a business is not necessarily equivalent to the *Value in Use* of the business.
1768Valuations done for financial reporting are generally required to report *Fair Value*, which may or
1769may not be equivalent to *Market Value*. In such situations, a Valuer should indicate whether the
1770value satisfies or does not satisfy both *Market Value* and *Fair Value* definitions (see General
1771Valuation Concepts and Principles,). Valuations of going concerns (defined in Property Types,)
1772are generally based on *Value in Use*. For financial reporting purposes, *Value in Use* has a

10435

1773specific meaning under [(International Accounting Standard 36) (Indian Accounting
1774Standards **AS 28**, Impairment of Assets)], which distinguishes the term from its common
1775usage in valuation practice.

1776

17774.7 A Valuer must clearly define the business (e.g., operating company, holding company,
1778specialised trading company), business ownership interest, or security (e.g., closely held or
1779publicly held company stock, and investment trust shares) being valued.

1780

17814.7.1 An ownership interest may be undivided, divided among shareholders, and/or
1782involve a majority interest and minority interest.

1783

17844.7.2 A Valuer must consider the rights, privileges and conditions that attach to the
1785ownership interest, whether held in corporate form, partnership form, or as a proprietorship.

1786

17874.8 Business valuations employ three approaches to value. Valuers commonly reconcile
1788the indications derived from two or more of these approaches and associated methods. (See
1789the Guidance Note)

1790

17914.8.1 A *sales comparison approach* to value compares the subject business to similar
1792businesses, business ownership interests, or securities that have been sold in the open
1793market. The comparable businesses should be in the same industry as the subject and
1794responsive to the same economic variables. Typical sources of data include the acquisition
1795market in which entire businesses are bought and sold, prior transactions in the ownership of
1796the subject business, and public stock markets in which ownership interests of similar
1797businesses are traded.

1798

17994.8.2 An *income capitalisation approach* to value calculates the present value of anticipated
1800income or benefits in view of their expected growth and timing, the associated risk, and the time
1801value of money. Income is converted into an indication of value either by means of direct
1802capitalisation of a representative income level, or a discounted cash flow analysis, or dividend
1803method, in which cash receipts estimated for a sequence of future periods are converted to
1804present value by application of a discount rate.

1805

18064.8.3 An *asset-based approach* to value examines a balance sheet for the business that
1807reports all assets, tangible and intangible, and all liabilities at *Market Value*, or an appropriate
1808carrying amount. When an asset-based approach is used in assignments involving operating
1809businesses valued as going concerns, the value estimate obtained should be considered to-
1810gether with the value estimate(s) from (an) other approach(es).

1811

1812**5.0 Financial Interests**

18135.1 Financial interests in property result from the legal division of ownership interests in
1814businesses and real property (e.g., partnerships, syndications, corporations, co tenancies, joint
1815ventures), from the contractual grant of an optional right to buy or sell property (e.g., realty,
1816stocks, or other financial instruments) at a stated price within a specified period, or from the
1817creation of investment instruments secured by pooled real estate assets.

1818

18195.1.1 Ownership interests may be legally divided to create partnerships, in which two or more
1820persons jointly own a business or property and share in its profits and losses.

1821

18225.1.1.1 A *general partnership* is an ownership arrangement in which all partners share in
1823investment gains and losses and each is fully responsible for all liabilities.

1824

18255.1.1.2 A *limited partnership* is an ownership arrangement consisting of general and limited
1826partners; the general partners manage the business and assume full liability for partnership debt
1827while the limited partners are passive and liable only to the extent of their own capital
1828contributions.

1829

18305.1.2 Other legal entities related to partnerships are syndications and joint ventures.

1831

18325.1.2.1 A *syndication* is often organised by a general partner. Investors in the syndication
1833become limited partners. A syndication pools funds for the acquisition and development of real
1834estate projects or other business ventures.

1835

18365.1.2.2 A *joint venture* is a combination of two or more entities that join to undertake a
1837specific project. A joint venture differs from a partnership in that it is limited in duration and
1838project-specific.

10736

18395.1.3 An *option* is an agreement to keep open an offer to buy, sell, or lease real property
1840for a specified period and at a stated price. An option creates a contractual right, the exercise of
1841which is generally contingent upon the fulfillment of specified conditions. The holder may or may
1842not ultimately choose to exercise the option. In this respect, an option differs from a contract to
1843buy or sell a property. *Purchase options* may also be written into leases. Purchase options often
1844contain the provision that certain parts of all rents paid may be applied to the purchase price.

1845

18465.1.4 Real estate investment through the ownership of *securities*, or instruments securing
1847both debt and equity positions, represents an alternative to the direct ownership of property.
1848Investors are able to own and trade shares of an interest in a property or pool of properties in the
1849same way they would buy and sell shares of corporate stock.

1850

18515.1.4.1 The market for such securities includes both a private, or institutional, sector
1852(partnerships, corporations, pension/superannuation funds, and insurance companies) and a
1853public sector (individual investors who trade in a securities market).

1854

18555.1.4.2 Securitized investment instruments include real estate investment trusts (REITs)
1856(property investment or unit trusts), collateralized mortgage obligations (CMOs), commercial
1857mortgage-backed securities (CMBSs), real estate operating companies (REOCs), and separate
1858and commingled accounts.

1859

18605.2 Financial interests are intangible assets and can include

1861

18625.2.1 the rights inherent in the ownership of a business or property, i.e., to use, to occupy, to
1863sell, to lease, or to manage;

1864

18655.2.2 the rights inherent within a contract granting an option to buy, or a lease containing a
1866purchase option, i.e., to exercise or not to exercise; or

1867

18685.2.3 the rights inherent in ownership of a security issue (i.e., to hold or to dispose thereof).

1869

18705.3 Financial interests require valuation for a wide variety of reasons.

1871

18725.3.1 A financial interest may be included among the assets of a partner. To establish the total
1873value of assets owned by the partner, the value of the financial interest must be determined. Or a
1874partner may wish to sell his or her interest, or the interest may have passed into an estate subject to
1875inheritance taxes and probate proceedings. A general partner may also purchase interests for the
1876purpose of transferring them to a limited partnership.

1877

18785.3.2 Options to buy, which are often obtainable for a small amount of money, create
1879considerable leverage, or gearing, the impact of which must be considered in the final
1880transaction price. Lease purchase options restrict the marketability of the leased property, and may
1881limit the *Market Value* of the leased property and/or leasehold interest.

1882

18835.3.3 Valuations of Securitized investment instruments are done for purposes of underwriting
1884and rating the securities prior to initial public offerings.

1885

18865.4 International Accounting Standard, (IAS 32,) (AS under preparation) Financial Instruments:
1887Disclosures and Presentation, defines financial *asset*, *financial liability*, *financial instrument*,
1888and *equity instrument*; IAS 32, defines *compound (financial) instrument*. Under IAS 32, an
1889entity shall disclose information about *Fair Value* for each class of financial assets and financial
1890liabilities, in a way that permits comparison with the corresponding carrying amount in the balance
1891sheet. IAS 32, summarises the items an entity is required to disclose.

1892

18935.4.1 **A financial asset** is any asset that is a) cash; b) an equity instrument of another entity;
1894c) a contractual right: (i) to receive cash or another financial asset from another entity; or
1895(ii) to exchange financial instruments with another entity under conditions that are
1896potentially favorable- or d) a contract that will or may be settled in the entity's own equity
1897instruments and is: (i) a non-derivative for which the entity is or may be obliged to receive a
1898variable number of the entity's own equity instruments; or
1899(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash
1900or another financial asset for a fixed number of the entity's own equity instruments.

19015.4.1.1 Common examples of financial assets representing a contractual right to receive cash
1902in the future are a) trade accounts receivable and payable; b) notes receivable and payable; c)
1903loans receivable and payable; and d) bonds receivable and payable.

1904

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19055.4.2 A *financial liability* is any liability that is: (a) a contractual obligation (i) to deliver cash or
1906another financial asset to another entity; or (ii) to exchange financial assets or financial
1907liabilities with another entity under conditions that are potentially unfavorable to the entity; or
1908(b) a contract that will or may be settled in the entity's own equity instruments
1909and is: (i) a non-derivative for which the entity is or may be obliged to deliver a variable
1910number of the entity's own equity instruments; or (ii) a derivative that will or may be settled
1911other than by the exchange of a fixed amount of cash or another financial asset for a fixed
1912number of the entity's own equity instruments. For this purpose the entity's own equity
1913instruments do not include instruments that are themselves contracts for the future receipt or
1914delivery of the entity's own equity instruments. (An entity may have a contractual obligation that
1915it can settle by delivery of cash or another financial asset, exchange of financial assets and
1916liabilities, or by payment in the form of its own equity instruments, either non-derivative or
1917derivative.)

1918

19195.4.2.1 Common examples of financial liabilities representing a contractual obligation to
1920deliver cash in the future are a) trade accounts receivable and payable; b) notes receivable and
1921payable; c) loans receivable and payable; and d) bonds receivable and payable.

1922

19235.4.3 A *financial instrument* is any contract that gives rise to both a financial asset of one entity
1924and a financial liability or equity instrument of another entity. Financial instruments range from
1925traditional primary instruments such as bonds to various forms of derivative financial instruments:

1926

19275.4.3.1 Derivative financial instruments give one party a contractual right to exchange financial
1928assets with another party under conditions that are potentially favourable, or a contractual obligation to
1929exchange financial assets with another party under conditions that are potentially unfavorable.
1930However, they generally do not result in a transfer of the underlying primary financial instrument on
1931inception of the contract, nor does such a transfer necessarily take place on maturity of the contract.
1932{(IAS 32,) (AS under Preparation)}

1933

19345.4.3.2 Derivative financial instruments create rights and obligations, effectively transferring
1935between the parties to the instrument one or more of the financial risks inherent in an underlying
1936financial instrument. {(IAS 32,) (AS under Preparation)}

1937

19385.4.3.3 Many types of derivative financial instruments embody a right or obligation to make a
1939future exchange, including interest rate and currency swaps, interest rate caps, collars and
1940floors, loan commitments, note issuance facilities, and letters of credit.

1941

19425.4.3.4 A *finance lease* is regarded as a financial instrument but an operating lease is not regarded
1943as a financial instrument.

1944

19455.4.4 **An equity instrument** is any contract that evidences a residual interest in the assets of an
1946entity after deducting all its liabilities.

1947

19485.4.4.1 Examples of equity instruments include non-puttable ordinary shares, some types of
1949preference shares, and warrants or written call options that allow the holder to subscribe for or purchase
1950a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of
1951cash or another financial asset.

1952

19535.4.4.2 A purchased call option or other similar contract acquired by an entity that gives it the right
1954to reacquire a fixed number of its own equity instruments in exchange for delivering a fixed amount of
1955cash or another financial asset is not a financial asset of the entity.

1956

19575.4.5 A *compound (financial) investment* is a financial instrument that, from the issuer's
1958perspective, contains both a liability and an equity element.

1959

19605.5 The value of the assemblage of all the various financial interests in a property may be
1961larger or smaller than simply the sum of the individual interests in that property.

1962

19635.5.1 The value of the 100% ownership interest (inclusive of all shareholders or partners) in
1964income-generating properties held by partnerships or syndications will likely exceed the aggregate
1965value of minority interests in the properties. Similarly, the value of a REIT portfolio, representing an
1966assemblage of various properties, is likely to differ from simply the sum of the values of all the
1967properties that make up the portfolio, a consequence attributable to the specific assemblage of
1968properties in the portfolio and/or the management of the portfolio.

1969

19705.5.2 A Valuer estimates the value of the entirety or whole interest in the property before dealing

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1971 with the disaggregated or fragmented ownership interests.

1972

1973 5.5.3 In assignments involving financial interests, a Valuer must clearly identify the exact
1974 ownership interest being valued, whether it be a majority or minority ownership interest in a business
1975 or property, a contractual right, or a majority or minority ownership interest in securitised real estate
1976 investment. The Valuer must examine the contractual arrangements between parties or articles of
1977 association (articles of incorporation or articles of partnership) to verify the percentage share or
1978 stake that the financial interest in the property represents.

1979

1980 5.6. The valuation of financial interests involves highly specialised considerations. Therefore, a
1981 Valuer must adopt the valuation approach or approaches to the nature of the financial interest subject to
1982 valuation.

1983

1984 5.6.1 All three approaches may be appropriate to the valuation of property held by general
1985 partnerships.

1986

1987 5.6.1.1 When comparable sales are analysed in the *sales comparison approach*, the Valuer
1988 determines whether non-realty items were included in the purchase price. If non-realty items were included,
1989 they should be identified and their effect on value considered and estimated.

1990

1991 5.6.2 In situations where a general partner has acquired interests in partnership or syndications for sale
1992 as limited partnership interests, the Valuer considers the effect of non-realty items on the transaction
1993 price. These items may include special financing, guarantees of occupancy or income, and
1994 management services.

1995

1996 5.6.3 Options to buy are considered at the cost to the buyer when the option is exercised.
1997 Thus, the cost of an option to buy that has been exercised is to be added to the sale price of
1998 the realty. A Valuer considers the effect of leverage, or gearing, produced by a purchase option on
1999 the final transaction price for a property. When a purchase option in a lease is exercised and past
2000 rent payments are credited to the purchase price, such payments are treated as installment
2001 payments.

2002

2003 5.6. 4 Units or shares in securitised real estate investment are priced in markets where such
2004 securities are traded. Valuations of real estate assets held as part of a package of investment
2005 instruments may be required for underwriting or rating purposes prior to an initial public offering. In
2006 such situations, a Valuer applies those approaches and methods consistent with the income-
2007 generating characteristics of the real estate.

2008

2009 **6.0** some of the **PURPOSES of VALUATION AND REVALUATION OF ASSETS...**

2010

- 2011 1. Submission of Income Tax Returns
- 2012 2. Payments of Capital Gain Tax
- 2013 3. Payment of Wealth Tax
- 2014 4. Search & Seizure Cases
- 2015 5. Assessment of Jewellery Value
- 2016 6. Payments of Service Tax for Commercial Construction
- 2017 7. Amalgamation for Mergers of Ventures
- 2018 8. Expansion of Business
- 2019 9. Disinvestment
- 2020 10. Dissolution of Partnership
- 2021 11. Rent Vis-À-Vis Depreciation
- 2022 12. Appeal against Govt. Guide Line Value
- 2023 13. Purchase \ Sale of Property
- 2024 14. Availing of Term Loan or Cash Credit Facility
- 2025 15. Obtaining Bank Guarantees
- 2026 16. Applying \ Obtaining Housing Loans
- 2027 17. Asset Division during Family Partition, and Resulting Taxation Matters
- 2028 18. One Time Settlements from financial Institution
- 2029 19. Settlements of Divorce Claims related to Valuation of Assets Involved
- 2030 20. Settleing Dues while Vacating Premises
- 2031 21. Determining Values of Transaction in the Absence Of Invoices.
- 2032 22. For Obtaining Adequate and Timely Insurance
- 2033 23. Transfer of Property
- 2034 24. Payment of Stamp Duty as Per Stamp Act
- 2035 25. Claiming Compensation Under Land Acquisition Act 1984
- 2036 26. Attending To Matters pertaining to

11639

- 2037 (A) Charity Commissioner
- 2038 (B) Registrar of Co.Opr. Societies Office
- 2039 (C) Court Matters
- 2040 27. Obtaining Visas
- 2041 28. Deciding Fair Reserve / upset Price in Auctioning
- 2042 29. Octroi Payment
- 2043 30. House Tax
- 2044 31. Obtaining S.S.I. Registration
- 2045 32. Personal Planning through Will / Probate
- 2046 33. In Case of Devaluation of Rupee and the Subsequent Re assessment of Values
- 2047 34. Floating of New Issues
- 2048 35. Obtaining advance Against Works Contract
- 2049 36. Applying For Incentives
- 2050 37. Payment of Security Deposit
- 2051 38. Claims for Duty Drawbacks and Exports Incentives
- 2052 39. Seeking Foreign Collaboration of Technical Know How
- 2053 40. Impairments of Assets
- 2054 41. Loss of Agriculture Crop.
- 2055 42. Tenancy Right
- 2056 43. Mesne Profit (Mean's Profit)
- 2057 44. Valuation under Public Premises Act.(eviction of unauthorised tenents)