

2 Indian Valuation Standards [InVS]

3

4 **Standard 1 (InVA1)**

5

6 **Market Value Basis of Valuation**

7

1	Introduction	40-41
2	Scope	41
3	Definitions	41-42
4	Relationship to Accounting Standards	42-43
5	Statement of Standard	43
6	Discussion	43-44
7	Disclosure Requirements	45
8	Departure Provisions	46
9	Effective Date	46

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10 This Standard should be read in the context of the background material and implementation
11 guidance contained in General Valuation Concepts and Principles.

12

13 **1.0 Introduction**

14

15 1.1 The objective of this Standard is to provide a common definition of Market Value.
16 This Standard also explains the general criteria relating to this definition and to its
17 application in the valuation of property when the purpose and intended use of the valuation
18 calls for estimation of Market Value.

19

20 1.2 **Market Value** is a representation of value in exchange, or the amount a property would
21 fetch if offered for sale in the (open) market at the date of valuation under circumstances
22 that meet the requirements of the Market Value definition. To estimate Market Value, a
23 Valuer must first determine highest and best use, or most probable use. (See Indian
24 Valuation Standards [InVS], General Valuation Concepts and Principles). (Composite Rent)
25 That use may be for continuation of a property's existing use or for some alternative use.
26 These determinations are made from market evidence.

27

28 1.3 **Market Value** is estimated through application of valuation methods and procedures that
29 reflect the nature of property and the circumstances under which given property would most likely
30 to trade in the market. The most common methods used to estimate Market Value include the
31 sales comparison approach, the income Capitalization approach, including discounted cash
32 flow analysis, and the cost approach.

33

34 1.4 All Market Value, measurement, methods, techniques, and procedures will, if applicable
35 and if appropriately and correctly applied, lead to a common expression of Market Value when
36 based on market-derived criteria. Sales comparisons or other market comparisons should
37 evolve from market observations. The income capitalization approach, including discounted
38 cash flow analysis, should be based on market-determined cash flows and market-derived
39 rates of return. Construction costs and depreciation should be determined by reference to
40 an analysis of market-based estimates of costs and accumulated depreciation. Although
41 data availability and circumstances relating to the market or the property itself will determine
42 which valuation methods are most relevant and appropriate, the outcome of using any of the
43 foregoing procedures must be Market Value if each method is based on market-derived
44 data.

45

46 1.5 The manner in which property would ordinarily trade in the market distinguishes
47 the applicability of the various methods or procedures of estimating Market Value. When
48 based on market information, each method is a comparative method. In each valuation
49 situation one or more methods are generally most representative of (open) market
50 activities. The Valuer will consider each method in every Market Value engagement and
51 will determine which method are most appropriate.

52

532.0 Scope

542.1 InVS applies to the Market Value of property, normally real estate and
55 related elements. It requires that the property under consideration be viewed as if for sale
56 on the market, in contrast to being evaluated as a part of a going concern or for some
57 other purpose.

58

593.0 Definition

60

613.1 Market Value is defined for the purpose of these Standards as follows:

62 Market Value is the estimated amount for which a property should exchange on the date of
63 valuation between a willing buyer and a willing seller in an arms-length transaction after proper
64 marketing wherein the parties had each acted knowledgeably, prudently, and without
65 compulsion.

66

67

683.2 The term property is used because the focus of these Standards is the valuation of
69 property. Because these Standards encompass financial reporting, the term asset may be
70 substituted for general application of the definition. Each element of the definition has its
71 own conceptual framework:

72

733.2.1 "**The estimated amount...**" refers to a price expressed in terms of money (normally
74 in the local currency), payable for the property in an arm's-length market transaction. Market
75 Value is measured as the most probable price reasonably obtainable in the market on the date
76 of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable
77 by the seller and the most advantageous price reasonably obtainable by the buyer. This
78 estimate specifically excludes an estimated price inflated or deflated by special terms or
79 circumstances such as a typical financing, sale and leaseback arrangements, special con-
80 siderations or concessions granted by anyone associated with the sale, or any element of
81 Special Value (defined in InVS Standard , para. 3.8).

82

833.2.2 "... a property should exchange..." refers to the fact that the value of a property is an
84 estimated amount rather than a predetermined amount or actual sale price. It is the price at
85 which the market expects a transaction that meets all other elements of the Market Value
86 definition should be completed on the date of valuation.

87

883.2.3 "...on the date of valuation..." requires that the estimated Market Value is time-
89 specific as of a given date. Because markets and market conditions may change, the
90 estimated value may be incorrect or inappropriate at another time. The valuation amount will
91 reflect the actual market state and circumstances as of the effective valuation date, not as of
92 either a past or future date. The definition also assumes simultaneous exchange and
93 completion of the contract for sale without any variation in price that might otherwise be made.

94

953.2.4 "...between a willing buyer..." refers to one who is motivated, but not compelled to buy.
96 This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who
97 purchases in accordance with the realities of the current market and with current market
98 expectations, rather than in relation to an imaginary or hypothetical market that cannot be
99 demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the
100 market requires. The present property owner is included among those who constitute "the
101 market." A Valuer should neither make unrealistic assumptions about market conditions nor as-
102 sume a level of market value above that which is reasonably obtainable.

103

1043.2.5 "**..a willing seller**" is neither an over-eager nor a forced seller, prepared to sell at any
105 price, nor one prepared to hold out for a price not considered reasonable in the current market.

106

107 The **willing seller** is motivated to sell the property at market terms for the best price attainable in
108 the (open) market after proper marketing, whatever that price may be.

109 The factual circumstances of the actual property owner are not a part of this consideration
110 because the 'willing seller' is a hypothetical owner.

111

1123.2.6 "**.In an arms-length transaction...**" is one between parties who do not have a
113 particular or special relationship (for example, parent and subsidiary companies or landlord and
114 tenant) that may make the price level uncharacteristic of the market or inflated because of an
115 element of Special Value. The Market Value transaction is presumed to be between
116 unrelated parties, each acting independently.

1173.2.7 "**..after proper marketing...**" means that the property would be exposed to the

118market in the most appropriate manner to effect its disposal at the best price reasonably
119obtainable in accordance with the Market Value definition. The length of exposure time may vary
120with market conditions, but must be sufficient to allow the property to be brought to the attention
121of an adequate number of potential purchasers. The exposure period occurs prior to the
122valuation date.

123

1243.2.8 "...wherein the parties had each acted knowledgeably and prudently..." presumes
125that both the willing buyer and the willing seller are reasonably informed about the nature and
126characteristics of the property, its actual and potential uses, and the state of the market as of the
127date of valuation. Each is further presumed to act for self-interest with that knowledge, and prudently
128to seek the best price for their respective positions in the transaction. Prudence is assessed by
129referring to the market condition at the date of valuation, not with benefit of hindsight at some
130later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices
131at a price that is lower than previous market levels. In such cases, as is true for other
132purchase and sale situations in markets with changing prices, the prudent buyer or seller will
133act in accordance with the best market information available at the time.

134

1353.2.9 "...and without compulsion..." establishes that each party is motivated to undertake the
136transaction, but neither is forced on unduly coerced to complete it.

137

- 3.3 138Market Value is understood as the value of an asset estimated without regard to costs of sale or
139purchase and without offset for any associated taxes.

140

- 3.4 141**Highest and Best Use (HABU)**. The most probable use of a property, which is physically
142possible, appropriately justified, legally permissible, financially feasible, and which results in the
143highest value of the property being valued.

144

145**4.0 Relationship to Accounting Standards**

146

1474.1 Valuation for financial reporting, which is the focus of Indian Valuation Application should
148be read in conjunction with this standard.

149

1504.1.1 InVA1, Valuation for Financial Reporting, provides guidance to Valuers, Accountants,
151and the Public regarding valuation standards affecting accountancy. The Fair Value of fixed
152assets is usually their Market Value. (See General Valuation Concepts and Principles,

153

1544.2 There are numerous examples of terms used interchangeably by Valuers and
155 Accountants. Some lead to misunderstandings and possible Standards abuses.

156InVS defines the Market Value and discusses criteria for establishing Market Value. Other
157important terms are defined in and contribute to the more specific requirements discussed in
158Valuation for Financial Reporting.

159

160**5.0 Statement of Standard**

161

162To perform valuations that comply with these Standards and **Generally Accepted**
163**Valuation Principles (GAVP)**, it is mandatory that Valuers adhere to all sections of the Code
164of Conduct pertaining to Ethics, Competence, Disclosure, and Reporting.

165

1665.1 In performing and reporting a Market Value estimate, the Valuer shall

1675.1.1 completely and understandably set forth the valuation in a manner that will not be
168misleading;

1695.1.2 ensure that the estimate of Market Value is based on market-derived data;

1705.1.3 ensure that the estimate of Market Value is undertaken using appropriate methods
171and techniques;

1725.1.4 provide sufficient information to permit those who read and rely on the report to fully
173understand its data, reasoning, analyses, and conclusions; and

1745.1.5 comply with the requirements of InVS in reporting the valuation. Accordingly, the
175Valuer shall:

1765.1.5.1 define the value being estimated and state the purpose and intended use of the
177valuation, the effective date of valuation, and the date of the report;

1785.1.5.2 clearly identify and describe the property and property rights or interests being
179valued;

1805.1.5.3 describe the scope/extent of the work undertaken and the extent to which the
181property was inspected;

1825.1.5.4 state any assumptions and limiting conditions upon which the valuation is based;

1835.1.5.5 fully and completely explain the valuation bases/approaches applied and the reasons
184 for their applications and conclusions; and

1855.1.5.6 include a signed Compliance Statement (Certification of Value) attesting to
186 the Valuer's objectivity, professional contributions, non-bias, non-contingency of
187 professional fees or other compensation, as well as Standards' applicability, and other
188 disclosures.

189

1906.0 **Discussion**

191

1926.1 The Market Value concept and definition are fundamental to all valuation practice. A brief
193summary of essential economic and procedural foundations is presented in General Valuation Concepts
194and Principles and Code of Conduct, the documents upon which these Standards are predicated.

195

1966.2 The concept of Market Value is not dependent on an actual transaction taking place on the
197date of valuation. Rather, Market Value is an estimate of the price that should be realised in a sale at
198the valuation date under conditions of the Market Value definition. Market Value is a representation
199of the price to which a buyer and seller would agree at that time under the Market Value definition,
200each previously having had time for investigation of other market opportunities and alternatives, and
201notwithstanding the fact that it may take some time to prepare formal contracts and related closing
202documentation.

203

2046.3 The concept of Market Value presumes a price negotiated in an open and
205competitive market, a circumstance that occasionally gives rise to the use of the adjective open
206before the words Market Value. The words open and competitive have no absolute meaning.
207The market for one property could be an international market or a local market. The market
208could consist of numerous buyers and sellers, or could be one characterised by a limited number
209of participants. The market in which the property is exposed for sale is not a definitionally
210restrictive or constricted market. Stated conversely, the omission of the word open does not
211indicate that a transaction would be private or closed.

212

2136.4 Market valuations are generally based on information regarding comparable properties.
214The Valuation Process requires a Valuer to conduct adequate and relevant research, to perform
215competent analysis, and to draw informed and supportable judgements. In this process, Valuers
216do not accept data without question but should consider all pertinent market evidence, trends,
217comparable transactions, and other information. Where market data are limited, or essentially non-
218existent (as for example with certain specialised properties), the Valuer must make proper
219disclosure of the situation and must state whether the estimate is in any way limited by the inad-
220equacy of data. All valuations require exercise of a Valuer's judgement, but reports should disclose
221whether the Valuer bases the Market Value estimate on market evidence, or whether the estimate is
222more heavily based upon the Valuer's judgement because of the nature of the property and lack of
223comparable market data.

224

2256.5 Because changing conditions are characteristic of markets, Valuers must consider whether
226available data reflect and meet the criteria for Market Value.

227

2286.5.1 Periods of rapid changes in market condition are typified by rapidly changing
229prices, a condition commonly referred to as disequilibrium. A period of disequilibrium may
230continue over a period of years and can constitute the current and expected future market
231condition. In other circumstances, rapid economic change may give rise to erratic market
232data. If some sales are out of line with the market, the Valuer will generally give them less
233weight. It may still be possible for the Valuer to judge from available data where the
234realistic level of the market is. Individual transaction prices may not be evidence of
235Market Value, but analysis of such market data should be taken into consideration in the
236Valuation Process.

237

2386.5.2 In poor or falling markets there may or may not be a large number of
239"willing sellers." Some, but not necessarily all transactions may involve elements of
240financial (or other) duress or conditions that reduce or eliminate the practical willingness of
241certain owners to sell. Valuers must take into account all pertinent factors in such
242market conditions and attach such weight to individual transactions that they believe
243proper to reflect the market. Liquidators and receivers are normally under a duty to
244obtain the best price in asset disposals. Sales, however, may take place without proper
245marketing or a reasonable marketing period. The Valuer must judge such transactions to
246determine the degree to which they meet the requirements of the Market Value
247definition and the weight that such data should be given.

248

2496.5.3 During periods of market transition characterised by rapidly rising or falling
250prices, there is a risk of over- or under-valuation if undue weight is given to historic
251information or if unwarranted assumptions are made regarding future markets. In these
252circumstances Valuers must carefully analyse and reflect the actions and attitudes of
253the market and take care that they fully disclose the results of their investigations and
254findings in their reports.

255

256 6.6 The concept of Market Value also presumes that in a market value transaction a
257 property will be freely and adequately exposed in the (open) market for a
258 reasonable period of time and with reasonable publicity. This exposure is
259 presumed to occur prior to the effective date of value. Markets for fixed assets
260 typically differ from those available for stocks/shares, bonds, and other current
261 assets. Fixed assets tend to be unique. They are usually sold Less frequently
262 and in markets which are less formal and more inefficient than, for example,
263 markets for listed securities. Further, fixed assets are less liquid. For these reasons,
264 and because fixed assets do not commonly trade on a public exchange, the
265 application of the concept of Market Value requires the use of assumptions such as
266 adequate market exposure over a reasonable time period to allow for proper
267 marketing, and completion of negotiations.

268

2696.7 Revenue-producing properties held as long-term investments by a property company,
270pension (or superannuation fund), property trust, or similar type of owner are typically valued
271on the basis of individual asset disposal pursuant to an orderly plan. The aggregate value of
272such assets viewed or treated as a portfolio or as an assembled group of properties could
273exceed or could be less than the sum of the Market Value of each asset individually.

274

2756.8 All valuations should refer to the purpose and intended use of the valuation.

276

2776.9 In addition to other reporting requirements, the Valuer should make it abundantly clear into
278which class each asset has been placed if the function of the valuation is related to the
279preparation of financial statements.

280

2816.10 In exceptional circumstances Market Value may be expressed as a negative amount.
282Situations include certain leasehold properties, some specialised properties, obsolete properties
283with demolition costs exceeding land value, some properties affected by environmental
284contamination, and others.

285

2867.0 **Disclosure Requirements**

287

2887.1 Valuation Reports must not be misleading. Valuations conducted for the purpose of
289estimating and reporting Market Value shall meet the requirements of section 5 above.
290Reports shall contain a specific reference to the definition of Market Value as set forth in this
291Standard, together with specific reference as to how the property has been viewed in terms of
292its utility or its highest and best use (or most probable use) and a statement of all
293substantive assumptions.

294

2957.2 In making Market Value estimates the Valuer shall clearly identify the effective date of
296valuation (the date at which the value estimate applies), the purpose and intended use of the
297valuation, and such other criteria as are relevant and appropriate to ensure adequate and
298reasonable interpretation of the Valuer's findings, opinions, and conclusions.

299

3007.3 Although the concept, use, and application of alternative expressions of value may be
301appropriate in certain circumstances, the Valuer shall ensure that if such alternative values are
302estimated and reported, they should not be construed as representing Market Value.

303

3047.4 When valuations are made by an Internal Valuer, i.e., one who is in the employment of either
305the entity that owns the assets or the accounting firm responsible for preparing the entity's
306financial records and/or reports, there shall be a specific disclosure in the Valuation Report or
307Certificate of the existence and nature of any such relationships.

308

3098.0 **Departure Provisions**

310

3118.1 In following this Standard any departures must be in accordance with directions provided in
312InVS , Valuation Reporting.

313

3149.0 **Effective Date**

3159.1 This Indian Valuation Standard became effective from 20th Aug.2007

316 Indian Valuation Standards

317

318 **STANDARD 2 (InVA2)**

319

320 Valuation Bases Other Than Market Value (Non Market Value)

321

322 **InVA 2 – Valuation (Bases other than Market Value) Non Market Value**

323

1	Introduction	48
2	Scope	48
3	Definitions	48-49
4	Relationship to Accounting Standards	49
5	Statement of Standard	49-50
6	Discussion	50-51
7	Disclosure Requirements	51
8	Departure Provisions	51
9	Effective Date	51

324

325 Valuation Bases Other Than Market Value

326 Indian Valuation Standards **Standard 2**

327 **Valuation Bases Other Than Market Value (Non Market Value)**

328

329 This Standard should be read in the context of the background material and implementation
330 guidance contained in General Valuation Concepts and Principles.

331

332 1.0 **Introduction**

333

334 1.1 The objectives of Indian Valuation Standards are two fold: first, to identify and explain
335 bases of value other than Market Value and to establish standards for their application;
336 and second to distinguish them from Market Value.

337

338 1.2 Although the majority of professional valuations, particularly asset valuations referred to
339 in Indian Valuation Application 1 (InVA 1), Valuation for Financial Reporting, involve Market
340 Value, there are circumstances that call for bases other than Market Value. It is essential that
341 both the Valuer and users of valuations clearly understand the distinction between Market
342 Value and Non-Market Value based valuations and the effects (if any) that differences
343 between these concepts may have upon applicability of the valuation.

344

345 1.3 The Indian Valuation Standards Committee (InVSC) seeks to avoid incidences of
346 misunderstanding and/or misconceptions concerning the use and application of non-market
347 bases of valuation. Valuers responsible for applying these Standards must assure that
348 proper bases are selected, using all reasonable means to enhance the understanding of
349 valuation users, avoiding circumstances that might mislead the public, and reporting
350 objectively supported estimates.

351

352 2.0 **Scope**

353

354 2.1 This Standard presents and explains bases of valuation other than Market Value.

355

356 3.0 **Definitions**

357

358 3.1 **Value in Use.** The value a specific property has for a specific use to a
359 specific user and therefore non-market related. This value type focuses on the value that
360 specific property contributes to the entity of which it is a part, without regard to the property's
361 highest and best use or the monetary amount that might be realised upon its sale. The
362 accounting definition of Value in Use is the present value of estimated future cash flows
363 expected to arise from the continuing use of an asset and from its disposal at the end of
364 its useful life. (See International Financial Reporting Standard 5, Appendix A
365 [IFRS 5, Appendix A].)

366

367 3.2 **Investment Value**, or Worth. The value of property to a particular investor, or a class of
368 investors, for identified investment objectives. This subjective concept relates specific property
369 to a specific investor, group of investors, or entity with identifiable investment objectives
370 and/or criteria. The investment value, or worth, of a property asset may be higher or lower
371 than the Market Value of the property asset. The term investment value, or worth, should not
372 be confused with the Market Value of an investment property. However, Market Value may
373 reflect a number of individual assessments of the investment value, or worth, of the particular
374 property asset. Investment value, or worth is associated with Special Value. (See para. 3.8
375 below.)

376

377 3.3 **Going Concern Value.** The value of a business as a whole. The concept involves
378 valuation of a continuing entity from which allocations, or apportionments, of overall going concern
379 value may be made to constituent parts as they contribute to the whole, but none of the components
380 in themselves constitutes a basis for Market Value. Therefore, the concept of Going Concern Value
381 can apply only to a property that is a constituent part of a business or entity.

382

383 3.4 **Insurable Value.** The value of property provided by definitions contained in an
384 insurance contract or policy.

385

386 3.5 **Assessed, Rateable, or Taxable Value** is a value that is based on definitions
387 contained within applicable laws relating to the assessment, rating, and/or taxation
388 of property. Although some jurisdictions may cite Market Value as the assessment

389 basis, methods used to estimate the value may produce results that differ from Market
 390 Value as defined in InVS 1. Therefore, assessed, rateable, or taxable value cannot be
 391 considered to comply with Market Value as defined in InVS 1 unless explicitly indicated to
 392 the contrary.

393

3943.6 **Salvage Value.** The value of a property, excluding land, as if disposed of for the materials
 395 it contains, rather than for continued use without special repairs or adaptation. It may
 396 be given as gross or net of disposal costs and, in the latter case, may equate to net
 397 realisable value. In any event, components included or excluded should be identified.

398

3993.7 **Liquidation, Forced Sale Value.** The amount that may reasonably be received from the
 400 sale of a property within a time frame too short to meet the marketing time frame required by the
 401 Market Value definition. At times forced sale value in particular may also involve an unwilling
 402 seller and a buyer or buyers who buy with knowledge of the disadvantage of the seller.

403

4043.8 **Special Value.** A term relating to an extraordinary element of value over and above
 405 Market Value. Special value could arise, for example, by the physical, functional, or
 406 economic association of a property with some other property such as the adjoining property.
 407 It is an increment of value that could be applicable to a particular owner or user or
 408 prospective owner or user, of the property rather than to the market at large; that is, special
 409 value is applicable only to a purchaser with a special interest. Marriage value, the value
 410 increment resulting from the merger of two or more interests in a property, represents a
 411 specific example of special value. Special value could be associated with elements of going
 412 concern value and with investment value, or worth. The Valuer must ensure that the criteria
 413 used to value such properties are distinguished from those used to estimate Market Value, making
 414 clear any special assumptions made.

415

4163.9 **Mortgage Lending Value.** The value of the property as determined by the Valuer
 417 making a prudent assessment of the future marketability of the property by taking into account
 418 long-term sustainable aspects of the property, the normal and local market conditions, and the
 419 current use and alternative appropriate uses of the property. Speculative elements may not be
 420 taken into account in the assessment of mortgage lending value. The mortgage lending value
 421 shall be documented in a transparent and clear manner.

422

423 Mortgage Lending Value is one of a number of risk analysis techniques, which may be used
 424 to calculate the risk weighting that may be attached to a mortgaged security held by a bank in
 425 accordance with the directives. This is a long-term risk assessment technique and is not a
 426 suitable basis for establishing value at a given point in time. In this way, it differs
 427 fundamentally from other bases in these Standards.

428

4293.10 *Other expressions of value* more specific to plant and equipment, and/ or special
 430 situations, are defined in Guidance Note 3 (GN 3), Valuation of Plant and Equipment.

431

4324.0 **Relationship to Accounting Standards**

433

4344.1 Indian Valuation Application 1, Valuation for Financial Reporting, should be read in
 435 conjunction with this standard.

436

4374.2 For most purposes, valuations under IFRSs require the reporting of Fair Value. InVA
 438 provides that this requirement is usually met by the Valuer reporting the Market Value of
 439 the asset.

440

4414.3 There are some instances, however, where non-market bases are required by
 442 IFRSs. These include establishing the Value in Use of an asset under IAS 36, AS28 or in
 443 some cases assessment of the Residual Value for depreciation purposes under IAS 16,
 444 AS10 both of which values are specific to the entity. InVA1 discusses these in greater
 445 detail.

446

4475.0 **Statement of Standard**

448 To perform valuations that comply with these Standards and Generally Accepted Valuation
 449 Principles (GAVP), it is mandatory that Valuers adhere to all sections of the InVS Code of
 450 Conduct pertaining to Ethics, competence, Disclosure, and Reporting (sections 4,5,6, and
 451 7)

4525.1 ***In performing and reporting a Non-Market Value estimate, the Valuer shall:***

4535.1.1. completely and understandably set forth the valuation in a manner that will not
 454 be misleading;

4555.1.2 ensure that the estimate of value is based on data and circumstances conclusions; and
 4565.1.3 comply with the requirements of Indian Valuation Standard 3 in reporting the valuation.
 457Accordingly, the Valuer shall
 458
 4595.1.3.1 define the value being estimated and state the purpose and intended use of the
 460valuation, the effective date of valuation, and the date of the report;
 461
 4625.1.3.1.1 distinguish that the value so reported is not a Market Value estimate if the estimate
 463is made on a bases other than Market Value;
 464
 4655.1.3.2 clearly identify and describe the property and property rights or interests being valued;
 466
 4675.1.3.3 describe the scope/extent of the work undertaken and the extent to which the
 468property was inspected;
 469
 4705.1.3.4 state any assumptions and limiting conditions upon which the valuation is based;
 471
 4725.1.3.5 fully and completely explain the valuation bases/approaches applied and the reasons
 473for their applications and conclusions; and
 474
 4755.1.3.6 include a signed Compliance Statement (Certification of Value) attesting to the
 476Valuer's objectivity, professional contributions, non-bias, non-contingency of professional fees or
 477other compensation, as well as Standards' applicability, and other disclosures.
 478
 4795.2 *Although the concept, use, and application of non-market bases of value may be*
 480*appropriate under certain circumstances, the Valuer shall ensure that if such value is to be found*
 481*and reported, it will not reasonably be construed as a representation of Market Value.*
 482
 4836.0 **Discussion**
 484
 4856.1 *Value in use* (see para. 3.1) is a Non-Market Value measured from the perspective of a
 486particular user. Value in use is sometimes referred to as 'value to a particular user or owner.
 487'*Value in exchange* (see InVS 1, para. 1.2 et seq) is the value recognised by a market in which
 488exchange of asset ownership hypothetically, or notionally, takes place. The InVS definition of
 489Market Value appropriate for financial reporting is based on the principle of value in exchange, not
 490value in use.
 491
 4926.2 *The expressions value in use and value in exchange can lead to misunderstanding*
 493*without explanation. They should be avoided when confusion might result.*
 494
 4956.3 *Properties may be valued on bases other than Market Value or may exchange hands at*
 496*prices that do not reflect Market Value as defined. Such alternative bases may either be reflections of*
 497*the economic utility or functions of a property other than its marketability, or of unusual and non-*
 498*market conditions. Examples include value in use; investment value, or worth; going concern*
 499*value; insurable value; assessed, or rateable, value; special value; liquidation, or forced sale,*
 500*value; and salvage value. (See 3.0 et seq, above.)*
 501
 5026.4 *Going concern value* expresses the value ascribed to an established business, not to any of
 503its constituent parts. The value allocated, or apportioned, to individual assets making up a part of the
 504going concern is based on their contribution to the whole, commonly referred to as their value in
 505use when related to a specific business and its owner. It is not market related. (See para. 3.3,
 506above).
 507
 5086.5 It would only be coincidental if a property's value in use were equal to its Market Value. A
 509property's value in use would tend to be higher than Market Value if the operating entity were
 510capable of employing it in a more useful and profitable manner than a typical producer of the same
 511product or service. On the other hand, value in use could be lower than Market Value under
 512conditions where the entity was not employing an asset to its maximum capacity and efficiency.
 513Value in Use could also be higher than Market Value if the entity possessed special production
 514rights, extraordinary contracts, unique patents and licenses, certain expertise, special goodwill,
 515and other intangible assets, which would not be transferable to another owner.
 516
 5176.6 *Special value* may accrue to a property by reason of a unique location, a temporary
 518situation under exceptional market conditions, or a premium payable by a purchaser having a
 519special interest. (See para. 3.8, above). **Marriage value**, the value increment resulting from
 520the merger of two or more interests in a property, represents a specific example of special

521value. Such elements of special value may be reported separately from Market Value as
522defined in these Standards. Special value should not be incorporated into a statement of
523Market Value because such a procedure would be misleading and, by default, would signify that
524such incremental element of value is not special.

525

5266.7 A forced sale involves a price which arises from disposition under extraordinary or a
527typical circumstances, usually reflecting an inadequate marketing period without reasonable
528exposure, and sometimes reflecting the condition of an unwilling seller and/or disposal under
529compulsion or duress. For these reasons, the price associated with a forced, or distress(ed),
530sale, called forced sale value (see para. 3.7, above), is not Market Value. The price paid in a
531forced, or distress(ed), sale is a matter of fact. It is generally not easy for a Valuer to predict
532because of the nature and extent of subjective and conjectural assumptions that must be made in
533formulating such an opinion. A forced sale value or price may also be known as a liquidation
534price.

535

5366.8 **Salvage value** (see para. 3.6) is ordinarily used to express the current price expected
537for property, other than land, that has reached the end of its useful life expectancy in terms of
538its original purpose and function. At that point the asset is valued for disposal as salvage rather
539than for its originally intended purpose. In this context, salvage value is also known in accoun-
540tancy terminology as the net realisable amount for an asset with no further use to an entity.
541(See para. 3.6, above.)

542

5436.8.1 Salvage value does not imply that a property has no further useful life or utility. Property
544sold for salvage could be rebuilt, converted to a similar or different use, or may provide spare
545parts for other properties that are still serviceable. At the other extreme, salvage value may
546represent scrap value, or the value for recycling.

547

5487.0 **Disclosure Requirements**

549

5507.1 *Valuation Reports must not be misleading.* Valuations conducted for the Purpose of
551estimating and reporting a Non-Market Value shall meet the requirements of section 5 above. For
552Non-Market Value based valuations, it is required in accordance with the Code of Conduct that the
553purpose and intended use of the valuations be clearly reported, and that full disclosure be made of
554the basis for the valuation estimate, its applicability, and its limitations.

555

5567.2 *Each Valuation Report prepared on a basis other than Market Value* shall contain a
557Statement of Contingent and Limiting Conditions or similar disclosure. Notwithstanding this
558provision, the Valuer shall not use the Statement of Contingent and Limiting Conditions to
559justify unreasonable departure from these Standards.

560

5617.3 *In performing a valuation on a basis other than Market Value*, the Valuer shall not make
562assumptions that are unreasonable in the light of facts ascertainable at the effective
563date of valuation. All assumptions shall be disclosed in all reports.

564

5657.4 *Each Valuation Report* prepared on a basis other than Market Value shall contain a
566signed Valuer's Certification of Value/Compliance Statement, or a certificate attesting to
567the Valuer's compliance with the guidelines outlined in the InVSC Code of Conduct,
568section 7.1, and InVS 1, para.5.1.5.6. In particular, distinction should be drawn between
569Market Value and any other defined value that is analysed.

570

5717.5 *If a valuation by an Internal Valuer is made*, i.e., one who is in the employ of either
572the entity that owns the assets or the accounting firm responsible for preparing the entity's
573financial records and/or reports, there shall be a specific disclosure in the Valuation Report
574or Valuation Certificate of the existence and nature of any such relationships.

575

5767.6 Other reporting shall be consistent with these Standards.

577

5788.0 **Departure Provisions**

579

5808.1 In following this Standard any departures must be in accordance with directions provided
581in InVS , Valuation Reporting.

582

5839.0 **Effective Date**

5849.1 This Indian Valuation Standard became effective from 20th Aug.2007

585 Indian Valuation Standards

586

587 Standard 3 (InVA3)

588

589

590 InVS 3 - Valuation Reporting

591

1	Introduction	53
2	Scope	53
3	Definitions	53-54
4	Relationship to Accounting Standards	54
5	Statement of Standard	54-56
6	Discussion	56
7	Disclosure Requirements	56
8	Departure Provisions	56-57
9	Effective Date	57

592Standard 3

593Indian Valuation Standards Valuation Reporting

594

5951.0 Introduction

596

5971.1 **The critical importance of a Valuation Report**, the final step in the valuation
598process, lies in communicating the value conclusion and confirming the basis of the
599valuation, the purpose of the valuation, and any assumptions or limiting conditions
600underlying the valuation. The analytical processes and empirical data used to arrive at the
601value conclusion may also be included in the Valuation Report to guide the reader through
602the procedures and evidence that the Valuer used to develop the valuation.

603

6041.2 **The Valuation Report indicates the value conclusion.** It contains the name
605of the Valuer and the date of the valuation. It identifies the property and property rights
606subject to the valuation, the basis of the valuation, and the intended use of the valuation.
607It discloses all underlying assumptions and limiting conditions, specifies the dates of
608valuation and reporting, describes the extent of the inspection, refers to the applicability of
609these Standards and any required disclosures, and includes the Valuer's signature.

610

6111.3 **Because of the key role of the Valuation Report** in communicating the
612conclusion of a valuation to users and third-party readers, this Standard sets forth the
613following as its principal objectives:

614

6151.3.1 To discuss reporting requirements consistent with professional best practice

616

6171.3.2 To identify essential elements to be included in Valuation Reports.

618

6192.0 Scope

620

6212.1 The reporting requirements addressed in this Standard apply to all types of Valuation
622Reports.

623

6242.2 Compliance with these reporting requirements is incumbent upon both
625Internal and External Valuers.

626

6272.3 Some instructions involving valuations undertaken for **specific purposes** and property
628types, e.g., financial reporting, and lending, may differ from those given for other
629assignments. The reader is advised to consult those sections of the Indian Valuation
630Standards (InVSs) that address these situations, i.e., Indian Valuation Application 1 and 2
631(InVA1 and InVA 2).

632

6333.0 Definitions

634

6353.1 **Valuation Report.** A document that records the instructions for the assignment, the
636basis and purpose of the valuation, and the results of the analysis that led to the opinion of
637value. A Valuation Report may also explain the analytical processes undertaken in
638carrying out the valuation, and present meaningful information used in the analysis.
639Valuation Reports can be either oral or written. The type, content and length of a report
640vary according to the intended user, legal requirements, the property type, and the nature
641and complexity of the assignment.

642

643The terms, Valuation Certificate and Valuation Report, are sometimes used interchangeably.,
644the term Valuation Certificate designates a document in which the Valuer certifies the
645amount of the valuation of the property. The Valuation Certificate is usually a short letter,
646though it may also take the form of a detailed report. It includes the valuation date; purpose
647of the assignment; date of the certificate; assumptions upon which the valuation is based;
648and the name, address and qualification of the Valuer. Certification of Value as used is a
649statement in which the Valuer affirms that the facts presented are correct, the analyses
650are limited only by the reported assumptions, the **Valuer's fee is not contingent upon**
651**any aspect of the report**, and the Valuer has performed the valuation in compliance with
652ethical and professional standards.

653

6543.2 **Oral Report.** The results of a valuation, verbally communicated to a client or presented
655before a court either as expert testimony or by means of deposition. A report communicated
656orally to a client must be supported by a work file and at a minimum followed up by a written

657summary of the valuation.

658

6593.3 **Written Report.** The results of a valuation communicated to a client in writing, which
660includes electronic communication. Written reports may be detailed narrative documents
661containing all pertinent materials examined and analyses performed to arrive at a value
662conclusion or abbreviated pertinent narrative documents, including periodic updates of value,
663forms used by governmental and other agencies, or letters to clients.

664

6653.4 **Specifications for the Valuation Assignment.** The first step in the Valuation Process,
666which establishes the context and scope/extent of the assignment and resolves any
667ambiguity involving the valuation issue or problem, and is similar to valuation brief.

668 A Valuer ensures that the analyses, information and conclusions presented in the report fit
669the specifications for the assignment. The specifications for the value assignment include
670the following seven elements:

671

6723.4.1 **An identification of the real, personal** (plant and machinery; furniture, fixtures, and
673equipment), business or other property subject to the valuation and other classes of property
674included in the valuation besides the primary property category;

675

6763.4.2 **An identification of the property rights** (sole proprietorship, partnership, or partial
677interest) to be valued;

678

6793.4.3. **The intended use** of the valuation and any related limitation; and the identification
680of any subcontractors or agents and their contribution;

681

6823.4.4 A definition of the basis or type of value sought;

683

6843.4.5 The date as of which the value estimate applies and the date of the intended report

685

6863.4.6 An identification of the scope/extent of the valuation and of the report; and

687

6883.4.7 An identification of any contingent and limiting conditions upon which the valuation
689is based.

690

6913.5 **Compliance Statement.** An affirmative statement attesting to the fact that the
692Valuer has followed the ethical and professional requirements of the InVS Code of Conduct
693in performing the assignment. A Compliance Statement is also known as **Certification of**
694**Value.** For the contents of a Compliance Statement, see paragraphs 5.1.10 and 5.1.10.1 below.

695

6963.6 **Special, unusual, or extraordinary assumptions.** Before completing the acquisition of a
697property, a prudent purchaser in the market typically exercises due diligence by making
698customary enquiries about the property. It is normal for a Valuer to make assumptions as to the
699most likely outcome of this due diligence process and to rely on actual information regarding
700such matters as provided by the client. Special, unusual, or extraordinary assumptions may
701be any additional assumptions relating to matters covered in the due diligence process, or may
702relate to other issues, such as the identity of the purchaser, the physical state of the property,
703the presence of environmental pollutants (e.g., ground water contamination), or the ability to
704redevelop the property. (See para. 5.1.7 below.)

705

7064.0 **Relationship to Accounting Standards**

707

7084.1 Where applicable, the Valuation Report shall meet or exceed the requirements of
709the International Financial Reporting Standards (IFRSs)/ International Accounting Standards
710(IASs) and Indian Public Sector Accounting Standards (IPSASs) and Indian Accounting
711Standards.

712

7134.2 Valuation for Financial Reporting, which is the focus of InVA1, should be read in
714conjunction with this Standard.

715

7165.0 **Statement of Standard**

717To perform valuations that comply with these Standards and Generally Accepted Valuation
718Principles (GAVP), it is mandatory that Valuers adhere to all sections of the InVSs Code of
719Conduct pertaining to Ethics, Competence, Disclosure, and Reporting (sections 4,5,6, and
7207).

7215.1 **Each Valuation Report shall**

7225.1.1 *clearly and accurately set forth the* conclusions of the valuation in a manner that is

723not misleading;

724

7255.1.2 *identify the client*, the intended use of the valuation, and relevant dates:

726

7275.1.2.1 *A the date as of which the value estimate applies,*

728

7295.1.2.2 the date of the report, and

730

7315.1.2.3 *the date of the inspection;*

732

7335.1.3 *specify the basis of the valuation*, including type and definition of value;

734

7355.1.3.1 **Market Value and Non-Market Value** shall be separately reported when any
736property component(s) in the valuation are valued on bases other than Market Value.

737

7385.1.4 identify and describe the

739

7405.1.4.1 property rights or interests to be valued,

741

7425.1.4.2 **physical and legal characteristics of the property**, and classes of property
743included in the valuation other than the primary property category;

744

7455.1.5 describe the scope/extent of the work used to develop the valuation;

746

7475.1.6 specify all assumptions and limiting conditions upon which the value conclusion is
748contingent;

749

7505.1.7 identify special, unusual, or extraordinary assumptions and address the
751probability that such conditions will occur;

752

7535.1.8 include a description of the information and data examined, the market analysis
754performed, the valuation approaches and procedures followed, and the reasoning that
755supports the analyses, opinions, and conclusions in the report;

756

7575.1.9 contain a clause specifically prohibiting the publication of the report in whole or in
758part, or any reference thereto, or to the valuation figures contained therein, or to the names
759and professional affiliation of the Valuers, without the written approval of the Valuer;

760

7615.1.10 include a Compliance Statement that the valuation has been performed in accordance
762with InVSs, disclose any departure from the specific requirements of the InVSs and provide an
763explanation for such departure in accordance with the InVSs Code of Conduct;

764

765**5.1.10.1 Each compliance statement shall confirm that**

766

767 ▪ under instructed by

768 ▪ the statements of fact presented in the report are correct to the best of Valuer's knowledge;

769 ▪ the analyses and conclusions are limited only by the reported assumptions and conditions;

770 ▪ the Valuer has no (or if so, a specified) interest in the subject property; The Valuer's fee is or is not

771 contingent upon any aspect of the report.

772 ▪ the valuation was performed in accordance with an ethical code and performance standards;

773 ▪ the Valuer has satisfied professional education requirements;

774 ▪ the Valuer has experience in the location and category of the property being valued;

775 ▪ the Valuer has (or has not) made a personal inspection of the property; and no one, except

776 those specified in the report, has provided professional assistance in preparing the report;

777 ▪ the property is identify by

778

7795.1.1.1 include the name, professional qualifications, and signature of the Valuer.

780

7815.2 When Valuation Reports are transmitted electronically, a Valuer shall take reasonable
782steps to protect the integrity of the data/text in the report and to ensure that no errors occur in

783transmission. Software should provide for security of transmission.

784

7855.2.1 The origin, date and time of the sending as well as the destination, date and time of
786receipt should be identified. Software should allow confirmation that the quantity of data/text
787transmitted corresponds to that received and should render the report as 'read-only' to all except the
788author.

789

7905.2.2 The Valuer should ensure that the digital signature(s) is/are protected and fully under the
791Valuer's control by means of passwords (PIN numbers), hardware devices (secure cards), or
792other means. A signature affixed to a report electronically is considered as authentic and carries
793the same level of responsibility as a written signature on a paper copy report.

794

7955.2.3 A true electronic and/or paper copy of an electronically transmitted report must be
796retained by the Valuer for a period of at least 5 years, in any event not less than five years.
797Files of the records of electronically transmitted reports may be kept on electronic, magnetic, or
798other media.

799

8005.3 The presentation of a Valuation Report is decided by the Valuer and the client based on
801the instructions or specifications for the assignment.

802

8035.4 The type, content, and length of a report depend on the intended user of the report,
804legal requirements, property type, and the nature and complexity of the valuation issue or
805problem.

806

8075.5 For all Valuation Reports, sufficient documentation must be retained in the work file to
808support the results and conclusions of the valuation and must be held for a period of at least
809five years after completion.

810

8116.0 **Discussion**

812

8136.1 The context in which a valuation figure is reported is as important as the basis and
814accuracy of the figure itself. The value conclusion should make reference to the market
815evidence, and procedures and reasoning that support that conclusion.

816

8176.2 Communicating the answer to the valuation question in a consistent and logical manner
818demands a methodical approach that enables the user to understand the processes
819followed and their relevance to the conclusion.

820

8216.3 The report should convey to the reader a clear understanding of the opinions being
822expressed by the Valuer and also be readable and intelligible to someone with no prior
823knowledge of the property.

824

8256.4 The report should demonstrate clarity, transparency, and consistency of approach.

826

8276.5 The Valuer should exercise caution before permitting the valuation to be used other
828than for the originally agreed purpose.

829

8307.0 **Disclosure Requirements**

831

8327.1 When valuations are made by an Internal Valuer, specific disclosure
833shall be made in the Valuation Report of the existence and nature of the
834relationship between the Valuer and entity controlling the asset.

835

8367.2 If a Valuer is involved in a valuation assignment in a capacity other than as a Valuer,
837for example, as an independent or impartial agent, as a consultant or advisor to a business
838entity, or as a mediator, the Valuer should disclose the specific role taken in each
839assignment.

840

8417.3 The Valuer shall disclose the regulatory framework and any departure required from
842these Standards to comply with local legislation, regulation (including accounting rules), or
843custom.

844

8458.0 Departure Provisions

846

8478.1 No departure is permissible from these requirements and each Valuation Report
848clearly and accurately set forth the conclusions of the valuation, and clearly discloses any
849assumptions and limiting conditions, which affect the valuation and value conclusion.

850

8518.2 If a Valuer is asked to perform an assignment that departs from these requirements
852or calls for something less than or different from, the work normally performed in compliance
853with the InVSs and the InVSs Code of Conduct, the Valuer should accept and perform such
854services only when the following conditions can be met:

855

8568.2.1 The Valuer determines that the instructions will not intend to mislead the intended users.

857

8588.2.2 The Valuer determines that the valuation is not so limited that the results are no longer
859reliable and credible for the intended purpose and use of the valuation.

860

8618.2.3 The Valuer advises the client that the instructions for the assignment involve a
862departure from the Standards that must be disclosed in full in the Valuation Report.

863

8649.0 Effective Date

8659.1 This Indian Valuation Standard became effective from 20th Aug.2007