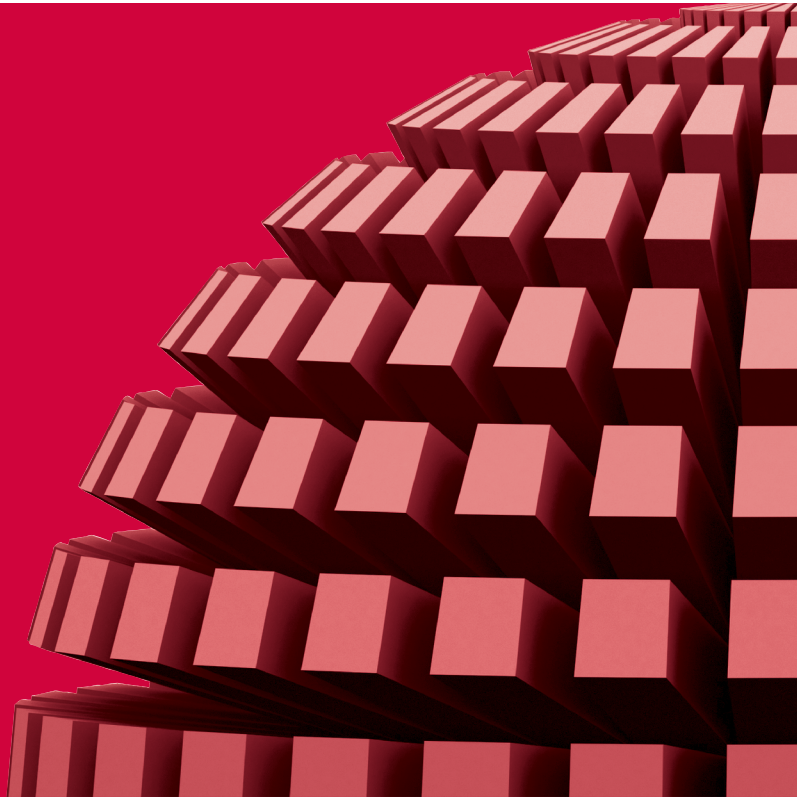




RICS professional standards, India

**RICS Valuation – Global
Standards 2017:
India national supplement**



RICS Valuation – Global Standards 2017: India national supplement 2019

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Somy Thomas MRICS (Cushman & Wakefield)

RICS Professional Group lead

Stephen Williams FRICS

RICS Publishing

Head of Publishing and Content: Toni Gill

Standards Publishing Manager: Antonella Adamus

Standards Publishing Project Manager: Ellie Scott

Editor: Sam Birch

Part 1 Introduction

This national supplement sets out supporting guidance for *members* on the application of *RICS Valuation – Global Standards 2017* (Red Book Global Edition) to *valuations* undertaken subject to Indian jurisdiction.

It places fresh emphasis on the fact that the content is supplemental to that in Red Book Global Edition, and not in substitution for it. This removes the need for an overall Introduction reproducing that in Red Book Global Edition.

Scope

- 1 This national supplement complements Red Book Global Edition, which incorporates the *International Valuation Standards 2017*, and local statutory requirements in respect of the *valuation of real estate* property.
- 2 This document is intended to highlight only the significant differences in terminology and in the content or coverage of *valuation* standards.

The following conventions are adopted throughout:

- Terms defined in the Red Book Global Edition *Glossary* are shown in italics.
- References to Red Book Global Edition use the relevant global section identifier only, e.g. **PS 1**, **VPS 1**, **VPGA 1**, etc.

Status of this RICS national supplement

- 3 Although this national supplement is not itself mandatory, it draws attention to and provides cross references and links to material that is mandatory for *members*, whether by virtue of the *valuation* standards referred to in part 2 or as a result of statutory, regulatory or other authoritative requirements. Thus, *members* are strongly encouraged to follow this national supplement when undertaking *valuation* assignments subject to Indian jurisdiction.

More specifically:

- Where recommendations are made for specific professional tasks, these are intended to represent best practice, i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.
- *Members* conforming to the practices recommended in this national supplement should have at least a partial defence against an allegation of negligence.
- In the event of a legal dispute, a court or tribunal may require a *member* to explain why they deviated from best practice recommended in this national supplement. Also, if *members* have not followed this national supplement and their actions are questioned in an RICS disciplinary

case, they will be asked to explain their actions, and this may be considered by the RICS Panel.

- In addition to this national supplement, professional statements and guidance notes are relevant to professional competence in that each *member* should adhere to and have knowledge of relevant RICS standards and guidance within a reasonable time of their coming into effect.
- 4 This national supplement reflects case law and legislation as at its date of publication. *Members* are responsible for establishing whether any changes in case law or legislation after the date of publication have an impact on the guidance in this document.

Effective date

- 5 This national supplement takes effect immediately upon publication.

Naming conventions explained

Description	Status	Inclusions	Comments
Standards	Mandatory	The <i>International Valuation Standards</i> [IVS] as issued by the International Valuation Standards Council [IVSC]. RICS professional standards – denoted by the prefix PS. RICS valuation technical and performance standards – denoted by the prefix VPS.	The IVS are adopted and applied by RICS in Red Book Global Edition, being cross-referenced throughout.
Guidance	Advisory	RICS valuation practice guidance applications – denoted by the prefix VPGA.	VPGAs are advisory and not mandatory in content. However, they alert <i>members</i> [where appropriate] to relevant mandatory material contained elsewhere in this Red Book supplement, including to the relevant IVS, by the inclusion of appropriate cross references.

RICS also separately publishes guidance from time to time on other valuation topics in the form of guidance notes. Such material is advisory in nature. It is available on the RICS website.

Part 2 Valuation standards

Overview

- 1 The purpose of this document is to assist valuers who are *members* of RICS in ensuring that a *valuation* undertaken in accordance with Red Book Global Edition is also compliant with the *Accounting Standards (AS)* issued by the Institute of Chartered Accountants of India (ICAI), as well as relevant Indian legislation.
- 2 Globally recognised high-level *valuation* principles and definitions are now embodied in the IVS, published by the IVSC. RICS has long been a supporter of, and contributor to, the development of such global standards, and not only fully embraces such standards but also proactively supports their adoption by others around the world. Before considering how these shared objectives are put into practice on the ground, it is helpful to explain the derivation and purpose of Red Book Global Edition in more detail.

Applicable RICS standards

- 1 *RICS Valuation – Global Standards 2017*, commonly referred to as Red Book Global Edition, formally recognises and adopts the IVS 2017, therefore requiring *members* to follow them. It also complements the IVS by providing detailed guidance and specific requirements concerning their practical implementation.
- 2 Expectations regarding *member* and *firm* conduct are set through the application of the *RICS Rules of Conduct* and the *RICS Global Professional and Ethical Standards*, and such conduct is assured through a well-established system of regulation. This ensures the positioning of *members* and *firms* as the leading global providers of IVS-compliant *valuations*.
- 3 To assist *members* working in different countries or under different jurisdictions with the practical application of Red Book Global Edition in individual national or local contexts, RICS issues a number of jurisdiction-specific national supplements, highlighting additional steps that may be taken to make a *valuation* that is compliant with both locally required standards and Red Book Global Edition.
- 4 *Members* are reminded that:
 - All *members* who undertake *valuations* are required to comply with the RICS Valuer Registration requirements. Full details of the requirements can be found at www.rics.org/vrs
 - All *members* who are valuers registered with RICS are obliged to follow Red Book Global Edition as the primary *valuation* standard. *Departures* from Red Book Global Edition are permitted in certain specified circumstances (see **PS 1 sections 4 and 6**). Compliance

with jurisdictional standards (which may extend to matters not covered in Red Book Global Edition, such as compulsory acquisition) is also recognised as proper in the circumstances described in **PS 1 section 4**.

- When an allegation of professional negligence is made against a *member*, a court or tribunal may take into account the contents of Red Book Global Edition in deciding whether or not the *member* acted with reasonable competence.
- *Members* are reminded to ensure, when conducting their professional activities in India, that they are following the appropriate country-, state- or municipality-specific regulations and guidance.

Part 3 Specific standards that apply in India – VPGAs

Ind VPGA 1 Valuations for financial statements

- 1 The AS in India are issued by the ICAI, a statutory body formed through an Act of Parliament, and are prepared by its Accounting Standards Board (ASB). The AS have been given legal recognition under the *Companies Act 2013* and require compliance from the constituents of various regulatory bodies, such as the Securities and Exchanges Board of India (SEBI), the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority (IRDA). These standards are available at www.icaai.org
- 2 *Members* should make themselves aware of the key AS relating to valuation of real estate assets, which can be also be found in the *Compendium of Accounting Standards* (ICAI, 2012) and are as follows:
 - AS 10 Property, Plant and Equipment (formerly AS10 Accounting for Fixed Assets)
 - AS 13 Accounting for Investments
 - AS 19 Leases
 - AS 28 Impairment of Assets.
- 3 Please note there are different definitions of the bases of value to be applied. These differences are outlined here.

AS 10 – Property, Plant and Equipment

'Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Accounting Standards.'

'Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.'

'The residual value of an asset is the estimated amount that an enterprise would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.'

'Useful life is:

- a) the period over which an asset is expected to be available for use by an enterprise; or
- b) the number of production or similar units expected to be obtained from the asset by an enterprise.'

AS 13 – Accounting for Investments

‘Investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.’

‘Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.’

‘Market value is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.’

- 4 AS 13 includes a definition of fair value that differs from the *International Financial Reporting Standards* (IFRS) and a definition of market value that differs from the IVS/Red Book Global Edition, so care is needed in applying them.
- 5 In practical terms, fair value under AS 13 reflects market value after deduction of costs incurred in the sales process, i.e. it is not in accordance with the IVS/Red Book Global Edition definition but will be a lower figure.
- 6 The AS do not set out specific reporting requirements for *members* over and above the requirements of Red Book Global Edition. However, for clarity enterprises are required to provide the following information, which should be included in a Red Book Global Edition-compliant *valuation* report:
 - a the effective date of the *valuation*
 - b whether an *external valuer* was involved
 - c the methods and significant *assumptions* applied when estimating *fair value* of the items and
 - d the extent to which *fair value* of the items was determined directly by reference to observable prices in an active market or recent market transactions on arm’s length terms, or were estimated using other *valuation* techniques.

Ind VPGA 1.1 Indian Accounting Standards [Ind AS]

- 7 The Ind AS are a set of accounting standards notified by the Ministry of Corporate Affairs that have been combined with IFRS. These accounting standards are formulated by the ASB of the ICAI.
- 8 In all cases, it is vital that *members* understand which accounting standards apply in relation to the particular *valuation* assignment on which they are engaged. The standards that apply should be agreed with the client and recorded in the *terms of engagement*.
- 9 *Members* should make themselves fully aware of the requirements under the Ind AS, as they differ from the requirements under the AS, in particular:

- Ind AS 101 – First-time Adoption of Indian Accounting Standards
- Ind AS 113 – Fair Value Measurement
- Ind AS 16 – Property, Plant and Equipment
- Ind AS 36 – Impairment of Assets
- Ind AS 40 – Investment Property.

Ind VPGA 2 Valuations for secured lending

- 1 There are no statutory requirements for secured lending *valuations*; however, *members* should be aware of the RBI's *Definition of Commercial Real Estate Exposure* (Cir.No.69/09.22.010/2009-10 – *Exposure to Real Estate and Commercial Real Estate sector – UCBs*).

Ind VPGA 3 Valuations for taxation purposes

Ind VPGA 3.1 Income tax and capital gains tax

- 1 Valuations for income tax (IT) and capital gains tax (CGT) purposes are based on a statutory definition and rules that are very different from the standard *valuation* definition accepted in the market. However, the governing Acts for these taxes provide for use of fair market value, subject to certain conditions.
- 2 Fair market value, used for IT and CGT, is defined in section 269A of the *Income-tax Act 1961–2019* as follows:

‘in relation to any immovable property transferred by way of sale or exchange, being immovable property ... means the price that the immovable property would ordinarily fetch on sale in the open market on the date of execution of the instrument of transfer of such property.’

‘in relation to any immovable property transferred by way of lease, being immovable property ... means the premium that such transfer would ordinarily fetch in the open market on the date of execution of the instrument of transfer of such property, if the consideration for such transfer had been by way of premium.’

‘in relation to any immovable property transferred, being immovable property ... means the consideration in the form of money that such transfer would ordinarily fetch in the open market on the date of the transfer, if such transfer had been made only for consideration in money.’

For the purposes of the Act, immovable property refers to land, a building, part of a building, machinery, plant, furniture, fittings, etc., including any rights therein.

Although the definition is different from the Red Book Global Edition definition of *market value*, it is an accepted practice for *members* to report *market value* with regard to the statutory assumptions.

- 3 *Members* should make themselves familiar with the *Income-tax Act 1961–2019* and seek appropriate input from qualified tax advisors when undertaking such *valuations*.

Ind VPGA 3.2 Valuations for property taxes/municipal taxes collected on immovable properties by local authorities

- 4 *Members* should ensure that they are fully aware of the relevant property tax *valuation* bases, such as Annual Rateable Value (ARV), Capital Value System (CVS) and Unit Area System (UAS), as employed in the relevant states/municipalities.

Ind VPGA 3.3 Valuations for the calculation/levy of stamp duty on tangible assets at the time of the transfer of property

- 5 When carrying out *valuations* for the provision of stamp duty, *members* should make themselves aware of the various regulations, ready reckoner/circle rates and guidance values that may be applicable in the relevant states/municipalities.

Ind VPGA 4 Valuations for determining the compensation to be paid for the compulsory acquisition of land by the government

- 1 *Members* should make themselves aware of the *Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act 2013* (the *LARR Act*). As per this Act, the government can acquire private property for public purposes. The property owner is entitled to fair compensation, as well as rehabilitation and resettlement. Section 26 of the *LARR Act 2013* provides the basis for the assessment of market value, which is a derived value based on the prevailing transaction price. (The definition of market value under the *LARR Act* is broadly in line with Red Book Global Edition **VPS 4 section 4**, but is defined differently within the Act.)

Ind VPGA 5 Valuations of properties under the Insolvency and Bankruptcy Code

- 1 *Members* should make themselves aware of the requirements under the *Insolvency and Bankruptcy Code 2016* (as amended), *The Companies (Registered Valuers and Valuation) Rules 2017* and the *Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations 2016*; from the last of these, *members* should take note of the following definitions.

- 2 **Fair value** – ‘the estimated realizable value of the assets of the corporate debtor, if they were to be exchanged on the insolvency commencement date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion.’ This aligns with the Red Book Global Edition definition of *market value* under **VPS 4**.
- 3 **Liquidation value** – ‘the estimated realizable value of the assets of the corporate debtor, if the corporate debtor were to be liquidated on the insolvency commencement date.’

Ind VPGA 6 Valuations for real estate investment trusts (REITs)

- 1 An REIT in India is proposed as a public trust under the *Indian Trusts Act 1882*, registered under the *Registration Act 1908* and authorised by SEBI to perform under regulations set forth by it under the *Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations 2014*.
- 2 The majority of the requirements for *valuations* under these regulations are compatible with, or less stringent than, the minimum requirements of Red Book Global Edition. However, there are some additional requirements that *members* should be aware of. A summary of the requirements that differ slightly from Red Book Global Edition is set out in table 1.

Requirements under the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations 2014	Paragraph in the regulations
Chapter V – Investment Conditions, Related Party Transactions, Borrowing and Valuation of Assets	
‘Full valuation includes a detailed valuation ... including physical inspection of every property by the valuer’	21 [2]
‘No valuer shall undertake valuation of the same property for more than four years consecutively’	21 [9]
Schedule V – Mandatory Minimum Disclosures in Full Valuation Report	
‘Overall structure and condition of the relevant market including an analysis of the supply/demand situation, the market trend and investment activities’	d
‘List of one-time sanctions/approvals which are obtained or pending’	e[xvi]
‘List of up to date/overdue periodic clearances’	e[xvii]
‘Estimates of already carried out as well as proposed major repairs and improvements, along with estimated time of completion’	e[xix]
‘Revenue pendencies including local authority taxes associated with REIT asset and compounding charges, if any’	e[xx]
‘On-going and closed material litigations including tax disputes’	e[xxi]

Requirements under the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations 2014	Paragraph in the regulations
'Vulnerability to natural or induced hazards that may not have been covered in town planning'	e[xxii]
'Any matters which may affect the property or its value'	f
Declaration by the valuer that: 'the valuer is competent to undertake the valuation'	g[i]
Declaration by the valuer that: 'the valuer is independent and has prepared the report on a fair and unbiased basis'	g[ii]
Declaration by the valuer that: 'the valuer has valued the properties based on the valuation standards as specified under sub-regulation 10 of regulation 20 of these Regulations'	g[iii]

Table 1: Requirements for REITs in India that differ from Red Book Global Edition

Members should make themselves fully aware of all requirements for *valuations* under these rules.



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Americas

Latin America

ricsamericalatina@rics.org

North America

ricsamericas@rics.org

Asia Pacific

ASEAN

ricsasean@rics.org

Greater China (Hong Kong)

ricshk@rics.org

Greater China (Shanghai)

ricschina@rics.org

Japan

ricsjapan@rics.org

Oceania

oceania@rics.org

South Asia

ricsindia@rics.org

EMEA

Africa

ricsafrica@rics.org

Europe

ricseurope@rics.org

Ireland

ricsireland@rics.org

Middle East

ricsmiddleeast@rics.org

United Kingdom RICS HQ

contactrics@rics.org

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