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THE VALUATION PROFESSIONAL

YOUR INSIGHT JOURNAL

ICMAI REGISTERED VALUERS ORGANISATION

About ICMAI Registered Valuers Organisation

The Companies Act, 2013 brought into the light the concept of 'Registered Valuers' to regulate the practice of Valuation in India and to standardize the valuation in line with International Valuation Standards. Consequentially, The Ministry of Corporate Affairs (MCA) notified the provisions governing valuation by registered Valuers [section 247 of the Companies Act, 2013] and the Companies (Registered Valuers and Valuation) Rules, 2017, both came into effect from 18 October, 2017.

In view of the above, the Institute of Cost Accountants of India (Statutory body under an Act of Parliament) has promoted ICMAI Registered Valuers Organisation (ICMAI RVO), a section 8 company under Companies Act, 2013 on 23rd February 2018, which is recognised under Insolvency and Bankruptcy Board of India (IBBI) to conduct educational courses on Valuation for three different asset classes - Land & Building, Plant & Machinery and Securities or Financial Assets and to act as frontline regulator as Registered Valuers Organisation. ICMAI Registered Valuers Organisation is an Academic Member of International Valuation Standards Council.

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ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

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Managing Director

FROM THE CHAIRMAN's DESK

CS (Dr.) Shyam Agarwal
Chairman
ICMAI Registered Valuers Organisation

Several high-flying startups are being brought down to earth, as a recent carnage in global equity markets and lack luster demand for new listings force companies to raise funds at a substantial discount to their sky-high valuations. Easy money from venture capital deal making is fast evaporating in an inflation-induced high interest-rate environment as many private investors take a hard look at funding startups, many of which could be years away from turning a profit.

Already high-profile companies such as payments firm Stripe, Swedish buy-now-pay-later firm Klarna and delivery startup Instacart have seen their valuations get knocked down by a peg or two this year, in what venture capital firms call down rounds. In the United States alone, 81 US companies had to take a hair cut to their valuation, data from Pitch Book showed. Companies that are looking for seed money, or early-stage funding, are also seeing their valuations questioned. Without an open IPO market, and a much lower late-stage capital availability now than during the past year, opens up the probability of these companies taking down rounds.

FROM THE PRESIDENT's DESK

CMA P. Raju Iyer
Nominee Director
ICMAI Registered Valuers Organisation

President
The Institute of Cost Accountant of India

Indian equities typically command a premium. Even now, when investors are nervously marking down their estimates of corporate earnings in emerging markets, they continue to believe that the South Asian nation's firms will garner reasonably healthy profit growth. After recent downgrades, stocks comprising the country's benchmark Nifty Index are forecast to deliver around 15 per cent higher income over the next 12 months than at the start of 2020.

This is when expectations for emerging markets as a whole have been scaled back to below pre-pandemic levels. Is this expected outperformance worth the extra price? India's valuation gap over other emerging markets is an "eye-watering" 3 standard deviations higher than the historical average.

Foreign investors are unlikely to enter the Indian government debt market, despite attractive valuations, deterred by near-term headwinds, including a depreciating rupee and high hedging costs. India's 10-year benchmark bond has largely traded between 7.40%-7.50% for more than a month now, comparable to the highest-yielding debt in the Asian emerging markets of Indonesia and the Philippines.

FROM THE MD's DESK

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

The global macroeconomic headwinds notwithstanding, a resumption in buying by foreign institutional investors has helped domestic equities rebound sharply from their June lows and expanded the Nifty 50's valuation again. The significant run-up since June has led Nifty 50 valuation to expand again to 19.7 times its one-year forward earnings, which is 22% above its long-term average, BNP Paribas said, adding that most sectors, barring banks, are trading at higher valuations vs their long-term averages. FIIs have been more positive on sectors linked to the domestic economy such as fast moving consumer goods, banks, financial services and insurance, and automobiles, compared with export-oriented sectors.

Asset management companies mobilised Rs 17,805 crore through 67 new fund offerings (NFOs) in the September 2022 quarter, a 64 per cent decline from the year-ago period, on expensive valuations and high volatility in equity markets. However, sequentially performance was much better. The first quarter (April-June) of the current fiscal saw only four NFOs, garnering a total of Rs. 3,307 crore.

PROFESSIONAL DEVELOPMENT

ICMAI REGISTERED VALUERS' ORGANISATION

Registered Office
The Institute of Cost Accountants of India
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Lodhi Road, New Delhi – 110003

www.rvoicmai.in

PROFESSIONAL DEVELOPMENT PROGRAMS

September '2022 to November '2022	
Date	**PD Programs**
6th-7th September 2022	Enhancing Valuation Competence
13th-14th September 2022	Master Class on Valuation
17th September 2022	Master Class on Valuation
17th September 2022	Post Graduate Certificate Program in Valuation
22nd -23rd September 2022	Experiential Learning Program & Learning from Registered Valuer Peers
24th -25th September 2022	Crash Course Preparation for Valuation Examination
24th -25th September 2022	Crash Course Preparation for Valuation Examination (Land & Building)
28th -29th September 2022	Learning Program in Valuation
2nd October 2022	Master Class on Valuation
06th-07th October 2022	Building Valuation Practice
11th - 12th October 2022	Tool Kit for Registered Valuers
18th October 2022	National Conference Valuation Day
19th-20th October 2022	Byte Size Certificate Courses in Valuation
27th -28th October 2022	Master Class on Valuation
29th -30th October 2022	Mastering Valuation Techniques
02nd-03rd -4rth November 2022	Master Class-Understanding and developing skills to cope up with Changing landscape of Valuation
05th-6th November 2022	Master Class - Developing expertise in application of valuation Approaches
09th-10th-11th November 2022	Certificate Course- Valuation of Intangible Assets
12th-13th November 2022	THE POWER Workshop on Valuation
15th November 2022	International Lecture Series -Power Talk Automated Valuation Models
16th-17th-18th November 2022	Skill Development Program on Valuation
19th-20th November 2022	Workshop on Valuation Report Writing

PROFESSIONAL DEVELOPMENT PROGRAMS

50 Hours Training Programs

September '2022 to November '2022	
Date	**Programs**
09th to 11th September 2022 & 15th to 18th September 2022	50 Hrs. Educational Course on Valuation (Plant & Machinery, Land & Building & Securities or Financial Assets)
24th September 2022	19th Online Mandatory COP Program by ICMAI RVO for RVs
20th to 23rd October 2022 & 28th to 30th October 2022	50 Hrs. Educational Course on Valuation (Securities or Financial Assets)
28th to 30th October 2022 & 3rd to 06th November 2022	50 hours Valuation Course on Land & Building

Upcoming Professional Development Programs

Date	PD Programs
2nd to 11th December 2022	50 Hrs. Educational Course on Valuation (Securities or Financial Assets)
25th to 27th December 2022 & 1st to 4th December 2022	50 Hrs. Educational Course on Valuation (Plant & Machinery, Land & Building

Articles

REGISTERED VALUER
A REGULATED PROFESSIONAL COMPETENT AND ACCOUNTABLE TO DELIVER CONSISTENT, TRANSPARENT AND CREDIBLE VALUATIONS

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

"Knowing what business is worth and what determines its value is prerequisite for intelligent decision making"

– Warren Buffet

The Perspective

Credible valuations are critical to the efficient functioning of the capital markets, businesses, government and all its stakeholders. Global Financial Crisis revealed deep fault lines and taught many important lessons, one of those being that valuation really does matter! With accounting moving more and more towards value, there is need for competent and professional valuation experts globally.

What is Valuation

Valuation is the process of determining the Economic Worth of an Asset under certain Assumptions and Limiting Conditions and subject to the data available on the Valuation date. Valuation is important because it provides prospective buyers with an idea of how much they should pay for an asset or company and for prospective sellers, how much they should sell for. Business valuation is an independent appraisal of the worth of a company. Valuation is an art and science of estimating the value for a specific purpose of a particular interest in asset at a particular moment in time taking into account all features of the asset and considering all relevant factors of the market.

Need for valuation

Business valuation is critical for transactions including fund raising, mergers & acquisitions (M&A), sale of businesses, strategic business decisions like family or shareholders disputes, voluntary value assessment and also for regulatory compliance, tax and financial reporting purposes in India under RBI, Income Tax, Companies Act, SEBI Laws etc

Valuation in India

Valuation is evolving in India. However till now due to lack of any regulatory architecture to regulate, guide and develop the practice of valuation in India different valuers have been taking different assumptions, following discrete approaches to valuation leading to significant differences in value conclusions.

Different Regulators in India have prescribed different and in some cases even contradictory valuation requirements to be applied in specific situations. Few Regulators also prescribe valuation to be conducted as per International Valuation Standards, However, there are also certain situations wherein no valuation methodology is prescribed and is left to the judgment of the valuer. The eligibility to perform valuation also varies under different Regulations. Different laws which came in force different times has prescribed different set of professionals who can carry out and certify Valuation.

For long, in absence of any statutory provisions and rules in place, the valuation services have been delivered by the auditors, merchant bankers, company secretaries and chartered accountants. The services delivered were largely based on subjective opinions and not on any universal standard or established frameworks. Regulation of this profession is important to ascertain standardisation of practices and reduction in commercial uncertainties. However, the valuation profession and the services provided by it are not regulated, which creates a risky situation for the stakeholders. Though there is some consensus among professional valuers about generally accepted approaches, methods, and procedures, but there are numerous conceptual controversies that remain even among the best practitioners. Lack of national regulation of the valuation practice and standardisation in applying valuation methods are major challenges that contribute to high levels of valuation variations. Lack of valuation standards and regulations is hurting the system.

An estimated 45,000 individuals practise the valuation profession today. They do not enjoy the same status and respect as professionals in other streams. The users of valuation services do not have either the assurance of quality services or an effective remedy for deficiency of

service. As many valuers do not consistently use and apply well established and acknowledged valuation standards the market at times doubt the ability of the valuer and the integrity of the valuation process and moreover the valuer is not able to defend his valuation appropriately. There is no regulatory architecture to take appropriate necessary action for creating desirable public trust.

Regulation of the Valuation Profession

Keeping in view the growing importance and relevance of valuation in the economy, the development of practice of valuation as a discipline and profession has become a necessity. Recognizing the need for institutionalizing and regulating the profession of Valuation under legal ambit, effective 1st February 2019, the concept of Registered Valuer was introduced through Section 247 of the Companies Act, 2013 which provides that where a valuation is required to be made under the provision of this Act, it shall be valued by a person who, having the necessary qualifications and experience, and being a member of a Registered Valuer Organization (RVO), is registered as a valuer. Central Government has notified Companies (Registered Valuers and Valuation) Rules, 2017 which provide for a complete framework for development and regulation of profession of Valuation. These rules contain various aspects pertaining to registered valuers including:

- who can become a valuer (including qualification, experience and clearance of valuation examination) for each asset class and the process involved,
- eligibility and role of registered valuers' organisation (RVO) for conducting educational courses, granting membership, conducting training, laying code of conduct, monitoring the functioning of valuers and addressing grievances including conducting disciplinary proceedings against valuers who are its members,
- the valuation standards required to be adhered to while performing and reporting,
- contents of the valuation report including permissible caveats and limitations,
- professional competence and due care and independence of valuer,
- maintenance of record of each assignment for minimum 3 years, and
- regulation of the profession, including Model code of conduct for registered valuers

A profession, eventually, is only as good as its members. Hence, the Valuer Members need to be an amalgam of the qualities such as independent, impartial, fit and proper, competent, duly qualified and experienced to undertake a valuation assignment. He is expected to act in good faith in discharge of his duties, with the utmost integrity, objectivity, independence in the performance and to seriously pursue the highest standards of professionalism.

How should entities select a valuer

In addition to selecting a valuer that represents the best value for money, entities must also ensure the following matters are considered as part of their decision:

- **Independence** – potential valuers should be Independent /required to disclose any actual, potential or perceived conflicts of interest;
- **Qualifications** – a valuer must have the appropriate qualifications and accreditations relevant for a particular valuation assignment
- **Experience** – valuers should be able to demonstrate relevant knowledge and experience in the valuation of the type of asset being valued and the purpose for which the valuation will be used.
- **Overarching regulation** – Valuers should be regulated to comply with certain
- eligibility, and practice criteria including adherence to professional code of conduct
- **Accountability** – Valuers should be accountable for the services rendered as a valuer

Registered Valuer – A 'Valuable' Valuer

A Valuer by being entrusted with the responsibility of arriving at valuation; upon which the entire decision of stakeholders is being dependent upon; remains a key player in the valuation exercise. A registered valuer brings on table the following advantages / assurance for the users of the services offered by RV:

- **Qualification :** A registered valuer of a particular asset class has to mandatorily possess the minimum laid down / prescribed qualification
- **Updated knowledge:** A Registered valuer is required to earn a certain minimum prescribed Continuing Professional Education credits by attending various Professional development programs being organized by the RVOs/ IBBI from time to time. This ensures continuous updation of the knowledge of the Registered valuer.
- **Regulated Professional:** The Registered valuer is regulated by Registered

Valuers Organization and Insolvency and Bankruptcy Board of India in terms of :

- Various compliances / submission of information and documents
- Submission of Half yearly Report
- Getting Certificate of Practice renewed from RVO which is done only if all compliances have been duly completed by the valuer
- In case of any grievance / complaint against a Registered valuer , RVO and IBBI conduct Inspection and Investigation and take appropriate action through Disciplinary committee

- **Consistent application of Valuation Standards :** Valuations are relied upon by a range of stakeholders. As part of this, it is vital that valuations are conducted in a manner which is consistent and transparent across the valuation profession. The Registered valuers are mandated to use and apply International Valuation Standards which lead to credibility, relevancy and transparency of valuation information. Furthermore, they augment quality, comparability and uniformity of valuation information.
- **Professional conduct :** The Registered valuers are governed by a Model Code of Conduct prescribed under Valuation Rules 2017 which ensures that RVs follow and focus on Integrity, Objectivity, Fairness, Confidentiality, avoiding conflict of interest. In case of any reported violation of the code action is taken by RVO /IBBI
- **Peer Review :** All RVOs have a laid down process for Peer Review where the valuation report of one RV is Peer reviewed by other / senior RV for facilitating mutual learning and constant improvement in quality of the valuation process / report.

Impact of change

The concept of a registered valuer is likely to have a major impact on the industry, professionals, shareholders and government. The increase in requirements for valuation will lead to a substantial increase in professional opportunities for Registered valuers. Stakeholder confidence would be boosted with the increased transparency and fairness in the valuation system. Government revenues may improve as loopholes in valuations may be plugged.

VALUATION CHALLENGES:
DIVERGENCE IN VALUES, CONVERGENCE IN VALUES AND VALUATION UNCERTAINTY

Mr. Anil Kumar Sharma

A major challenge faced by Registered Valuers or by the Valuation profession today is the lack of trust the users repose in the analysis, opinions and reports of Valuers.

Symptomatically two challenges seem to confront us in IBC Valuations. One of the challenges faced by the users of Valuation reports is a variance in values between two RV's or conversely any unreasoned / unexplained convergence in values which raises issues of independence instead. Second challenge is to do with any large difference between achieved higher transaction price and Value opinion.

Variance in Values:

The problem of divergence in values or contrived convergence in values from two Registered valuers are both complex problems to address. While contrived convergence is a problem that squarely lies in the realm of Valuers conduct and points at a Valuers lack of independence and therefore needs to be addressed as an ethical issue. This can be dealt with by enforcing a better behavior amongst valuers and appointing authorities. The impact can also be reduced by revisiting regulations which reinforce a behavior amongst appointing authorities to not try and find a shortcut to avoid noticeable divergence in value opinions of two RVs in order to avoid appointment of a 3rd Valuer in IBC cases or in trying to determine divergence in advance at the stage of draft report and bridging the gap by any means to achieve concurrence in values. Artificial concurrence of values leads to unreasoned reports and opinions which are questionable.

The regulatory authorities however could also reconsider whether penalizing or incentivizing professionals on the basis of higher numbers realized in Resolution bids in comparison to value reported may lead to contrived convergence of values between two RV's or even setting or encouraging lower values.

Reasons that lie at the root of the large variance between Values opinions of two RV's are quite complex for the users to comprehend and can be avoided by appointing authorities accepting only valuation reports that are well drafted and reasoned based on acceptable standards and rules, capturing all procedures, approaches and analysis in explicit detail with clear list of assumptions and premises and background of an asset. Divergence in values therefore can be dealt with by reducing disparity in assumptions, premises and special assumptions between two valuers that impact the end values but must commence with a detailed scope of work awarded by appointing authority.

Difference in Assumptions and premises will create variance in values of two RV's:

It is easy to understand, that an opinion of Valuation relies on a set of assumptions and premises that a Valuer decides to use as Inputs. These set of assumptions are required to be made keeping in mind the Scope of work, purpose of valuation and the bases of value.

Therefore, if the set of assumptions, special assumptions or premises are different for the two RV's the result of the Valuation exercise would be starkly different between the two RV's. For instance, during a Corporate Insolvency resolution Process, the underlying assumption for Valuation in CIRP would be that the Corporate Debtor is a Going concern and usually leads to a higher Liquidation Value, Valuer could assume a premise on the basis of which Liquidation of CD's assets or business would take place assuming a specific subclause or set of subclauses of Reg 32 of the Liquidation process regulations 2016 and when comparing the two reports appointing authority tries to establish parity between the two valuers at least in terms of premises and assumptions or key special assumptions without trying to achieve parity in values.

Divergence between Transaction price and Value:

Valuers know that Valuation is not a fact; instead, it is an estimate of the most probable of a range of possible outcomes based on the assumptions made in the valuation process. Market valuations are estimates of the most probable price that would be paid in a transaction on the valuation date. An element of uncertainty is inherent in all market

Valuations. (*Ref DISCUSSION PAPER Valuation Uncertainty of IVSC 2010).*

Valuation uncertainty relates to the probability that the valuation estimate would differ from the price in an actual transaction on the same terms on the valuation date. And the uncertainty is sans market risk or quite simply not synonymous with market risk.

If the markets are active and transactions of identical assets on standalone basis are available for comparison close to the date of Valuation, then Valuation is simple – Valuer simply relies on a level 1 Input. But this is rare. The degree of uncertainty shall be quite negligible. But where markets are inactive, the uncertainty is likely to be higher as the valuer may not have data to support his valuation.

In this case a valuer relies on his judgement and not so much on empirical data, and uncertainty will arise, the judgement by a valuer relies on lower level of inputs available that are not based on transactions of identical assets in an active market. Therefore, the significance of Valuers judgments is even greater when extrapolations are made by him for not identical but similar assets that require adjustments.

IASB Fair Value Measurement requires that valuation measurements be classified according to whether the inputs used, fall into one of three categories and proposes a hierarchy of inputs to valuation.

- Level 1 inputs are "quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access on the measurement date".
- Level 2 inputs are "inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)".
- Level 3 inputs are "inputs for the asset or liability that are not based on observable market data (unobservable inputs)".

If reliance is made by a Valuer on level 3 inputs e.g., Valuer relies on a cash forecast in the future for 10-15 years based on a certain set of assumptions and special assumptions, an uncertainty is bound to creep in. The special assumptions could be based upon management actions in future, and there could be a range of outcomes and probabilities. Usually, capacity utilization, cost of inputs and sales prices would all be variables. It is ultimately the judgement of the valuer to assume realistic range of inputs that have a high probability in the future.

Valuation uncertainty –and complexity of intangibles assets and whole plant:

Some of the Valuation uncertainty is inherent if the asset being valued is a whole industry and plant or a process where a group of assets work in tandem with rather complex intangibles in play and the industry uses key raw material or fuel inputs that are dependent on complex supply agreements. Again, material changes at times are on the anvil in environmental laws that could have a profound effect on plants valuation often unpredictable and thus the impact is not clearly measurable on the date of Valuation. These inputs cannot be ignored if material. There is usually an interplay with technology factors, Valuers, need to contend with upgrades within technology domain and innovations which may be disruptive. Briefly, Valuers need to make a judgement about the impact on Assets value from any material technological obsolescence factor/s and economic one/s.

Degree of investigation – lack of investigation will create more uncertainty:

The degree of investigation undertaken also has an impact, clearly a valuation estimate made after full investigation and verification of inputs is more certain than the one based upon unverified assumptions. If investigations are limited, it will introduce more uncertainty in valuation. Let us assume that there is a material non- compliance that has to be addressed by the new management otherwise the plant could face capacity restrictions or closure until addressed. This will warrant greater degree of investigation of the resources that may be necessary to achieve compliance in terms of time, material, cash and human resources, all of these need to be investigated. Incomplete investigation in this case may render Valuation to be prone to errors.

Consequently, adequate disclosure of material uncertainty should always include an explanation of the nature and cause of the uncertainty and its effect on the valuation process.

In summary, the author is of the opinion, that over all uncertainty in valuation and divergence in values can be reduced through adherence of Valuation standards, ensuring reasoned reports, a minimum level / degree of investigations and analysis, detailed scope of work and parity in assumptions and premises between two valuers.

VALUATION OF SYNERGIES

Kannan Ramasamy
Registered Valuer with IBBI (Plant & Machinery)

While we are in the process of Learning or Un-learning many complicities involved in Valuation of assets; one of the core areas is to understand the Bases of Value or the purpose of the Valuation of the target firms which drives the Valuer to select the correct approach. There are many values in use viz ; Market Value, Fair Market Value, Liquidation Value, Investment Value, Equity Value, Syn5ergistic Value, Inherent value, Embedded Value, Forced Liquidation Value, Intrinsic Value etc. As per The International Valuation Standards Council (IVSC), some of these are called as *Bases of value* or standards of *value* that describe the fundamental premises on which the reported *values* will be based. IVSC also states that It is critical that the *basis (or bases) of value* be appropriate to the terms and *purpose* of the valuation assignment, as a *basis of value may* influence or dictate a *valuer's* selection of methods, inputs and assumptions, and the ultimate opinion of *value*. While clauses are being narrated in IVS 104, IVSC clearly mentions as "Compliance with this mandatory standard requires a valuer to select the appropriate basis (or bases) of value and follow all applicable requirements associated with that basis of value, whether those requirements are included as part of this standard (for IVS-defined bases of value) or not (for non-IVS-defined bases of value)."

From the above basics, author starts with one of the most Interesting word in the Valuation story but very much complex to assign some numbers for that word in the story; Synergy. So what is synergy?

Synergy

In Mergers and Acquisitions (M&A), it's often said that the combined entity is more valuable than the sum of its parts. The reason is related to a concept known as "synergies," which are benefits to a specific strategic buyer. IVSC Standards deals with this term in Sec 190 & 190.1 says "Synergies refer to the benefits associated with combining assets. When synergies are present, the value of a group of assets and liabilities is greater than the sum of the values of the individual assets and liabilities on a stand-alone basis. Synergies typically relate to a reduction in costs, and/or an increase in revenue, and/or a reduction in risk."

As Per IVSC, Sec 70. IVS-Defined Basis of Value – Synergistic Value 70.1. Synergistic Value is the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then Synergistic Value will differ from Market Value, as the Synergistic Value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as "marriage value."

Is this Synergy always provide 2+2=5+ or can it be 2+2 = 3- also. Let us explore a bit more in this process of Valuation of Synergy in real market situation. In lighter vain, based on experience, it seems all these marriages are not made in heaven; many are in hell also. In international scenario, many big ticket mergers failed miserably in the following years; Newyork Central & Pennsylvania RailRoads and Daimler Benz & Crysler are few of the noticeable examples of the same.

Synergy Valuation

As we all aware, all assets Valued as per the basic valuation approaches as below; and this holds good for synergies also.

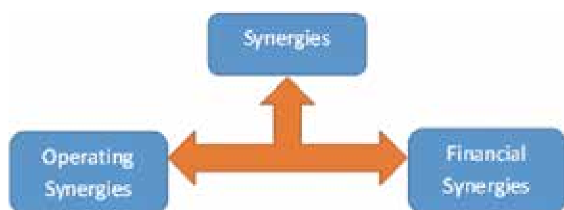
While there are many distinct valuation Methodologies inside this broad spectrum, there are some types are more suitable considering the purpose of valuation or bases of values. Valuation of synergies can be more perplexing, especially when buyers and sellers have unrealistic

expectations about the combined entity's expected future performance. A valuation professional can help the stakeholders to stay grounded and improve the chances of a successful deal.

Valuing synergies requires a thorough analysis of the combined entity's future annual growth potential and accurate estimates of savings that could be achieved from consolidation. The discounted cash flow (DCF) method is routinely used in M&A to value synergies, but how it's applied is often far from routine. Special risk-based adjustments may be made when valuing synergies. In some situations, synergies are valued separately from "normal" business operations due to the inherent risk that they won't be achieved.

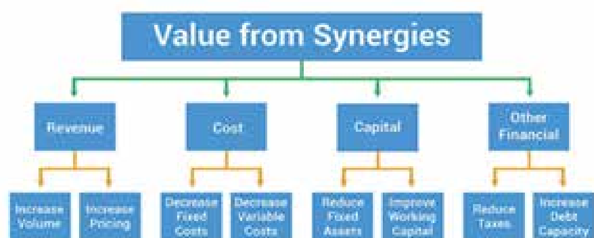
Types of Synergies

Though there are many types of synergies based on the different approaches of valuation perspective, Synergies are mainly categorized in



These two are further divided to many like Vertical Integration synergy, Horizontal Integration Synergy, Functional Synergy, Capital Distribution Synergy, Cost Saving Synergy etc. Valuations are being approached as usual in Cost, Income and Market approach first individually on the entities and on the cumulative future expected numbers of merged entity with positives & negatives outputs of Synergy Valuation.

The same may be explained as below:



The approach depends in part on the nature and risk of the synergies. Some may assign different types of synergies into different packages and assess them separately according to risk involved. Some may see them as risks or threats and give negative value to certain type of synergies. Some may try to realistically or pessimistically model synergy related future expected cash-flow.

The approach sometimes results in easily achieved cost synergies; such as eliminating redundant management might not require a separate valuation. But revenue synergies, such as those derived from added customer base or sharing distribution channels, might need to be treated separately, given the higher risk involved.

The Most difficult part of learning in the field of valuation is the non-availability of complete picture of Valuation story with numbers in the public domain as these are being confidential in nature thus preventing the 'lessons learnt' understanding and lack of ability for fair inferences from the previous experiences or events.

In India, there were many high value or high stake mergers & acquisitions happened in the past and many are in pipeline. Bank of Baroda, Canara Bank, Reliance Communications, Union Bank of India, HDFC, PVR-INOX are few examples that were merged/amalgamated or currently in the process. While all stake holders aspirations or objectives were being addressed or were taken into consideration; whether the merger was financially successful or sustainable or in line with expectations during pre-merger duration; valuation Models or Valuation reports were reflected the realistic picture or unbiased valuations are again very much mysterious that make this article as part of author's earlier Valuation is Mystery (Thanks to ICMAI RVO Journal May 22 Issue) as a series.

Assuming all these mergers have been valued theoretically

1. Valuation of individual company by individual Valuer or entity
2. Valuation of individual company by individual Valuer or entity
3. Valuation of merged or to be merged company considering synergies irrespective of its positive or negative expect expected by individual Valuer or Entity

While, most of us are not privy to the complex & confidential calculations that culminates the valuation processes, author of this article would like to conclude with Valuation summary excerpts of the one of many bank mergers i.e. Andhra Bank & Corporation Bank merged to Union Bank of India recently that is available in public domain

Valuation Approach	Union Bank of India		Andhra Bank	
	Value per Share (INR)	Weight	Value per Share (INR)	Weight
Asset Approach - Net Asset Value Method	111.0	10%	36.4	10%
Market Approach - Market Price Method	71.6	45%	21.8	45%
Market Approach - Comparable Companies Multiple Method	62.8	45%	21.8	45%
Income Approach	N/a	N/a	N/a	N/a
Relative Value per Share (INR)	71.6		23.2	
Fair Equity Share Exchange Ratio for Proposed Amalgamation of Andhra Bank into Union Bank of India (rounded off)	0.325			

Valuation Approach	Union Bank of India		Andhra Bank	
	Value per Share (INR)	Weight	Value per Share (INR)	Weight
Asset Approach - Net Asset Value Method	111.6	10%	36.5	10%
Market Approach - Market Price Method	71.6	45%	21.8	45%
Market Approach - Comparable Companies Multiple Method	74.3	45%	25.6	45%
Income Approach	N/a	N/a	N/a	N/a
Relative Value per Share (INR)	76.8		25.0	
Fair Equity Share Exchange Ratio for Proposed Amalgamation of Andhra Bank into Union Bank of India (rounded off)	0.325			

Valuation Approach	Union Bank of India		Corporation Bank	
	Value per Share (INR)	Weight	Value per Share (INR)	Weight
Asset Approach - Net Asset Value Method	111.0	10%	28.1	10%
Market Approach - Market Price Method	71.6	45%	24.1	45%
Market Approach - Comparable Companies Multiple Method	62.8	45%	22.1	45%
Income Approach	N/a	N/a	N/a	N/a
Relative Value per Share (INR)	71.6		23.6	
Fair Equity Share Exchange Ratio for Proposed Amalgamation of Corporation Bank into Union Bank of India (rounded off)	0.330			

Valuation Approach	Union Bank of India		Corporation Bank	
	Value per Share (INR)	Weight	Value per Share (INR)	Weight
Asset Approach - Net Asset Value Method	110.6	10%	28.5	10%
Market Approach - Market Price Method	71.6	45%	24.1	45%
Market Approach - Comparable Companies Multiple Method	55.3	45%	19.4	45%
Income Approach	N/a	N/a	N/a	N/a
Relative Value per Share (INR)	68.2		22.4	
Fair Equity Share Exchange Ratio for Proposed Amalgamation of Corporation Bank into Union Bank of India (rounded off)	0.330			

Courtesy UBI website

Based on the above valuations, amalgamated UBI allotted 325 shares of face value of ₹10 for every 1000 shares of Andhra Bank of face value of ₹10; 330 shares of face value of ₹10 for every 1000 shares of Corporation Bank of face value of ₹2. It's worth noting of market share value of UBI on start of the financial year 19-20 i.e. on 1st April 2019 was ₹94.22, ₹30.64 of Andhra Bank that is 0.325 times of UBI and ₹28.85 of Corporation Bank that is 0.306 times of UBI. It is acrimonious to derive this as coincidence or irony or **mystery**.

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Any irrelevance or discrepancies or disagreements or misrepresentations with Regulatory Standards or deviance from the general practice can be written, criticized or ignored.

OTHER READINGS

ICMAI REGISTERED VALUERS' ORGANISATION

Registered Office
The Institute of Cost Accountants of India
4th Floor, CMA Bhawan 3, Institutional Area
Lodhi Road, New Delhi – 110003

www.rvoicmai.in

Perspectives Paper: A Framework to Assess ESG Value Creation

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

By: Kevin Prall, IVSC Business Valuation Technical Director with contributions from the Business Valuation Standards Board and the ESG Working Group

The IVSC has issued this Perspectives Paper to initiate discussion and debate on the topic of ESG in business valuation. Share your thoughts and perspectives with us through LinkedIn.

Financial Discipline and ESG Investments

Environmental, Social, and Governance (ESG) factors have become a central tenet in many enterprises' corporate strategy. While companies track and measure how certain investments impact their overall ESG ratings or performance, many often fail to effectively take the further step to estimate and then capture how such investments translate to return on investment. Corporate finance principles to measure return on investment are most easily applied for discrete projects in which the output from such activities is financial information (e.g. profits, cash flows, capital formation, etc.) that can be identified, tracked, and quantified. Core finance principles used to measure ROI struggle to translate the non-financial outputs of ESG investments, to the impact on financial information. Initial rounds of ESG investment have largely been greeted with undiscerning praise by stockholders and stakeholders alike. However, to ensure appropriate financial discipline and the most efficient allocation of capital, a more analytical framework is necessary to articulate the value proposition of ESG investments and assess if and how such investments have resulted in value creation.

In our first article on *ESG, ESG and Business Valuation,* we began to explore how ESG characteristics are, or can be, incorporated into the value measurement process. In this second article, we analyse the impact of ESG on value creation and explore how such a framework may be incorporated into the capital allocation process and bring much needed financial discipline to ESG investments. In the below we:

I. Discuss why earnings-based measures for ESG investments can be difficult to apply;

II. Examine the close link between ESG investments and intangible asset value creation and/or maintenance, and the resulting implication that ESG returns may be better assessed by reference to intangible asset value creation; and

III. Leverage such insights to develop an example framework to assess and measure ESG value creation opportunities at the enterprise level. We discuss a framework that refers to both direct and indirect intangible asset creation, including recognition that intangible value creation via ESG investments can be scalable due to the interconnection between assets.

I. Measuring ESG Returns: Expense vs. Investment

Expenses typically provide an identifiable and quantifiable link between the cost incurred and the benefit received. For investments on the other hand, the connection between cost incurred and the measurement of benefits received is often more ambiguous. As the world continues to be increasingly driven by intangible value, the inability of "earnings" to capture value creation via investments becomes more evident. For example, in *The End of Accounting and the Path Forward for Investors and Managers* the authors, Baruch Lev and Feng Gu, found that the explanatory power of reported earnings and book value for market value

[1] *The End of Accounting and the Path Forward for Investors and Managers*

between 1950 and 2013 substantially declined. The R2 dropped from approximately 90% to 50% over the period.[1] More recent evidence suggests that the global pandemic has accelerated this trend.[2]

Like other investments, the connection between ESG cost incurred and the measurement of benefits received (e.g., profits) can be difficult to identify, track, and measure. While significant progress has been made to incorporate discrete climate related risks into valuation and forecasting processes (e.g., the recent A4S Essential Guide to Valuations and Climate Change[3]) many ESG investments share unique characteristics that challenge the ROI analyses, including:

1. ESG benefits often accrue to the enterprise as a whole and even outside the enterprise, rather than a specific product, business line, or geography. Additionally, for those benefits that accrue outside the enterprise (i.e., externalities), a warranted debate exists regarding if and how such benefits should be included in return considerations. The debate is separate from that of principal agent (stockholders versus stakeholders), but rather to how positive externalities may create a benefit for the enterprise (i.e., doing good is good for business).
2. ESG investments are often made over a number of years, and the benefits are often long-term. Such investments may even result in ongoing value creation into perpetuity.
3. ESG benefits are often risk-reducing and may only maintain existing cash flows rather than generate incremental discrete cash flows. Risk reduction of ESG investments is often reflected in an enterprise's ability to recover from an adverse shock or adjust to changing dynamics (i.e. resiliency). An enterprise's ESG strategy and implementation may even determine the viability of the enterprise itself. Given that ESG investments often generate non-financial (or pre-financial) information, a strategic financial framework should consider not only the impact on return metrics (e.g., profits, earnings, cash flows), but also value created. Such a framework should outline the value proposition of ESG investments, assess whether such investments have created value, and if possible, connect any value creation to the resulting financial information. **A focus on value creation can help provide the critical linkage between investments in ESG and return.**

II. The Link Between ESG and Intangible Assets

[2] *Recovery Curves Take Shape and The Path Ahead... Recovery Curves Take Shape, 21-22.*

[3] *Essential Guide to Valuations and Climate Change*

Our view is that potential ESG value creation would manifest in the formation and/or maintenance of intangible asset value. Certain characteristics of intangible value creation can help us assess how ESG investments may create value.

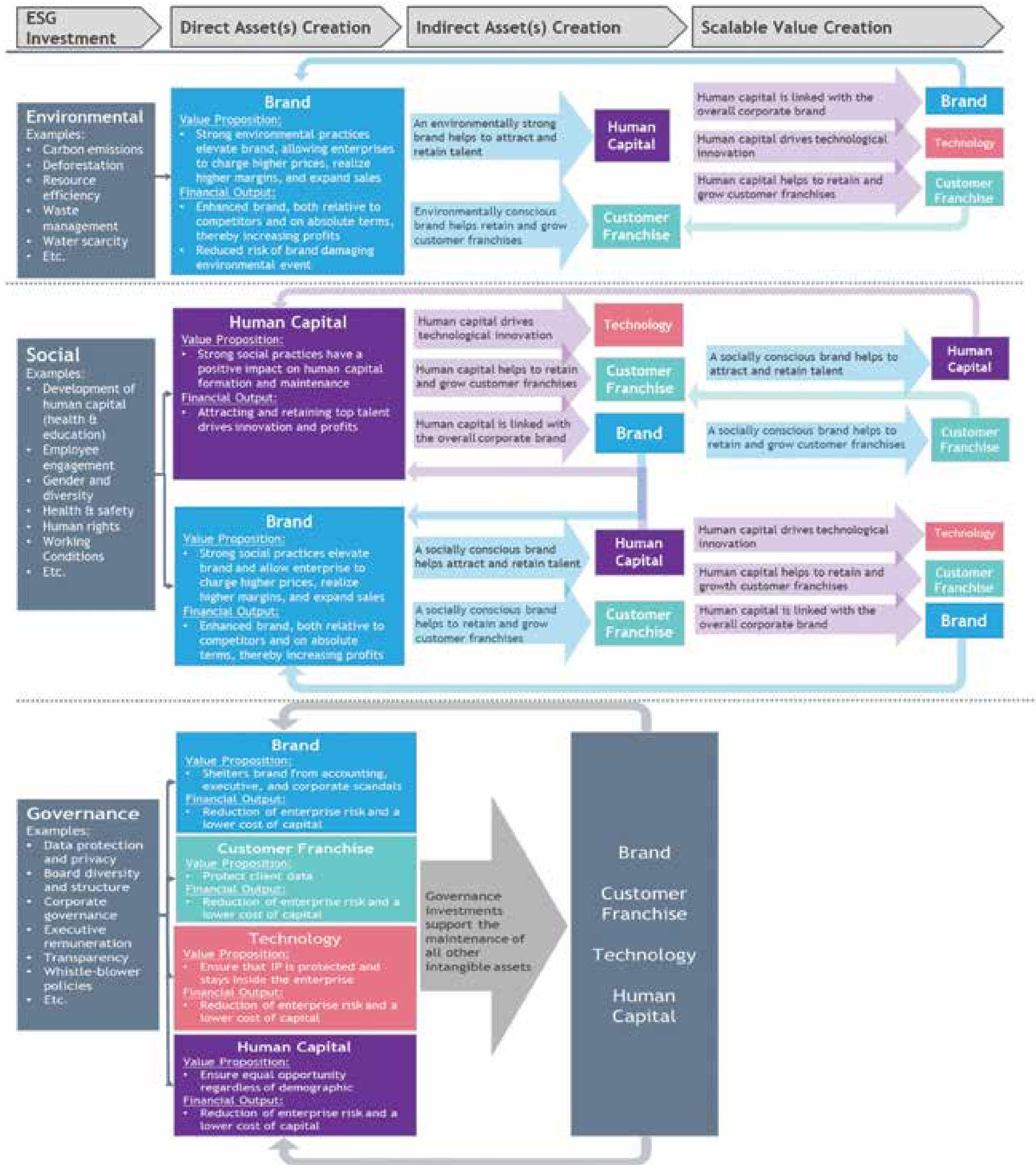
First, value creation or degradation for intangible assets, and therefore ESG investments, is not linear. For instance, many ESG investments will likely show a small return in the initial years after investment as value is created, and then exponential growth thereafter. Additionally, if not maintained, the value will also likely decline in a rapid fashion. However, if ESG investment continues to support and enhance the value created, the asset value and resulting benefit may be maintained indefinitely.

Secondly, the ability to create intangible value, and thus the ESG value creation opportunities, varies by industry. To generate economic value from ESG investments, or any investment, an enterprise must generate returns above those required by the value of tangible assets and financial capital employed. ESG value creation opportunities should be higher for companies with a differentiated, value-added, and high- margin business model than for companies with a commoditized, tangible asset intensive, low-margin business model.

Finally, the business model and industry often also dictate which intangible assets will be created and which will offer the highest return. Similarly, the same is true for ESG, but which of E, S, and G investments will generate which intangible assets? Answering this question is necessary for enterprises to articulate the value proposition of ESG investments.

To answer this question, we postulate how E, S, and G investments may generate value (i.e. enhance cash flows) and/or maintain value (i.e. reduce risk) for specific groups of intangible assets, including Brands, Human Capital, Customer Franchises, and Technology. We examine the potential value creation lifecycle in the figure below through three separate stages:

- Direct Assets – Those intangible assets which may be directly impacted by the E, S, or G investment.
- Indirect Assets – Those intangible assets which could benefit from the value accretion of the direct intangible asset(s) which was targeted with the E, S, or G investment.
- Scalable Value Creation – The final phase of the lifecycle recognizes that intangible asset value creation via ESG investments can achieve scalable returns as a result of the interconnection with other intangible assets.



Patterns of potential value creation begin to emerge from the analysis above. While G largely reduces risk and maintains asset value, S investments tend to drive asset creation and cash flow generation. E investments tend to fall in between, with an expectation that the relative mix of risk reduction and asset creation will be highly dependent on the industry and related exposure to environmental risks.

III. A Framework to Assess ESG Value Creation Opportunities at the Enterprise Level

With a better understanding of how E, S, and G investments result in value creation via specific intangible assets, and given that intangible asset value drivers are well documented and understood[4], we can identify certain characteristics to help assess expected relative value creation of ESG investments between enterprises. Here are the six characteristics identified, along with brief descriptions:

- Criteria 1 – Reliance on Brand/Brand Strength.
  - As noted in the prior section, the enhancement and maintenance of ones' brand and reputation appears central to the value proposition of E, S, and G investments. Brand power can generate excess returns between identical products with no more than a name and reputation. As such, the ability to increase one's brand, or maintain an existing brand, is critical to ESG strategy. It would appear that, the greater the reliance on brand and reputation for an enterprise, the greater the ability to create or maintain value through ESG investments.
- Criteria 2 - Reliance on Human Capital and Workforce Skill Level.
  - As noted in the table above, Human Capital is central to intangible asset value creation. Much of the value, and the value generating capacity, in an intangible-driven enterprise resides in its human capital. The cost of failing to attract talent, or losing existing talent and knowhow, are high. It would appear that, the greater the reliance on human capital for an enterprise, the greater the ability to create or maintain value through ESG investments.
- Criteria 3 - Premium to Book Value and Value-added Business Model.
  - ESG investment value creation manifests in the formation and/or maintenance of intangible assets. The magnitude of ESG value creation as well as the optimal investment in ESG, are therefore dependent on an enterprise's ability to drive excess economic returns within its industry. It would appear that, the greater the enterprise valuation premium over tangible assets and capital, or the ability to generate enterprise valuation premium, the greater the ability to create or maintain value through ESG investments.
- Criteria 4 - Nature of Customer Relationships.
  - Per the table above, E, S, and G investments all have an impact on the formation and maintenance of customer franchise assets. However, assessing how much of an impact requires studying an enterprise's customer base, along with the respective ESG expectations or requirements of those customers. Such analysis is critical to understanding how ESG investments may or may not drive value creation. For enterprises which operate in business to consumer industries, ESG investments provide the opportunity to create value through brand recognition and differentiation as well as through investments in human capital. Alternatively, for enterprises which operate in business to business industries, ESG investments may be a requirement imposed by customers as ESG mandates are pushed through their supply chains. An early example of such requirements is Apple's goal to become carbon neutral across its entire value chain by 2030.[5] It would appear that, the greater the connection to the end customer, the greater the ability to create or maintain value through ESG investments.
- Criteria 5 - Tangible Asset Intensity.
  - As noted above, tangible assets have a relatively capped rate of return. On the other hand, ESG investments largely drive additional returns through the formation and maintenance of intangible assets which are scalable. It would appear that, the more a business model relies on tangible assets, the less the potential to create value through ESG investments. However, while tangible assets have relatively fixed returns on the high end, there are significant ESG risks (especially environmental) which could reduce return and degrade value. As such, ESG's role in maintaining value should be considered for both tangible and intangible driven enterprises.
- Criteria 6 - Market Dominant Technology.
  - While there is a positive correlation between intangible asset intensity and ESG returns, there are exceptions. For example, propriety technology, especially patented technology, can create consumer demand that is less elastic to the value of other intangible assets. As such, ESG investments may have a lower impact on value creation in these instances. Note that Human Capital is critical to developing technology, but this impact is addressed in Criteria 2. It would appear that, the more a business model relies on proprietary technology,

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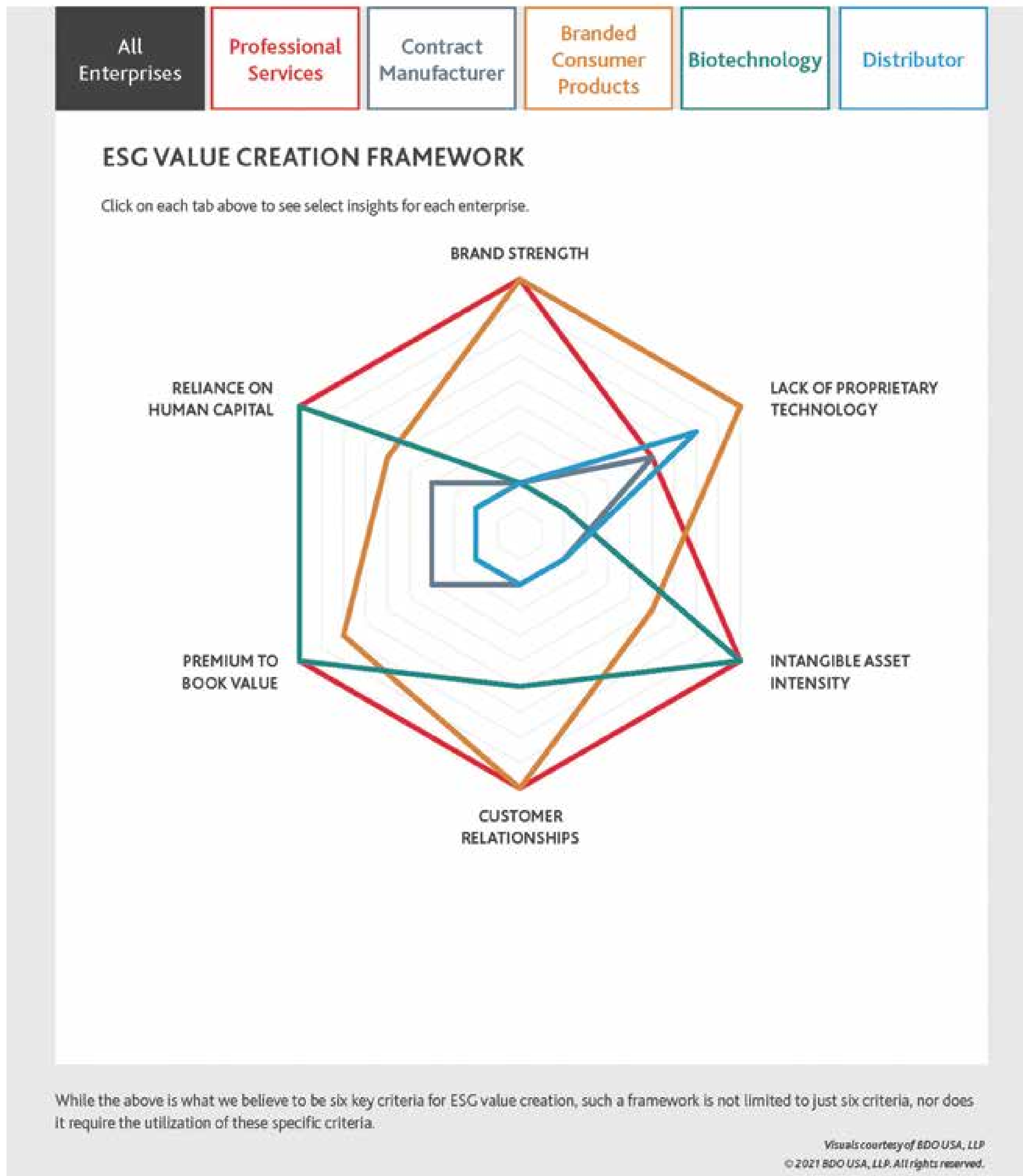
[4] *See International Valuation Standards (IVS), Effective 31 January 2020, Section 210*

[5] *Apple launches $200 million forestry fund it says will bring financial return for investors*

the less the potential to create or maintain value through ESG investments.

The below interactive graph analyses these six criteria for five enterprises from different industries, on a scale from 1 to 5. The further away from the centre (e.g., 5), and greater area covered, the greater the expected value creation of ESG investments.



Next Steps

In the short term, a focus on intangible valuation creation can bring more financial discipline to ESG investments and bolster sustainability reports to go beyond lists of statistics and overtly qualitative narratives. Longer term, a focus on intangible value creation can facilitate a move toward a financial reporting system that captures intangible value

creation. While the current accounting framework often lacks relevant information on value creation, there are examples in which it is also actively constraining efforts to fully implement value creating ESG priorities.

In a recent article, *Examining How Current Accounting Practice is Constraining* the Net Zero Transition, the authors analyse an oil company's commitment to become carbon neutral by 2050 in the context of ESG and the current accounting model for intangible assets and liabilities. They argue that the current accounting model unduly penalizes and demotivates companies as they attempt to make such investments.[6]

This need is no more succinctly articulated than in the author's analysis of both technology and brand intangibles, the latter of which is discussed below:

"A further clue is provided by the IASB Conceptual Framework which defines an 'Asset' as 'a resource controlled by the entity…….. from which there is potential for future economic benefits.' We postulate that while an organization does not control the environment, its employees, or other stakeholders, it has control of its relationship with those entities, intertwined with its reputation, through the alignment of its decisions with social norms. It follows that the definition of an asset should be applied to an entity's reputation or its social license to operate, resulting in capitalization and fair valuation of these assets. This treatment balances the requirement to recognize social obligations as liabilities and reduces the punishing treatment of costs related to complying with social norms. Such costs could be viewed as investment in reputation and the potential benefit to the organization from such investment would be capitalized."

Such constraints within the current accounting model are not limited to brand and technology, but also exist for human capital. In *Two Sigma Impact: Finding Untapped Value in the Workforce,* the authors note how current accounting drives behaviour that limits the value creation opportunities for human capital. They state that *"private equity has tended to view labour as a line-item to be reduced rather than a place to invest, resulting in a large blind spot for the industry. What if there were another, more fruitful way of looking at workforce issues?".*[7]

Such insights are not meant to argue that ESG is a fad that will soon go out of style. To the contrary, ESG is inextricably linked to ongoing efforts by accounting standard setters and investors to further explore opportunities to systematically address internally generated intangible assets. Additionally, the best ideas, concepts, and frameworks that emanate from ESG, will undoubtedly help inform the accounting process.

In our next article series, we plan to further explore opportunities for considering intangible value creation by 1) Reviewing the goals and opportunities for an enhanced framework, 2) Performing an analysis to map the types of costs that give rise to intangible assets in order to identify intangibles that could be subject to an enhanced intangible asset framework, and 3) Exploring whether an enhanced framework should be based on enhanced disclosures, capitalization, or value creation concepts.

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[6] *Constrained by Accounting: Examining How Current Accounting Practice is Constraining the Net Zero Transition*

[7] *Two Sigma Impact: Finding Untapped Value in the Workforce*

Rules of Conduct

Published by the Royal Institution of Chartered Surveyors (RICS)

Introduction

The Rules of Conduct support positive change in the built and natural environments, through promoting and enforcing the highest ethical standards in valuation, the development and management of land, real estate, construction and infrastructure. The Rules of Conduct are based on ethical principles of honesty, integrity, competence, service, respect and responsibility.

Under its Royal Charter, RICS is required to maintain the usefulness of the profession for the public advantage, and the practice of surveying is defined as including 'securing the optimal use of land and its associated resources to meet social and economic needs'. Professional ethical practice by RICS members and firms provides a foundation for effective markets, pioneers better places to live and work, and is a force for positive social impact.

Professional practice will often involve balancing competing interests and using values and ethical judgement to come to a decision about what is right. The five rules provide a structure for making ethical decisions about how to behave as a professional. Members must use their professional judgement in applying these principles to the situations they face in practice and firms must support individuals working for them to do so. The rules are primarily about professional conduct, but personal conduct may be relevant to the rules where it may damage public confidence in the profession.

The Rules of Conduct apply to all members (as defined in Bye-Law 5.1) and firms regulated by RICS. References to 'firms' in this document means firms regulated by RICS. References to 'clients' in this document means anyone to whom a member or firm has agreed to provide a professional service.

RICS members and firms operate around the world, and the Rules of Conduct apply to members and firms wherever they work or practise. We recognise that laws differ between jurisdictions and that firms and members must consider the legal obligations that apply to them.

This document provides examples of behaviours that would indicate a member or firm had complied with the rule. These examples are not exhaustive. For all behaviours, RICS expects a member or firm to do what is reasonably possible to achieve the outcome described.

Only serious breaches of the rules are likely to result in disciplinary action; minor breaches can be dealt with through self-correction or firms' processes. RICS disciplinary processes are not intended to replace other processes for resolving fee disputes or compensating for poor service or mistakes. Members and firms (in particular, their responsible principal) should be prepared to explain their actions and how they have complied with the rules, even if they have not followed an example behaviour.

Appendix A sets out the core professional obligations of members and firms to RICS.

The Rules of Conduct are effective from 2 February 2022.

Rule 1

Members and firms must be honest, act with integrity and comply with their professional obligations, including obligations to RICS.

Example behaviours

1.1 Members and firms do not mislead others by their actions or omissions, or by being complicit in the actions or omissions of others.

1.2 Members and firms do not allow themselves to be influenced improperly by others (as a result of, for example, giving or receiving work referrals, gifts, hospitality or payments) or by their own self- interest.

1.3 Members and firms identify actual and potential conflicts of interest throughout a professional assignment and do not provide advice or services where a conflict of interest or a significant risk of one arises, unless they do so in accordance with the current edition of Conflicts of interest, RICS professional statement.

1.4 Firms have effective processes to identify actual and potential conflicts of interest, to enable appropriate decisions to be made on whether to accept work, and to keep records of decisions made about actual and potential conflicts of interest.

1.5 Members and firms providing advice and opinion in a professional context do so honestly and objectively based on relevant and reliable evidence, and firms have processes to ensure that directors, partners and employees do so.

1.6 Members and firms are open and transparent with clients about their fees and services.

1.7 Members and firms act to prevent others being misled about their professional opinion.

1.8 Members and firms do not take unfair advantage

of others.

1.9 Members and firms protect confidential information and only use or disclose it for the purposes for which it was provided, where they have the necessary consent to do so or where required or permitted by law.

1.10 Firms keep client money safe and have appropriate accounting controls.

1.11 Members do not misuse client money and comply with controls intended to keep it safe.

1.12 Members and firms do not facilitate any financial crime including money laundering, tax evasion, bribery or corruption. Firms have effective processes to prevent directors, partners or employees from doing so.

Rule 2

Members and firms must maintain their professional competence and ensure that services are provided by competent individuals who have the necessary expertise.

Example behaviours

2.1 Members and firms only undertake work that they have the knowledge, skills and resources to carry out competently.

2.2 Members and firms supervise any employees undertaking work for them and ensure that these employees have the necessary knowledge, skills and resources to do their tasks competently.

2.3 Members and firms check that subcontractors have the necessary knowledge, skills and resources to do their tasks competently.

2.4 Members and firms reflect on the work they have undertaken and its impacts, and consider how they might apply what they have learned to their future work.

2.5 Members maintain and develop their knowledge and skills throughout their careers. They identify development needs, plan and undertake continuing professional development (CPD) activities to address them and are able to demonstrate they have done so. Firms encourage and support directors, partners and employees to maintain and develop their knowledge and skills, and check that they are complying with CPD requirements set by RICS.

2.6 Members and firms stay up to date and comply with relevant legislation, codes of practice and other professional and relevant technical standards. Firms ensure that their directors, partners and employees do so.

Rule 3

Members and firms must provide good-quality and diligent service.

Example behaviours

3.1 Members and firms understand clients' needs and objectives before accepting any professional work.

3.2 Members and firms agree with clients the scope of the service to be provided and its limitations, and timescales for the work.

3.3 Firms inform clients that they are regulated by RICS and that they may need to disclose records to RICS where required for regulatory purposes.

3.4 Members and firms inform clients promptly and seek their agreement if it is proposed that any of the terms of engagement or estimated fees or costs be changed.

3.5 Members and firms undertake their work in a timely manner; with due care, skill and diligence, and in accordance with RICS technical standards.

3.6 Members and firms communicate to clients the material information on which their professional advice and opinion is based.

3.7 Members and firms communicate with clients and others clearly and in a way they can understand.

3.8 Members and firms ensure that any referral or introduction they make for a client is in the best interests of the client and inform clients about any financial or other benefits to the member or their firm from a referral or introduction.

3.9 Members and firms keep proper records of their work and decisions in enough detail to allow them to answer questions from clients and to allow their work to be audited for quality assurance or regulatory purposes.

3.10 Members and firms, when advising clients about projects, encourage solutions that are sustainable in that they minimise harm and deliver balanced economic, social and environmental benefits.

3.11 Members and firms understand the risks and benefits of using relevant technology.

3.12 Members and firms check that all data used is accurate and up to date, is kept securely, and that they have proper legal rights to use it and, where required, share it.

3.13 Firms have effective quality assurance processes for their work.

Rule 4

Members and firms must treat others with respect and encourage diversity and inclusion.

Example behaviours

4.1 Members and firms respect the rights of others and treat others with courtesy.

4.2 Members and firms treat everyone fairly and do not discriminate against anyone on any improper grounds,

including age, disability, gender reassignment, marriage or civil partnership, pregnancy or maternity, race, religion or belief, sex or sexual orientation.

4.3 Members and firms do not bully, victimise or harass anyone.

4.4 Firms check that supply chains do not involve modern slavery or other abuses of the workforce.

4.5 Members and firms report abusive labour practices to proper and recognised authorities if they become aware of, or suspect, them.

4.6 Members and firms work cooperatively with others.

4.7 Members and firms develop an inclusive culture in their workplaces, support equal access and opportunity for all, and identify and address unconscious bias.

Rule 5

Members and firms must act in the public interest, take responsibility for their actions and act to prevent harm and maintain public confidence in the profession.

Example behaviours

5.1 Members and firms question practices and decisions that they suspect are not right, and raise concerns with colleagues, senior management, clients, RICS or any other appropriate person, body or organisation where they believe in good faith that it is necessary to do so. Firms provide processes to allow and support individuals within the firm to raise concerns with senior management.

5.2 Members and firms support directors, partners, employees, colleagues or clients who have acted in good faith to report concerns.

5.3 Members and firms ensure that public statements made by the firm, or in which members are (or could be) identified as members of the profession, do not undermine public confidence in the profession.

5.4 Members and firms respond to complaints made against them promptly, openly and professionally.

5.5 Members and firms do not dissuade complainants from approaching an alternative dispute resolution provider, RICS or any other regulatory body.

5.6 Members and firms cooperate with investigations into complaints or concerns, and provide information where it is reasonably requested and they can do so lawfully.

5.7 Members consider the effect that any health conditions may have on their competence or ability to undertake professional work, and inform management or clients where they require reasonable adjustments or are unable to continue to undertake work competently.

5.8 Members and firms manage their professional finances responsibly.

5.9 Members and firms take appropriate action when they consider that the rules have been breached, and report suspected significant breaches of the Rules of Conduct by themselves or others to RICS.

Appendix A: Professional obligations to RICS

This appendix sets out the core professional obligations for members and firms. Additional professional obligations are found in the mandatory requirements of RICS professional statements relevant to a member or firm's practice.

The following professional obligations to RICS are mandatory for RICS members.

1. Members **must** comply with the CPD requirements set by RICS.
2. Members **must** cooperate with RICS.
3. Members **must** promptly provide all information reasonably requested by the Standards and Regulation Board, or those exercising delegated authority on its behalf.

The following obligations are mandatory for RICS-regulated firms.

1. Firms **must** publish a complaints-handling procedure, which includes an alternative dispute resolution provider approved by RICS, and maintain a complaints log.
2. Firms **must** ensure that all previous and current professional work is covered by adequate and appropriate professional indemnity cover that meets the standards approved by RICS.
3. Firms with a sole principal **must** make appropriate arrangements for their professional work to continue in the event of their incapacity, death, absence from or inability to work.
4. Firms **must** cooperate with RICS.
5. Firms **must** promptly provide all information reasonably requested by the Standards and Regulation Board, or those exercising delegated authority on its behalf.
6. Firms **must** display on their business literature, in accordance with RICS' published policy on designations, a designation to denote that they are regulated by RICS.
7. Firms **must** report to RICS any matter that they are required to report under the **Rules for the Registration of Firms.**

MULTIPLE CHOICE QUESTIONS

ICMAI REGISTERED VALUERS' ORGANISATION

Registered Office
The Institute of Cost Accountants of India
4th Floor, CMA Bhawan 3, Institutional Area
Lodhi Road, New Delhi – 110003

www.rvoicmai.in

MULTIPLE CHOICE QUESTIONS

MCQ FOR SFA

1 Total value of all final goods and services produced in a country during one year is:

a) NNP

b) GNP

c) GDP

d) NI

Ans) GDP

2 The difference between revenue expenditure and revenue receipts is

a) Revenue deficit

b) Fiscal deficit

c) Budget deficit

d) Primary deficit

Ans) Revenue deficit

3 The difference between total expenditure and total receipts except loans and other liabilities is called

a) Fiscal deficit

b) Budget deficit

c) Budget deficit

d) Budget deficit

Ans) Fiscal deficit

4 Which of the following may not be a part of projected Financial Statements?

a) Projected IncomeStatement

b) Projected TrialBalance

c) Projected Cash Flow Statement

d) Projected Balance Sheet.

Ans) Projected Trial Balance

5 Stock split is a form of

a) Dividend Payment

b) Bonus Issue

c) Financial restructuring

d) Dividend in kind

Ans) Financial restructuring

6 A preliminary prospectus is known as a

a) golden parachute.

b) red herring.

c) blue sky.

d) green shoe.

Ans) red herring.

7 First rating agency of India is

a) CRISIL

b) ICRA

c) SMERA

d) MOODY

Ans) CRISIL

8 The process of protecting oneself against future price changes by shifting some or all of the risk to someone else is called:

a) speculating

b) investing

c) hedging

d) gambling

Ans) hedging

9 Organised markets that enable new issues of equity and debt to be traded.

a) Secondary markets

b) Primary capital markets

c) BSE

d) NSE

Ans) Primary capital markets

10 The rate at which commercial banks make funds available to people is known as:

a) Success Rate

b) Bank Rate

c) Borrowing Rate

d) Lending Rate

Ans) Lending Rate

11 .... means bailment of goods as security for payment of debt:

a) Hypothecation

b) Overdraft

c) Pledge

d) Consumer Credit

Ans) Pledge

12 Measurement and disclosure do not apply to which of the following?

a) Leasing based transactions

b) Net realizable values/Impairment of Assets

c) Share based payments

d) Price received to sell or buy an asset

Ans) Price received to sell or buy an asset

13 Which of the following statement is true?

a) Debenture holder is an owner of the company

b) Debenture holder can get back its money only on the liquidation of the company

c) A debenture issued at a discount can be redeemed at a premium

d) A debenture holder receives

MULTIPLE CHOICE QUESTIONS

interest only in the event of profits

Ans) A debenture issued at a discount can be redeemed at a premium

14 Belated return can be filed by an assessee earlier or before completion of assessment and:

a) 6 months

b) 1 year

c) 2 years

d) 3 years

Ans) 1 year

15 Which of the following is not a capital receipt?

a) 'Salami' for settlement of tenancy

b) Insurance claim received on machinery lost by fire

c) Lump-sum received on sale of shares

d) Goods sold for cash under 'Patent Rights'

Ans) Goods sold for cash under 'Patent Rights'

16 Compensation for cancellation of a license by the government resulting in cessation of business is:

a) A casual receipt

b) A capital receipt

c) A revenue receipt

d) None of the above

Ans) A revenue receipt

17 Compensation received for loss of trading asset is a:

a) Capital receipt

b) Revenue receipt

c) Casual receipt

d) None of the above

Ans) Capital receipt

18 Which of the following is not a revenue expense?

a) Rent of office building

b) Sales tax and excise duty paid

c) Payment made on dismissal of company

d) Remuneration to employers of a temporary employee

Ans) Rent of office building

19 Any payment made to discharge a revenue liability, if refunded later on, shall be:

a) A revenue receipt

b) A capital receipt

c) A casual receipt

d) None of the above

Ans) A revenue receipt

20 Residential status of taxable entities is:

a) Fixed in nature

b) Can change from year to year

c) Fixed once in 5 years

d) None of the above

Ans) Can change from year to year

21 Income received in India is taxable in the hands of:

a) Resident only

b) Resident and ordinarily resident only

c) Non-resident only

d) All assesses

Ans) All assesses

22 Exempted incomes are defined under section:

a) 15 of Income Tax Act

b) 18 of Income Tax Act

c) 10 of Income Tax Act

d) 20 of Income Tax Act

Ans) 10 of Income Tax Act

23 The basic exemption limit in case of a resident individual of the age of below 60 years is Rs .... : (AY 2021-22)

a) Rs 2,00,000

b) Rs 2,50,000

c) Rs 3,00,000

d) Rs 5,00,000

Ans) Rs 3,00,000

24 A resident individual (whose net income does not exceed Rs 3,50,000) can avail rebate under section 87A. It is deductible from income-tax before calculating education cess. The amount of rebate is 100 percent of income-tax or Rs ...., whichever is

a) 10000

b) 2500

c) 2000

d) 1000

Ans) 2500

25 Which of the following is an agriculture income?

a) Dividend paid by a company out of its agriculture income

b) Share of Profit by a Partner from a firm engaged in an agriculture operation

c) Income from supply of water by a assessee from a tank in its agricultural land

d) Interest received by a money lender in the form of agricultural produce

Ans) Share of Profit by a Partner

MULTIPLE CHOICE QUESTIONS

from a firm engaged in an agriculture operation

26 Which of the following incomes received by an assessee are exempt under section 10 of the Income Tax Act?

a) Agricultural Income

b) Salary of a partner from a firm

c) Salary received by a member of a ship's crew

d) All of the above

Ans) Agricultural Income

27 If control and management of its affairs was fully in India, a foreign company becomes:

a) Resident in India

b) Ordinarily resident in India

c) Non-resident

d) None of the above

Ans) Resident in India

28 A domestic company is taxable at 30%. However, tax rate is 25% if turnover or gross receipt of the company does not exceed: (AY 2021-22)

a) Rs 250 crore

b) Rs 25 crore

c) Rs 10 crore

d) Rs 200 crore

Ans) Rs 250 crore

29 Which of the following is not included in taxable income?

a) Income from smuggling activity

b) Casual Income

c) Gifts of personal nature subject to a maximum of 50,000 received in cash

d) Income received in kind

Ans) Gifts of personal nature subject to a maximum of 50,000 received in cash

30 Unexplained cash credits are chargeable to tax @ .... :

a) 0.1

b) 0.2

c) 0.15

d) 0.3

Ans) 0.3

31 Income from subletting of house property is taxable under the head .... :

a) Income from House Property

b) Profits & Gains from Business or Profession

c) Income from Other Sources

d) Capital Gains

Ans) Income from Other Sources

32 When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that:

a) Maximises the use of relevant observable inputs

b) Minimises the use of unobservable inputs.

c) both (a) and (b)

d) either (a) or (b)

Ans) c

33 In case of financial assets, an enity needs toidentify the principal market or, in the absence of a principal market, the most advantageous market.

a) TRUE

b) FALSE

c) All of these

d)None of the above

Ans) b

34 The price that would be received is 26, transaction costs in that market are 3 and the costs to transport the asset to that market are 2. Calculate the fair value of the asset, if market it is the principal market.

a) 26

b) 23

c) 21

d) 24

Ans) d

35 The price that would be received is 26, transaction costs in that market are 3 and the costs to transport the asset to that market are 2. Calculate the fair value of the asset, if market it is the most advantageous market.

a) 26

b) 23

c) 21

d) 24

Ans) c

36 Level 2 input does not include

a) quoted prices for similar assets or liabilities in active markets

b) quoted prices for identical or similar assets or liabilities in markets that are not active

c) quoted prices for identical assets or liabilities in active markets

d) market-corroborated inputs

Ans) c

37 Which of the following statement is true?

a) All valuation approaches must be considered

b) All valuation approaches must be applied

MULTIPLE CHOICE QUESTIONS

c) All valuation methods must be applied

d) Indications of value should be averaged

Ans) All valuation approaches must be considered

38 Which of the following principle of valuation would be more appropriate in respect of M & A

a) Principle of Integration

b) Principle of future Benefits

c) Principle of substitution

d) Principle of substitution,Interation & Future benefits

Ans) Principle of substitution,Interation & Future benefits

39 If the market value of security is above its intrinsic value, it is good_

a) for 'auction"

b) for 'buy"

c) for 'sell"

d) for retain

Ans) for 'sell"

40 While measuring the investment value we may add to the stand alone value of the business the followings:

a) Value premium, price premium

b) Market premium, control premium

c) Synergy premium, market premium

d) The control premium, The synergy premium

Ans) The control premium, The synergy premium

41 As an appraiser and in order to avoid bias in valuation, you would normally use_

a) One approach

b) Two different approaches

c) Better approach

d) Best approach

Ans) Two different approaches

42 Which one of the following methods do Valuators commonly use for valuation of Brands? (choose the nearest definition)

a) Sales multiples

b) Relief from Royalty

c) Real Option methodology

d) P/E multiples

Ans) Relief from Royalty

43 What doesnot valuation report include?

a) General description of the property

b) Resource management

c) Valuation process describing methods used

d) moderate level of assurance

Ans) moderate level of assurance

44 In arbitrage pricing theory, higher required rate of return is usually paid on stock_

a) higher market risk

b) higher dividend

c) lower dividend

d) lower market risk

Ans) higher market risk

45 Which of the following statements is false?

a) The primary assumption of the APT is that security returns are generated by a linear factor model

b) A benefit of the APT is that it does not specify which variables are the best to use as a

common factor

c) The APT is considered to be less restrictive than the CAPM

d) In practice, researchers claim that we need at least two factors for the APT model.

Ans) A benefit of the APT is that it does not specify which variables are the best to use as a

common factor

46 Which of the following is an assumption of the APT?

a) All investors hold the market portfolio

b) Investors are risk averse

c) Short sales are allowed

d) Investors follow the mean-variance rule

Ans) Short sales are allowed

47 According to the APT, the value of the firm-specific factor is expected to be, on average_

a) more important than the value of the common factors

b) zero

c) positive

d) greater than the value of the common factors

Ans) zero

48 Arbitrage opportunity means you can earn a positive return with_

a) low risk

b) positive initial investment and zero risk

c) zero initial investment and zero risk

d) zero initial investment and some risk

MULTIPLE CHOICE QUESTIONS

Ans) zero initial investment and zero risk

49 Which of the following statements is true according to the theory of arbitrage?

a) Rational investors will arbitrage in a manner consistent with their risk tolerance

b) High-beta stocks are consistently under priced

c) Low-beta stocks are consistently overpriced

d) Positive alpha stocks will quickly disappear

Ans) Positive alpha stocks will quickly disappear

50 In a multi-factor APT model, the coefficients on the macro factors are often called ______.

a) systemic risk

b) firm-specific risk

c) idiosyncratic risk

d) factor loadings

Ans) factor loadings

51 The securities which are providing a fixed income to the investors is known as_

a) Fixed income securities

b) Short term securities

c) Medium term securities

d) Medium & short term securities

Ans) Fixed income securities

52 Yield-to-Maturity on a bond has increased from 8% to 9%. Then, the duration of the bond will_

a) Increase

b) Decrease

c) Remain unchanged

d) Nothing can be concluded from the given information.

Ans) Decrease

53 If coupon rate is equal to going rate of interest then bond will be sold_

a) at par value

b) below its par value

c) more than its par value

d) seasoned par value

Ans) at par value

54 The "modified duration" used by practitioners is equal to the Macaulay duration_

a) times the change in interest rate.

b) times (one plus the bond's yield to maturity).

c) divided by (one minus the bond's yield to maturity)

d) divided by (one plus the bond's yield to maturity)

Ans) divided by (one plus the bond's yield to maturity)

55 Given the time to maturity, the duration of a zero-coupon bond is higher when the discount rate is_

a) higher

b) lower

c) The bond's duration is independent of the discount rate.

d) equal to the risk free rate.

Ans) The bond's duration is independent of the discount rate.

56 The Majority shareholder in CRISIL is _________?

a) Standard and Poors'

b) Poors'

c) Moody's

d) Dun and Bradstreet

Ans) Standard and Poors'

57 Type of rating to which all credit rating agencies does not consider is classified as

a) split rating

b) sinking rating

c) automated rating

d) floating rating

Ans) split rating

58 What is the current rating (as of April 28, 2015) of India by S&P?

a) AA

b) A

c) BBB

d) BB

Ans) BBB

59 CAMEL Model stands for_

a) Capital , Assets, Market, Earnings, Leverage

b) Capital, Action, Market, Earnings, Liquidity

c) Capital, Assets, Management, Earnings, Liquidity

d) Capital, Assets, Management, Earnings, Lliabilities

Ans) Capital, Assets, Management, Earnings, Liquidity

60 Credit Rating is an expression of opinion of an agency, regarding a debt instrument on a specific date, dependent on_

a) Organizational Structure

b) Products & Services

c) Risk Evaluation

d) Products evaluation

Ans) Risk Evaluation

61 Which of the following is not a measure to reduce credit risk in

MULTIPLE CHOICE QUESTIONS

derivatives?

a) Netting

b) Collateralization

c) Downgrade Triggers

d) Upgrade Triggers

Ans) Upgrade Triggers

62 The credit rating of the firm is AAA, the description of the rating is;

a) issuer has missed one or more interest or principal payment."

b) Capacity to pay interest plus Principal is High"

c) Capacity to pay interest plus Principal is slightly susceptible to adverse economic conditions"

d) Significant chances that issuer could miss interest payment."

Ans) Capacity to pay interest plus Principal is High"

63 The credit rating of the firm is A, the description of the rating is;

a) issuer has missed one or more interest or principal payment."

b) Capacity to pay interest plus Principal is adequate Slightly speculative"

c) Capacity to pay interest plus Principal is slightly susceptible to adverse economic conditions"

d) Significant chances that issuer could miss interest payment."

Ans) Capacity to pay interest plus Principal is slightly susceptible to adverse economic conditions

64 The credit rating of the firm is BB, the description of the rating is;

a) . issuer has missed one or more interest or principal payment."

b) Capacity to pay interest plus Principal is adequate. Slightly speculative"

c) Capacity to pay interest plus Principal is slightly susceptible to adverse economic conditions"

d) Significant chances that issuer could miss interest payment."

Ans) Significant chances that issuer could miss interest payment."

65 In binomial approach of option pricing model, last step for finding an option is_

a) price hike

b) price value

c) put price

d) call price

Ans) call price

66 In binomial approach of option pricing model, fourth step is to create_

a) equalize domain of payoff

b) equalize ending price

c) riskless investment

d) high risky investment

Ans) riskless investment

67 Second step in binomial approach of option pricing is to define range of values_

a) at expiration

b) at buying date

c) at exchange closing time

d) at exchange opening time

Ans) at expiration

68 The following statements about simulation models are true except:

a) Simulation models enable the financial manager to analyze

risky projects without estimating the approximate cost of capital

b) Simulation models are complex and expensive to develop

c) Simulation models are specific to the project and every project requires anew simulation model

d) Simulation models usually ignore opportunities to expand or abandon the project

Ans) Simulation models enable the financial manager to analyze risky projects without estimating the approximate cost of capital

69 Monte Carlo simulation is likely to be most useful:

a) For simple problems

b) For problems of moderate complexity

c) For very complex problems

d) Regardless of the problem's complexity

Ans) For very complex problems

70 The following is not among the steps involved in the Monte Carlo method:

a) Modeling the project

b) Specifying the numbers on the roulette wheel

c) Specifying probabilities

d) Simulating the cash flows

Ans) Specifying the numbers on the roulette wheel

71 Which of the following statements are NOT true of simulation?

a) A simulation model cannot prescribe what should be done about a problem

b) The equations describing the operating characteristics of the system are known

c) Simulation models the behaviour of a system

MULTIPLE CHOICE QUESTIONS

d) Simulation models can be used to study alternative solutions to a problem

Ans) The equations describing the operating characteristics of the system are known

72 Monte Carlo simulation gets its name from which of the following?

a) Data collection

b) Analysis

c) Model formulation

d) Random-number assignment

Ans) Random-number assignment

73 The first step in simulation is to_

a) set up possible courses of action for testing.

b) construct a numerical model.

c) validate the model.

d) define the problem.

Ans) define the problem.

74 The three types of mathematical simulation models are_

a) operational gaming, Monte Carlo, systems simulation.

b) Monte Carlo, queuing, maintenance policy.

c) Monte Carlo, systems simulation, computer gaming.

d) system simulation, operational gaming, weather forecasting.

Ans) operational gaming, Monte Carlo, systems simulation.

75 Simulation should be thought of as a technique for_

a) increasing one's understanding of a problem.

b) obtaining a relatively inexpensive solution to a problem.

c) obtaining an optimal solution to a problem.

d) providing quick and dirty answers to complex problems.

Ans) increasing one's understanding of a problem.

76 Which of the following is NOT an example of a financial asset/ liability?

a) Advances received on a construction project

b) A contract that will be settled in the company's own equity

c) Cash

d) Shares

Ans) Shares

77 What is the manner of selling the assets of corporate debtor under the liquidation process, if assets are of perishable nature:

a) Private Sale

b) Auction

c) Sale on standalone basis

d) Sale of asset by any method except on standalone basis

Ans) Private Sale

78 What is an ordinary manner of selling the assets of corporate debtor under the liquidation process_

a) Auction

b) Private Sale

c) Sale on standalone basis

d) Any suitable method adopted by the liquidator

Ans) Auction

79 In Bengal Tea Industries Ltd & Ors. vs. Union of India, a Division Bench of the Calcutta High Court held that:

a) In a scheme of amalgamation of two companies, it is necessary in law to call for a meeting of the creditors and obtain their views on the scheme

b) In a scheme of amalgamation of two companies, it is not necessary in law to call for a meeting of the director and obtain their views on the scheme

c) In a scheme of amalgamation of two companies, it is not necessary in law to call for a meeting of the creditors and obtain their views on the scheme

d) None of the above

Ans) In a scheme of amalgamation of two companies, it is not necessary in law to call for a meeting of the creditors and obtain their views on the scheme

80 Bengal Tea Industries Ltd &Ors. vs. Union of India, a Division Bench of the Calcutta High Court held that:

a) In the event, any shareholder of the Transferee Company had appeared before the Court and had objected to the valuation of the shares or to the exchange ratio, the matter would have taken an entirely different complexion and the Court would have been inclined

b) In the event, any shareholder of the Transferor Company had appeared before the Court and had objected to the valuation of the shares or to the exchange ratio, the matter would have taken an entirely same complexion and the Court would have been inclined

c) In the event, any shareholder of the Transferor Company had appeared before the Court and had objected to the valuation of the shares or to the exchange ratio, the matter would have taken an entirely different complexion and the Court would not have been inclined

MULTIPLE CHOICE QUESTIONS

d) None of the above

Ans) In the event, any shareholder of the Transferor Company had appeared before the Court and had objected to the valuation of the shares or to the exchange ratio, the matter would have taken an entirely different complexion and the Court would have been inclined

Use the following information to answer Questions 81-82

Sun Pharma is a large pharmaceutical company based in Sri Lanka that manufactures prescription drugs under license from large multinational pharmaceutical companies. Delenga Mahamurthy, CEO of Sun Pharma, is evaluating a potential acquisition of Island Cookware, a

small manufacturing company that produces cooking utensils.

Mahamurthy feels that Sun Pharma's excellent distribution network could add value to Island

Cookware. Sun Pharma plans to acquire Island Cookware for cash. Several days later, Sun

Pharma announces that they have acquired Island Cookware at market price.

81 Sun Pharma's most appropriate valuation for Island Cookware is its:

a) sum-of-the-parts value.

b) investment value.

c)liquidation value.

d)none of the above

Ans) investment value.

82 Upon announcement of the merger, the market price of Sun Pharma drops. This is most likely a result of:

a) the unrelated business effect.

b) the tax effect.

c) the conglomerate discount.

d) none of the above

Ans) the conglomerate discount.

Use the following information to answer Questions 83-90

Guardian Capital is a rapidly growing US investment firm. The Guardian Capital research team is responsible for identifying undervalued and overvalued publicly traded equities that have a market capitalization greater than $500 million. Due to the rapid growth of assets under management, Guardian Capital recently hired a new analyst, Jack Richardson, to support the research process. At the new analyst orientation meeting, the director of research made the following statements about equity valuation at Guardian:

Statement 1- "Analysts at Guardian Capital seek to identify mispricing, relying on price eventually converging to intrinsic value. However, convergence of the market price to an analyst's estimate of intrinsic value may not happen within the portfolio manager's investment time horizon. So, besides evidence of mispricing, analysts should look for the presence of a particular market or corporate event— that is, a catalyst— that will cause the marketplace to re-evaluate the subject firm's prospects."

Statement 2- "An active investment manager attempts to capture positive alpha. But mispricing of assets is not directly observable. It is therefore important that you understand the possible sources of perceived mispricing."

Statement 3- "For its distressed securities fund, Guardian Capital screens its investable universe of securities for companies in financial distress."

Statement 4- "For its core equity fund, Guardian Capital selects financially sound companies that are expected to generate significant positive free cash flow from core business operations within a multiyear forecast horizon."

Statement 5- "Guardian Capital's research process requires analysts to evaluate the reasonableness of the expectations implied by the market price by comparing the market's implied expectations to his or her own expectations."

After the orientation meeting, the director of research asks Richardson to evaluate three companies that are retailers of men's clothing: Diamond Co., Renaissance Clothing, and Deluxe Men's Wear. Richardson starts his analysis by evaluating the characteristics of the men's retail clothing industry. He finds few barriers to new retail entrants, high intra- industry rivalry among retailers, low product substitution costs for customers and a large number of wholesale clothing suppliers. While conducting his analysis, Richardson discovers that Renaissance Clothing included three non- recurring items in their most recent earnings release: a positive litigation settlement, a one-time tax credit, and the gain on the sale of a non- operating asset.

To estimate each firm's intrinsic value, Richardson applies appropriate discount rates to each firm's estimated free cash flows over a ten- year time horizon and to the estimated value of the firm at the end of the ten-year horizon. Michelle Lee, a junior technology analyst at Guardian, asks the director of research for advice as to which valuation model to use for VEGA, a fast-growing

MULTIPLE CHOICE QUESTIONS

semiconductor company that is rapidly gaining market share. The director of research states that "the valuation model selected must be consistent with the characteristics of the company being valued." Lee tells the director of research that VEGA is not expected to be profitable for several more years. According to management guidance, when the company turns profitable, it will invest in new product development; as a result, it does not expect to initiate a dividend for an extended period of time. Lee also notes that she expects that certain larger competitors will become interested in acquiring VEGA because of its excellent growth prospects. The director of research advises Lee to consider that in her valuation.

83 Based on Statement 2, which of the following sources of perceived mispricing do active investment managers attempt to identify? The difference between:

a) intrinsic value and market price.

b) estimated intrinsic value and market price.

c)intrinsic value and estimated intrinsic value.

d)none of the above

Ans) intrinsic value and market price.

84 With respect to Statements 3 and 4, which of the following measures of value would the distressed securities fund's analyst consider that a core equity fund analyst might ignore?

a) Fair value

b) Liquidation value

c) Fair market value

d) none of the above

Ans) Liquidation value

85 With respect to Statement 4, which measure of value is most relevant for the analyst of the fund described?

a) Liquidation value

b) Investment value

c) Going- concern value

d) none of the above

Ans) Going- concern value

86 According to Statement 5, analysts are expected to use valuation concepts and models to:

a) value private businesses.

b) render fairness opinions.

c)extract market expectations.

d)none of the above

Ans) extract market expectations.

87 Based on Richardson's industry analysis, which of the following characteristics of men's retail clothing retailing would positively affect its profitability? That industry's:

a) entry costs.

b) substitution costs.

c) number of suppliers.

d) none of the above

Ans) number of suppliers.

88 Which of the following statements about the reported earnings of Renaissance Clothing is most accurate? Relative to sustainable earnings, reported earnings are likely:

a) unbiased.

b) upward biased.

c) downward biased

d) none of the above

Ans) upward biased.

89 Which valuation model is Richardson applying in his analysis of the retailers?

a) Relative value

b) Absolute value

c) Sum- of- the- parts

d) none of the above

Ans) Absolute value

90 Which valuation model would the director of research most likely recommend Lee use to estimate the value of VEGA?

a) Free cash flow

b) Dividend discount

c) P/E relative valuation

d) none of the above

Ans) Free cash flow

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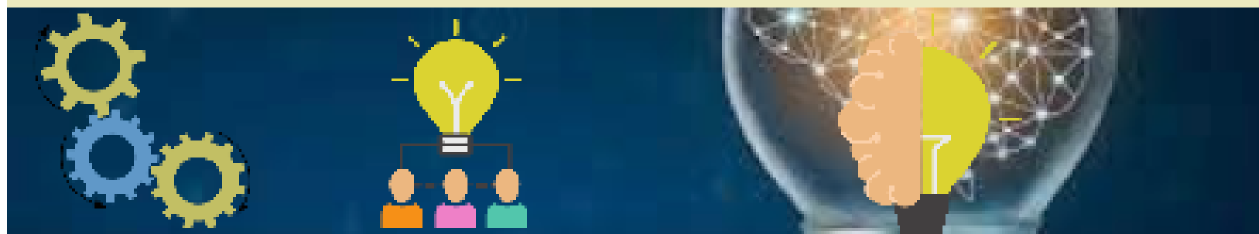

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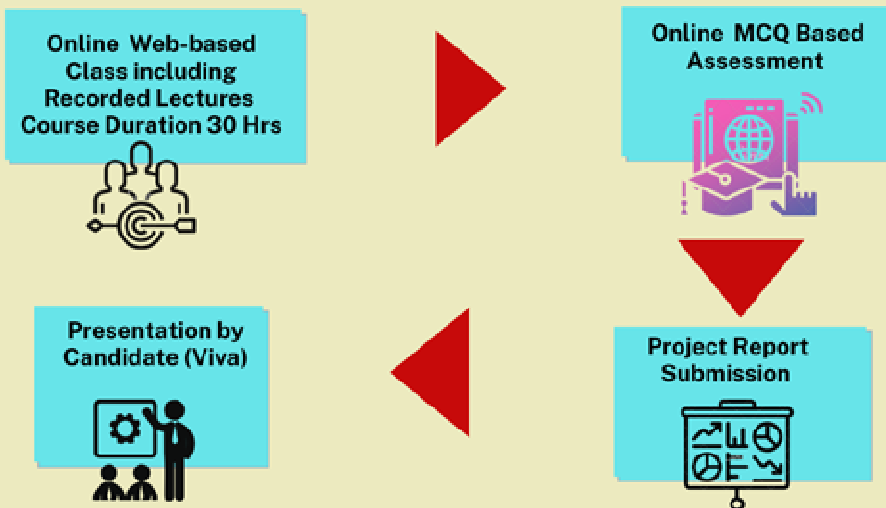

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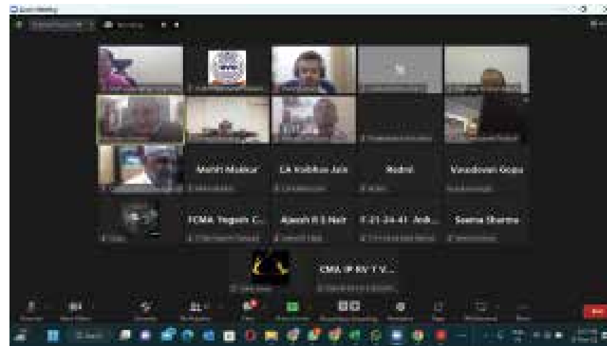


ICMAI REGISTERED VALUERS ORGANISATION

International Lecture Series

POWER TALK

Automated Valuation Models

Speaker

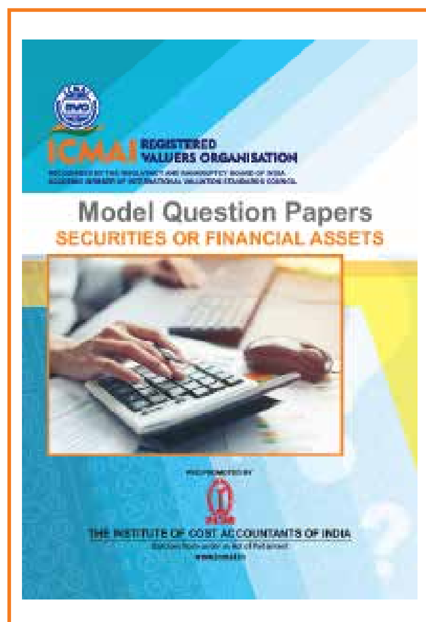
Mr.Maurizio D'Amato

15th November 2022 (Tuesday) From 05:00 PM to 06:00 PM

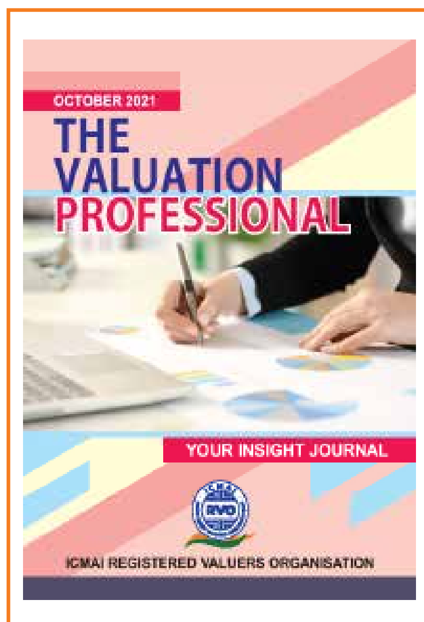
Registration Link:

Contact Us

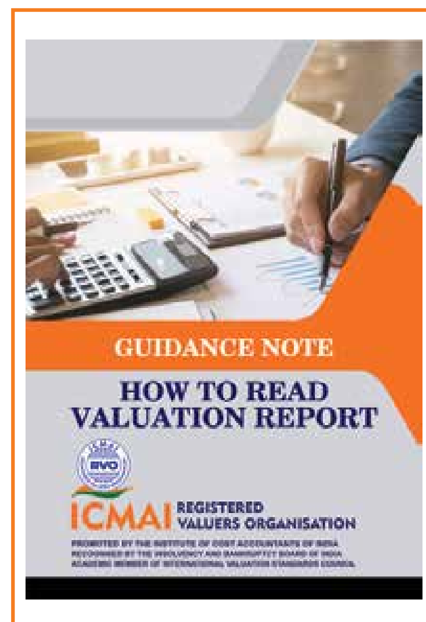
PUBLICATIONS



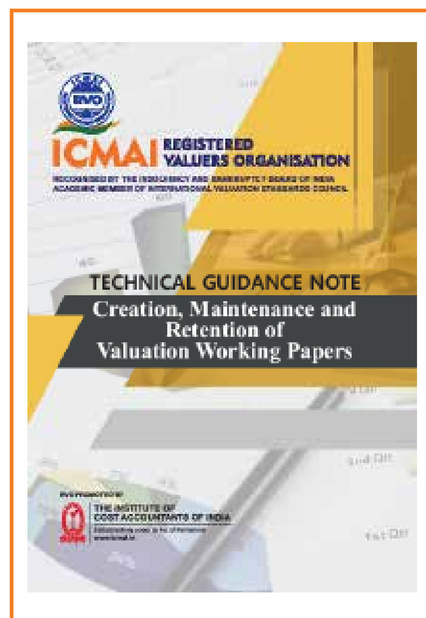
Model Question Papers
Securities or Financial Assets



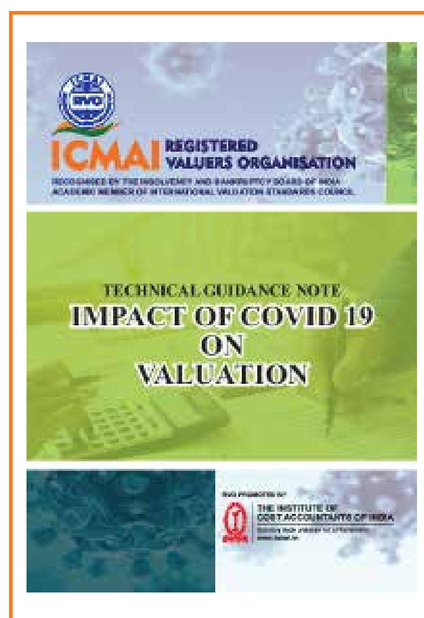
The Valuation Professional



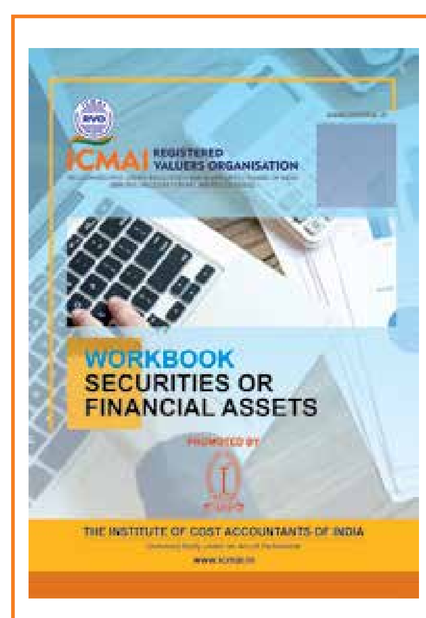
Guidance Note
How to Read Valuation Report



Technical Guidance Note
Creation Maintenance and
Retention of Valuation Working
Papers



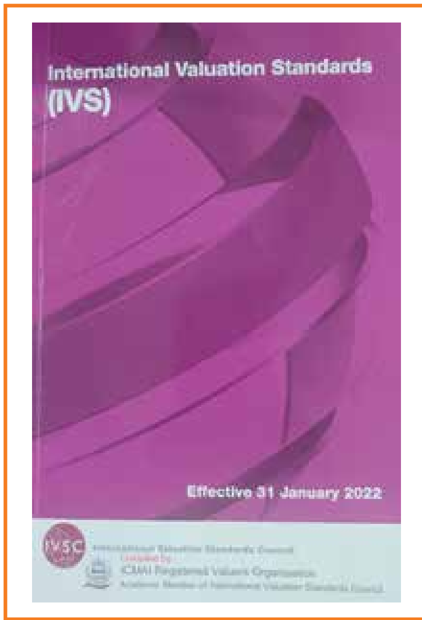
Technical Guidence Note
Impact of Covid 19
on Valuation



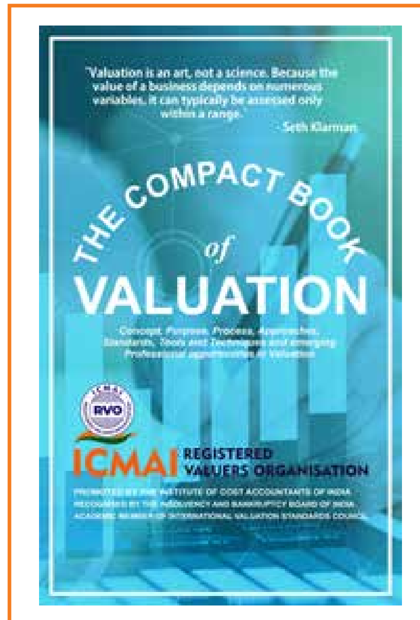
Work Book
Securities or Financial Assets

Link:- https://www.rvoicmai.in/publication/

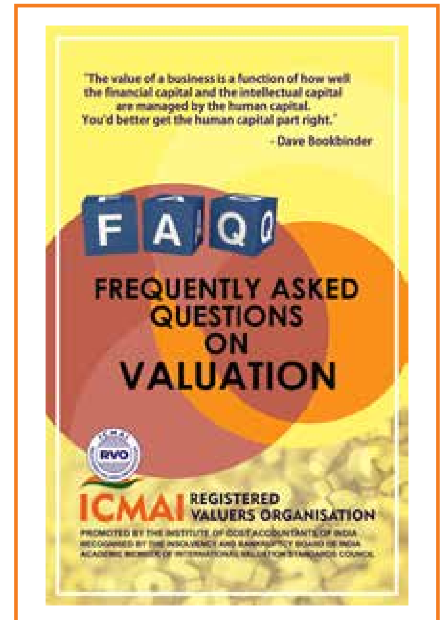
PUBLICATIONS



International Valuation Standards

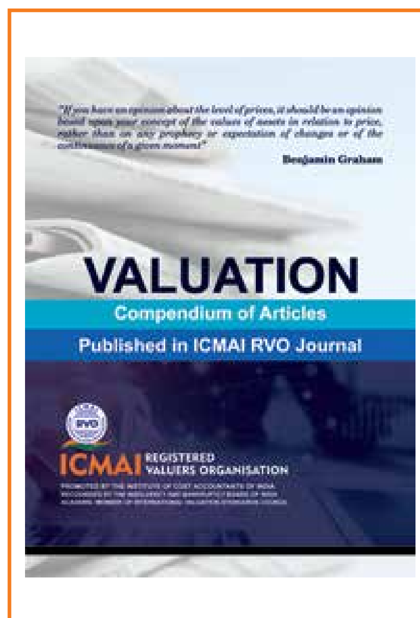


The Compact Book of
Valuation

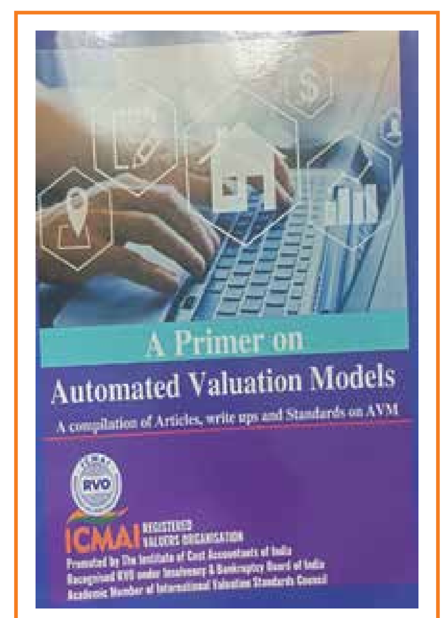


FAQ
Frequently Asked Questions on
Valuation

Compendium of
Perspective Papers



Compendium of Articles



Automated Valuation Models

Link:- https://www.rvoicmai.in/publication/

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GLOSSARY IN TERMS OF VALUATION

A

Adjusted Net Asset Value Method — a method within the Asset Approach whereby a business' assets and liabilities (including off-balance sheet assets, Intangible Assets, and contingent assets and/or liabilities) are adjusted to market values or another appropriate Standard of Value. Also known as adjusted book value method or asset accumulation method.

Adjusted Present Value (APV) — a technique typically used to estimate the value of a levered business as the sum of the value of an unlevered business (i.e., 100% equity financed) and the value of the tax benefits associated with debt financing.

Appraisal — also known as Valuation.

Asset Approach — a general manner of estimating the value of a business using one or more methods based on a summation of the value of the assets, net of liabilities, where each has been valued using either the market, income, or cost approach. Also known as asset-based approach.

See also **Cost Approach.**

Attrition — the annual percentage rate of loss (or churn) of an existing asset such as a customer relationship **Intangible Asset.**

B

Backsolve Method — a method within the Market Approach whereby the total Equity Value (or the value of a specific equity class) of a business is implied from a recent transaction in the business' securities.

Basis of Value — also known as **Standard of Value.**

Beta — a measure of the relative risk (or sensitivity) of an individual security versus the risk of a market portfolio. See also Capital Asset Pricing Model, Systematic Risk, Unsystematic Risk,

Levered Beta, and **Unlevered Beta.**

Binominal Lattice Model — a model typically used to estimate the value of an asset or investment that employs a binomial tree to show the different paths the price of an underlying asset, such as a security, might take over the security's life.

Blockage Discount — an amount or percentage deducted from the current market price of a publicly-traded security to reflect the decrease in the per security value of a block of securities that is of a size that could not likely be sold in a reasonable period given normal trading volume.

Build-up Model — a model in which the expected return for a security (or portfolio of Securities) is measured by a Risk-Free Rate plus premiums for Systematic Risk (e.g., Equity Risk Premium, size premium and industry risk premium) and Unsystematic Risk (e.g., Company Specific Risk Premium). See also Capital Asset Pricing Model.

C

Capital Asset Pricing Model (CAPM) — a single factor asset pricing model that measures the expected return for a security (or portfolio of securities) as the sum of a Risk-Free Rate plus a risk premium. The risk premium is equal to the Systematic Risk (measured by Beta) of the security (or portfolio of securities) multiplied by the risk premium of holding the overall market portfolio. The CAPM is often modified or extended for other risk factors, such as size, country risk, and Company-Specific Risk. See also Build-up Model.

Capital Structure — the composition of the Invested Capital of a business, including debt and Debt Equivalents, equity, and Hybrid Securities. See also Simple Capital Structure and Complex Capital Structure.

Capitalization of Earnings Method — a form of the Capitalization of Economic Income Method.

Capitalization of Economic Income Method — a method within the Income Approach whereby expected Economic Income for a representative single period is converted to value through division by a Capitalization Rate. Also known as the capitalization method or direct capitalization method.

Capitalization Rate — a divisor (usually expressed as a percentage) used to convert into value the expected Economic Income of a normalized single period. The Capitalization Rate is generally calculated as a Discount Rate less a long-term growth rate.

Cash Flow — cash inflows or outflows that are

generated over a period by an asset, business, or investment; often supplemented by a qualifier in the given valuation context (e.g., discretionary or operating). See also Net Cash Flow to Equity and Net Cash Flow to Invested Capital.

Company-Specific Risk Premium — an adjustment to the cost of equity to account for Company-Specific Risk. Also known as alpha.

Company-Specific Risk —the risk that is unique to a specific investment in a business, in excess of the Equity Risk Premium, size risk, and/or country risk (e.g., significant customer concentration, business dependence on key person(s), or lack of product diversification). Also known as Unsystematic Risk.

Complex Capital Structure — a Capital Structure that includes debt and equity securities with different economic and control rights. Contrast with Simple Capital Structure.

Contributory Asset Charge — an economic charge for Contributory Assets applied in the Multi-Period Excess Earnings Method. See also Contributory Assets, Excess Earnings Method, and Multi-Period Excess Earnings Method.

Contributory Assets — assets (e.g., working capital, machinery and equipment, trademarks, assembled workforce) that are used in conjunction with the subject Intangible Asset in the realization of prospective cash flows associated with the Intangible Asset being valued. See also Multi-Period Excess Earnings Method and Contributory Asset Charge.

Control — a level of ownership having sufficient rights (e.g., voting) to direct the management, policies, and disposition of a business

Control Premium — an amount or percentage by which the pro rata value of a Controlling Interest exceeds the pro rata value of a Noncontrolling Interest in a business, to reflect the anticipated economic benefits of Control. Also known as acquisition premium.

Controlling Interest — an ownership interest in a business that conveys the economic benefits of Control to the holder(s) of such interest.

Cost Approach — a general manner of estimating the value of an asset, investment, or (in limited circumstances) a business using one or more methods that reflect the economic principle that a buyer will generally pay no more for an asset than the cost to obtain another asset of equal utility, whether by purchase or by construction. The approach considers the current replacement or reproduction cost and the physical deterioration and all other relevant forms of obsolescence. See also Asset Approach.

Cost of Capital — the expected rate of return that the market requires in order to attract funds to a particular investment considering the risk of the investment. See also Weighted Average Cost of Capital.

Cost Savings Method — a method within the Income Approach whereby the value of an Intangible Asset is estimated based on an expected future benefit stream of the asset in terms of the future expenses that are avoided (or reduced) by owning the asset.

Current Value Method — a procedure to allocate the Equity Value to the various equity interests (or Enterprise Value to the various debt and equity interests) in a business as though the business were to be sold on the Valuation Date, without considering the option-like payoffs of the equity interests. Contrast with Probability-Weighted Expected Return Method and Option Pricing Method.

OPPORTUNITIES FOR REGISTERED VALUERS

Companies Act, 2013

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

SEBI Regulations

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

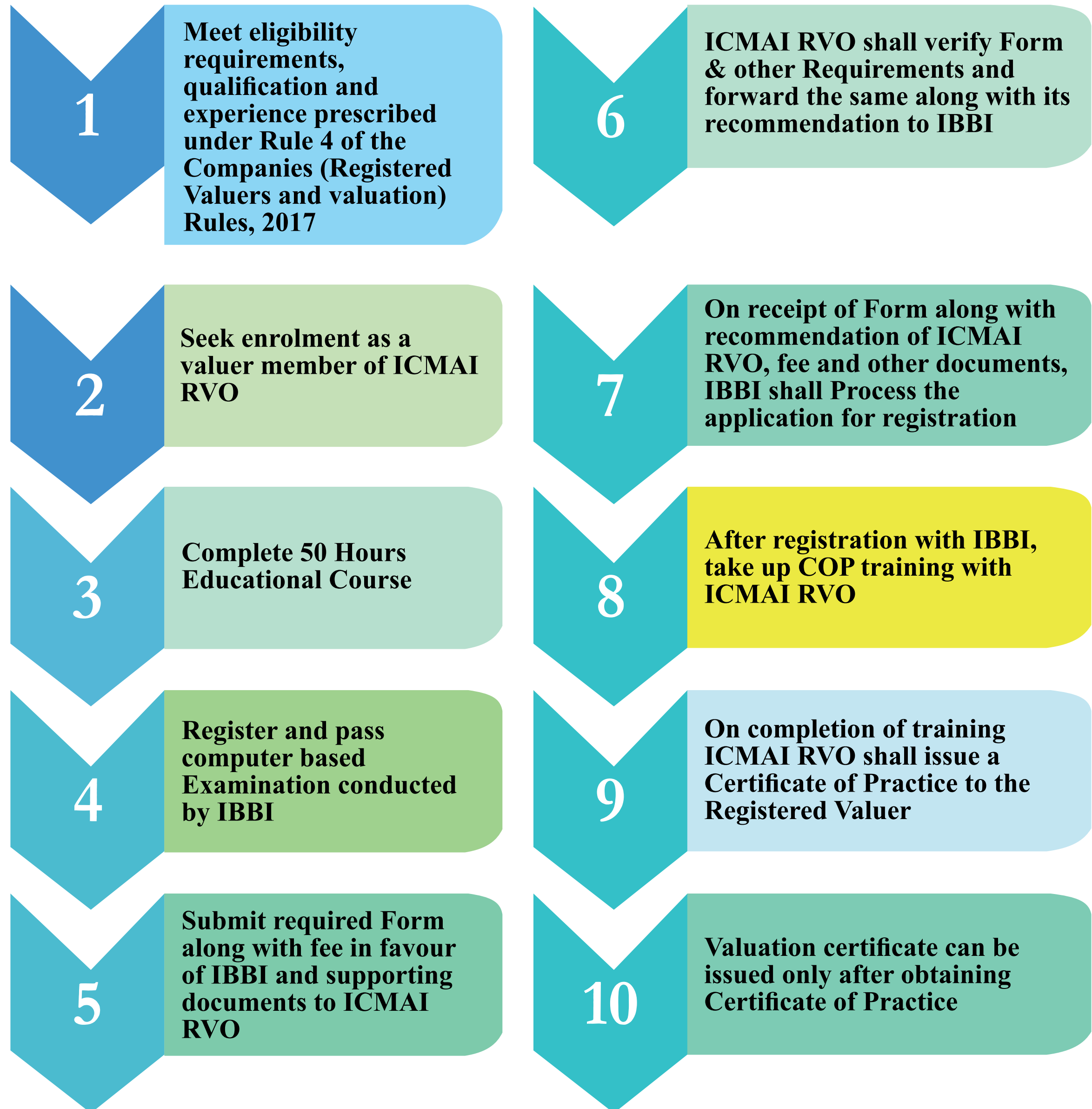
Insolvency and Bankruptcy Code 2016

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

Income Tax Act, 1961

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

PROCESS FOR BECOMING REGISTERED VALUER



EDUCATIONAL QUALIFICATION & EXPERIENCE

FOR 50 HOURS EDUCATIONAL COURSE

Asset Class	Eligibility/ Qualification	Experience in specified discipline.
Plant and Machinery	(I} Graduate in Mechanical, Electrical, Electronic and Communication, Electronic and Instrumentation, Production, Chemical, Textiles, Leather, Metallurgy, or Aeronautical Engineering, or Graduate in Valuation of Plant and Machinery or equivalent; (ii) Post Graduate on above courses.	(i) Five years (ii) Three years
Land and Building	(i) Graduate in Civil Engineering, Architecture, or Town Planning or equivalent; (ii) Post Graduate on above courses and also in valuation of land and building or Real Estate Valuation (a two-year full time post-graduation course).	(i) Five years (ii) Three years
Securities or Financial Assets	(i) Member of Institute of Chartered Accountants of India, Member of Institute of Company Secretaries of India, Member of the Institute of Cost Accountants of India, Master of Business Administration or Post Graduate Diploma in Business Management (specialisation in finance). (ii) Post Graduate in Finance	Three years
Any other asset class along with corresponding qualifications and experience in accordance with rule 4 as may be specified by the Central Government. *Note: The eligibility qualification means qualification obtained from a recognized Indian University or equivalent Institute whether in I ndia or abroad.”.*		

PROCESS FOR IBBI EXAMINITION

a. The candidate may enroll for the examination on payment of the fee as prescribed by IBBI

b. Online examination with objective multiple-choice questions

c. The duration of the examination is 2 hours

d. Wrong answer attracts a negative mark of 25% of the assigned for the question

e. A candidate needs to secure 60% of marks for passing.

FORMAT AND FREQUENCY OF EXAMINATION

a. The examination is conducted online (computer-based in a proctored environment) with objective multiple-choice questions;
b. The examination centers are available at various locations across the country;
c. The examination is available on every working day;
d. A candidate may choose the time, the date and the Examination Centre of his choice for taking the Examination. For this purpose, he needs to enroll and register at https://certifications.nism.ac.in/nismaol/
e. A fee of Rs. 5900/- (Five thousand nine hundred rupees) is applicable on every enrolment;
f. The duration of the examination is 2 hours;
g. A candidate is required to answer all questions;
h. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
i. A candidate needs to secure 60 % of marks for passing;
j. A successful candidate is awarded a certificate by the Authority;
k. A candidate is issued a temporary mark sheet on submission of answer paper;
l. No workbook or study material is allowed or provided;
m. No electronic devices including mobile phones and smart watches are allowed; and
n. Use of only a non-memory-based calculator is permitted. Scientific Calculators (memory based or otherwise) are not allowed.

INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

New Delhi, the 30th September, 2022

THE INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (ONLINE DELIVERY OF EDUCATIONAL COURSE AND CONTINUING PROFESSIONAL EDUCATION BY INSOLVENCY PROFESSIONAL AGENCIES AND REGISTERED VALUERS ORGANISATIONS) (AMENDMENT) GUIDELINES, 2022

In exercise of powers conferred by section 196(1)(aa) of the Insolvency and Bankruptcy Code read with regulation 5(b) and clause (ba) of sub-regulation (2) of regulation 7 of the IBBI (Insolvency Professionals) Regulations, 2016 and clauses (a) and (e) of sub-rule (2) of rule 12 of the Companies (Registered Valuers and Valuation) Rules, 2017, the Insolvency and Bankruptcy Board of India hereby makes the following amendments to the Insolvency and Bankruptcy Board of India (Online Delivery of Educational Course and Continuing Professional Education by Insolvency Professional Agencies and Registered Valuers Organisations) Guidelines, 2020, namely:-

1. (1) These amendments may be called the Insolvency and Bankruptcy Board of India (Online Delivery of Educational Course and Continuing Professional Education by Insolvency Professional Agencies and Registered Valuers Organisations) (Amendment) Guidelines, 2022.

(2) It shall come into force with immediate effect.

2. In the Insolvency and Bankruptcy Board of India (Online Delivery of Educational Course and Continuing Professional Education by Insolvency Professional Agencies and Registered Valuers Organisations) Guidelines, 2020 (hereinafter referred to as the principal guidelines), in Clause 9, in sub-clause (d), for the digit '100', the digit '200' shall be substituted.

3. In the principal guidelines, for Clause 11, the following shall be substituted, namely:-

"11. **Validity**
The Guidelines shall remain in force till further orders."

GUIDELINES FOR ARTICLES

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

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

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ICMAI REGISTERED VALUERS ORGANISATION

RECOGNISED RVO UNDER INSOLVENCY AND BANKRUPTCY BOARD OF INDIA

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