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Exposure Draft

of

ICAI Framework for the Preparation of Valuation Report in accordance with the ICAI Valuation Standards



Issued by Insolvency, Bankruptcy and Valuation Standards Board

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up under an Act of Parliament)

Exposure Draft

ICAI Framework for the Preparation of Valuation Report in accordance with the ICAI Valuation Standards

Following is the Exposure Draft of the Framework for the Preparation of Valuation Report in accordance with the ICAI Valuation Standards issued by the Insolvency, Bankruptcy and Valuation Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, to be received not later than ***22nd November 2026.***

1. *Electronically: Click on* ***https://forms.gle/ZkbR3gx2b8nKbT3z5*** *to submit comments online. (Preferred method)*
2. *Email: Comments can be sent to* ***commentsvsb@icai.in***
3. *Postal: Secretary, Insolvency, Bankruptcy and Valuation Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, A- 29, Sector- 62, Noida - 201309.*

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to ivsb*@icai.in*.

Draft

Framework for the Preparation of Valuation Report in accordance with the ICAI Valuation Standards

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This Framework is prepared in the context of ICAI Valuation Standards as they contain references to the Framework.

(The following is the text of the 'Framework for the Preparation of Valuation Report' under ICAI Valuation Standards.)

Introduction

Purpose and Status

1. This framework sets out the concepts that underlie the preparation of valuation reports in accordance with the ICAI Valuation Standards. The purpose of the Framework is to:

   (a) assist in the development of future ICAI Valuation Standards, review and revision of ICAI Valuation Standards that are issued from time to time;
   (b) assist in promoting harmonisation of practices, valuation standards and procedures relating to the preparation of valuation reports by providing principles for identifying basis and premise of value, approaches and methodologies of valuation;
   (c) assist valuers in applying ICAI Valuation Standards in preparation of valuation report and in dealing with topics that are yet to form the subject of an ICAI Valuation Standard;
   (d) assist users of valuation report in understanding and comprehending the information contained in valuation reports prepared in conformity with the ICAI Valuation Standards; and
   (e) assist intended users in understanding the basis, assumptions, judgements and information contained in valuation reports prepared in accordance with the ICAI Valuation Standards; and

2. This Framework is not a Valuation Standard and does not prescribe detailed requirements for the valuation of any particular asset, liability, business or interest. The Framework is to be read together with the applicable ICAI Valuation Standards, and nothing contained in this Framework overrides or replaces a specific requirement of an applicable ICAI Valuation Standard.

3. This Framework does not provide procedural requirements for the preparation of valuation report. Basic principles, methods and approaches to valuation and related guidance, consistent with concepts in this Framework, for the preparation of valuation report are contained in the Valuation Standards.

4. Where a requirement of applicable Law, regulation, court order or regulatory authority differs from or is more specific than this standard, the applicable legal or regulatory requirement shall prevail. In the event of any inconsistency or conflict between the Framework and an ICAI Valuation Standard, the requirements of the ICAI Valuation Standard will prevail over the Framework.

5. In the absence of any definition, or lack of guidance, for a specific term or expression in the Valuation Standards, the valuer shall use its judgement while performing the valuation assignment in such a manner so that the information is:

   (a) relevant to the economic decision-making needs of intended users; and
   (b) reasonably representing the analysis underlying the valuation;
   (c) reflecting the economic substance of the matter being valued and is not based solely on its legal form where the two differ;

(d) neutral and free from bias; and

(e) complete in all material respects.

6. In making the judgement described in paragraph 5, the valuer shall refer to, and consider the applicability of, the following sources in descending order:

(a) the prescriptions laid down in relevant laws, rules and regulations such as Companies (Registered Valuers and Valuation) Rules, 2017, as amended from time to time;

(b) the requirements in this Framework;

(c) the requirements in the applicable accounting standards as may be notified by the Ministry of Corporate Affairs and where applicable the accounting standards issued by the Institute of Chartered Accountants of India; and

(d) in the absence thereof, those of the other standard-setting bodies that use a similar framework to develop valuation standards, other authoritative literature relating to valuation and accepted industry practices, to the extent that these do not conflict with any of the requirements of ICAI Valuation Standards.

Scope

7. The Framework deals with:

(a) the objective of the valuation report;

(b) the broad principles governing the preparation of a valuation report.

(c) the qualitative characteristics that contribute to the usefulness of information contained in valuation report; and

(d) the fundamental ethical principles to be observed by the valuers; and

(e) the role of professional judgement and professional scepticism in a valuation engagement.

Objective of Valuation Report

8. The objective of a valuation report is to communicate, in a clear and understandable manner, the result of the valuer's analysis and professional judgement in determining a value or range of values for the asset being valued, based on the specified purpose, valuation date, valuation basis, scope of work and other relevant engagement consideration.

Users of Valuation Report

9. This Framework is concerned with valuation reports prepared for identified or identifiable intended users for a specified purpose.

10. The intended users of valuation may be present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. The requirements of the intended users may differ depending upon the purpose, statutory or regulatory context and intended use of the valuation.

11. A valuer shall include in the valuation report the Intended Use and Intended Users of the Valuation.

Qualitative characteristics of Valuation Report

12. Qualitative characteristics are the attributes that enhance the usefulness, credibility and reliability of information contained in a valuation report.
The principal qualitative characteristics include:

(a) understandability;

(b) relevance; and

(c) reliability.

These characteristics should be considered together and applied in a manner appropriate to the purpose and intended users of the valuation.

Understandability

13. An essential quality of the underlying information provided in valuation report is that it must be readily understandable by the intended users so that the intended users can reasonably comprehend the basis and significant elements of the valuation. The report should provide significant assumptions, valuation approaches and material judgements to the extent necessary for the intended users to understand the valuation conclusion. The valuer may presume that intended users possess a reasonable understanding of the relevant business, economic and financial environment and have the ability to review the valuation report with reasonable diligence, having regard to the purpose of the valuation relevant information about complex matters should be included in the valuation report.

Relevance

14. To be useful, the underlying information in a valuation report must be relevant to the decision-making needs of the intended users. Information provided in the valuation report should have the quality of relevance when it influences the economic and other decisions of users.

Materiality

15. The relevance of the underlying information in valuation report is affected by its nature and materiality. Materiality should be considered in the context of the valuation as a whole and the purpose for which the valuation is undertaken

16. The underlying information in valuation report is material if its omission or misstatement could influence the economic decisions taken by intended-users on the basis of the valuation report. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic, which information must have if it is to be useful.

Reliability

17. To be useful, Information contained in a valuation report should be sufficiently reliable to support the valuation conclusion and to enable the intended users to understand the basis on which the conclusion has been reached.

18. Information is reliable when it is appropriately supported, is not materially misstated, is not

presented in a misleading manner and reasonably represents the matters that it purports to represent.

19. Reliability does not imply absolute certainty. Valuation inherently involves estimation, judgement and, in many circumstances, uncertainty. The degree of reliability should therefore be considered having regard to the nature and purpose of the valuation and the information reasonably available as at the valuation date.

20. To be reliable, the information presented in a valuation report should represent the matters, analysis and conclusions that it purports to represent.

To be reliable, the information presented in the valuation report should be:

(a) appropriately supported and free from material error;

(b) neutral and free from inappropriate bias; and

(c) complete in all material respects.

The valuer shall ensure that the valuation report does not present information selectively in a manner that could result in a misleading understanding of the valuation.

21. The valuation reports are not considered neutral if, by the selection or presentation of information, the reports influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

22. Sometimes the information in the valuation report is subject to some risk of being less than a reasonable representation of that which it purports to portray. This is not due to bias but may arise due to inherent difficulties either in identifying the appropriate method or approaches to be applied in valuation.

Substance over form

23. If the underlying information of valuation report represents the value, that it purports to represent, it is necessary that they are evaluated in valuation assignment in accordance with their substance and economic reality and not merely by their legal form. The substance of transactions such as acquisition or disposal of assets is not necessarily consistent with that which is apparent from their legal or contrived form. For example, an entity may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, the entity continues to enjoy the future economic benefits embodied in the asset. In such circumstances, the reporting of a sale would not be free from error, and such a transaction may affect the result of valuation.

Prudence

24. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty.

The preparers of the valuation report do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims

that may occur. Such uncertainties are to be dealt with prudence in the preparation of the valuation report. However, the exercise of prudence does not allow the understatement/ overstatement of assets or income, liabilities or expenses, because the valuation report would not be neutral and, therefore, not have the quality of reliability.

Completeness

25. To be reliable, the underlying information in valuation report must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

Constraints on relevant and reliable information in Valuation Report

Balance between benefit and cost

26. The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefits derived from information in valuation report should balance the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgemental process.

Balance among qualitative characteristics

27. In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of valuation report. The relative importance of the characteristics in different cases is a matter of professional judgement.

Assets and liabilities

28. The ICAI Valuation Standards are to be applied for the valuation of assets and liabilities. Any reference to the term asset also includes liability.

29. An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity and will also include a group of assets business or business ownership interests.

30. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits and will also include a group of liabilities.

Fundamental Ethical Principles

31. The fundamental ethical principles that all valuers are required to observe are:

(a) Integrity and Fairness

The valuer should be straightforward and honest in all professional and business relationships and maintain the highest standards and integrity and fairness.

(b) Objectivity

The valuer should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) Professional Competence and Due Care

The valuer should maintain professional knowledge and skill at the level required to ensure that an intended user receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical standards and code of conduct.

(d) Confidentiality

The valuer should respect the confidentiality of information acquired as a result of professional and business relationships. Therefore, the valuer shall not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose. Under no circumstances should the valuer use the information for its personal advantage or third parties.

(e) Professional Behavior

The valuer should comply with relevant laws and regulations and avoid any conduct that disrepute to the profession.

Valuer

32. The term valuer as used in this Framework means the registered valuer registered with the Registering Authority under Section 247 of the Companies Act 2013 and Rules made thereunder for carrying out valuation of assets belonging to a class or classes of assets.

33. The term valuer also includes a valuer undertaking valuation engagement under other statutes like Income Tax, SEBI, FEMA, RBI or for any other purposes

34. The valuer shall comply with the specific requirements applicable to the relevant statute, regulation, notification, judicial order, contractual provision or other binding requirement applicable to the valuation, having regard to its purpose in addition to the applicable ICAI Valuation Standards, to the extent applicable. Where such a requirement prescribes the valuation basis or premise, the valuer shall apply it and shall disclose the requirement in the valuation report and explain the basis or premise so applied.

Intended Users/Clients

35. The intended users/clients are the person, persons or class of persons for whom the valuer prepares the valuation report.

36. The client and the intended users may not always be the same person or persons. The valuer shall identify the client, the intended users and the intended use of the valuation before the engagement is accepted and, in any case, before the engagement commences, and shall agree them with the client as part of the terms of engagement. The details of the client and of any other users of the valuation report, apart from the client, the purpose of the valuation and the restrictions on use of the report shall be recorded in the engagement letter and the scope of work shall be appropriate for the intended use. Where there are any of these changes during the engagement, the valuer shall reassess the scope of work and document the change in writing.

Professional Judgement

37. The valuer should plan and perform a valuation engagement in order to obtain sufficient appropriate information. The valuer should consider materiality, risk, and the quantity and quality of available information when planning and performing the valuation assignment, in particular when determining the nature, timing and extent of information-gathering procedures.

Professional Skepticism

38. The valuer should plan and perform a valuation engagement with an attitude of professional skepticism recognising that circumstances may exist that cause the information used or contained in the valuation report to be materially misstated. An attitude of professional skepticism means the valuer should make a critical assessment, with a questioning mind, of the validity of information obtained and is alert to information that contradicts or brings into question the reliability of documents or representations by the responsible party. For example, an attitude of professional skepticism is necessary throughout the engagement process for the valuer to reduce the risk of overlooking suspicious circumstances, of over-generalising when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of information-gathering procedures and evaluating the results thereof.

Valuation Report

39. The valuer provides a written valuation report containing the minimum requirements as per the ICAI Valuation Standards. In addition, the valuer considers other reporting responsibilities, including communicating with those charged with governance when it is appropriate to do so.

40. The valuation report and underlying documentation shall be maintained in accordance with the applicable professional, legal and regulatory requirements, ordinarily not shorter than eight years from the date of the valuation report, in physical or electronic format.

41. The valuation report shall not contain information or conclusions that are misleading, materially incomplete or presented in a manner intended to achieve a predetermined result.