

## Insolvency and Bankruptcy Board of India

28<sup>th</sup> February 2020

### Subject: Syllabus of Valuation Examination for Asset Class - Land and Building with effect from 1<sup>st</sup> June 2020

In pursuance of the rule 5 (3) of the Companies (Registered Valuers and Valuation) Rules, 2017, the Insolvency and Bankruptcy Board of India, being the Authority, hereby publishes the syllabus, format and frequency of the 'Valuation Examination' for the asset class: **Land and Building** to be commenced from 1<sup>st</sup> June 2020.

#### I. Syllabus

Sl. No.	Coverage	Weight (%)
1.	<b>Principles of Economics - Microeconomics</b> <ul style="list-style-type: none"><li>- Consumption: Indifference curve, consumer surplus, elasticity</li><li>- Price mechanism: determinants of price mechanism; individual and market demand schedules; conditions, exceptions and limitations of law of demand; individual and market supply schedules; conditions and limitations of law of supply; highest, lowest and equilibrium price; importance of time element</li><li>- Pricing of products under different market conditions: perfect and imperfect competition, monopoly etc.</li><li>- Factors of production and their pricing: land, labour, capital, entrepreneur and other factors</li><li>- Theory of rent</li><li>- Capital and interest: types of capital, gross interest, net interest</li><li>- Organisation and profit: functions of entrepreneur; meaning of profit and theories of profit</li></ul>	3
	<b>Macroeconomics</b> <ul style="list-style-type: none"><li>- Functions and role of money</li><li>- Inflation: types of inflation; causes and effects of inflation; Inflationary gap</li><li>- Control of inflation: monetary, fiscal and direct measures</li><li>- Deflation: causes and effects of deflation; deflationary gap; measures to control deflation; deficit financing</li><li>- Savings and investment: savings and types of savings; determinants of savings; investment and types of investment; determinants of investment; relationship between savings and investment</li><li>- Components of economy: primary sector, secondary sector, tertiary sector; informal sector in urban economy; parasitic components in urban economy</li><li>- Concepts of gross domestic product and gross national product; capital formation etc.</li></ul>	3
	<b>Parallel Economy</b> <ul style="list-style-type: none"><li>- Definition of parallel economy; causes of parallel economy and effects on use of land and its valuation</li><li>- Impact on real estate market and construction industry</li></ul>	1

Sl. No.	Coverage	Weight (%)
2.	<b>Book-keeping and Accountancy</b> - Meaning and objects of book-keeping; double entry book-keeping - Books of prime entry and subsidiary books: cash book, bank book, journal, ledger, purchase and sale books, debit and credit notes register; writing of books; posting and closing of accounts - Trading account; profit and loss account; income and expenditure account - Preliminary analysis of financial statements - Cost and costing; elements of cost - fixed expenses, variable expenses, break-even point	3
3.	<b>Law - General</b> - Indian legal system: salient features of the Indian Constitution, fundamental rights, directive principles of state policy - Government: executive, legislature and judiciary - Laws of contract: formation of a contract, parties, void, voidable and unenforceable contract, contingent contract, misrepresentation, fraud and effect thereof, termination of contract, remedies for breach, performance of contract, indemnity and guarantee, law of agency - Tort: general principles of tort, tort affecting valuation - Law of arbitration and conciliation: salient features - Auction: authority of auctioneer, duties of vendor, purchaser and public, mis-description and misrepresentation, advertisements, particulars and catalogues, statements on the rostrum, conduct of sale, reservation of price, right to bid, bidding agreements, memorandum of the sale, deposit, rights of auctioneer against vendor and purchaser - Laws of evidence: burden of proof, presumptions, conclusive proof	7
	- Salient features of the Insolvency and Bankruptcy Code, 2016 concerning valuation - The Companies Act, 2013: Section 192(2), 230 (1), 230 (2), 230 (3), 231, 232, 247 and 281(1) - Salient features of the Companies (Registered Valuers and Valuation) Rules, 2017 - Salient features of the Securitization and Reconstruction of the Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002) concerning valuation - Section 5(n) of the Banking Regulation Act, 1949 on “secured loan or advance”	3
4.	<b>Introduction to Statistics</b> - Data classifications and processing, graphical representation of data, frequency distributions - Measures of central tendency, dispersion and skewness - Elementary theory of probability and probability distributions, sampling and sampling distributions - Simple test of significance, regression and correlation, multiple correlation coefficient - Time series - Index numbers	2

Sl. No.	Coverage	Weight (%)
5.	<p><b>Environmental Issues in Valuation</b></p> <ul style="list-style-type: none"> <li>- Environment and valuation - differences between the market price and the negative value consequent on environmental impact</li> <li>- Environmental issues of air pollution, water pollution, environmental factors and their effects, measures to restore the damage, cost to cure</li> <li>- Outlines of environmental legislations: the Indian Forest Act, 1927, the Water (Prevention and Control of Pollution) Act, 1974, the Air (Prevention and Control of Pollution) Act, 1981, the Environment (Protection) Act, 1986</li> <li>- Laws related to industrial health and safety</li> </ul>	3
6.	<p><b>Professional/Business Ethics and Standards</b></p> <ul style="list-style-type: none"> <li>- Model code of conduct under the Companies (Registered Valuers and Valuation) Rules, 2017: professional competence and due care, independence and disclosure of interest, confidentiality, information management, gifts and hospitality</li> <li>- Integrity and fairness, remuneration and costs, occupation, employability and restrictions, business ethics</li> <li>- Ethical considerations under terms of engagements: engagement letter, management representation, guidance on use of work of experts, independence and conflict of interest, quality review process of valuers, rights and responsibilities of valuers</li> </ul>	4
7.	<p><b>Laws related to Real Estate</b></p> <ul style="list-style-type: none"> <li>- Land acquisition - the right to fair compensation and transparency in the land acquisition, the Rehabilitation and Resettlement Act, 2013</li> <li>- General building rules and regulations</li> <li>- Rent control laws: sections pertaining to occupancy rights of tenants, freezing of rent, protection against eviction of tenant and its effect on value of property</li> <li>- Right of way and Section 52 - licenses under the Indian Easements Act, 1882</li> <li>- Salient features of the Real Estate (Regulation and Development) Act, 2016 and regulating authorities established under the Act</li> <li>- <b>The Transfer of Property Act, 1882:</b> transfer of immovable property, sale, mortgage, gift, exchange, assignment, charge, lien, tenancies/sub-tenancies; lease of immovable property; lease granted by private and statutory bodies - impact of each on valuation; Sections: 3, 5, 6, 7, 25, 53 and 53A of the Transfer of Property Act, 1882</li> <li>- <b>Laws relating to inheritance/succession:</b> Mohammedan: Muslim Personal Law; the Hindu Succession Act, 1956, the Hindu Succession (Amendment) Act, 2005; the Indian Succession Act, 1925: law of succession for person other than Hindu and Mohammedan; will &amp; testament, succession certificate</li> </ul>	8

Sl. No.	Coverage	Weight (%)
8.	<p><b>Valuation of Real Estate</b></p> <ul style="list-style-type: none"> <li>- Cost, price and value</li> <li>- Types of value</li> <li>- Basic elements of value - marketability, utility, scarcity, and transferability</li> <li>- Factors affecting value - physical, economic, legal and social</li> <li>- Highest and best use, value in use, value in exchange</li> <li>- Real property: rights and interests in real estate; types of ownerships and types of occupancy in real estate</li> <li>- Annuities; capitalization and rate of capitalization; years purchase; sinking fund; redemption of capital; reversionary value</li> <li>- Construction and use of valuation tables</li> <li>- Urban infrastructure and its influence on value of real estate</li> <li>- Real estate market and its characteristics; investment in real estate; factors influencing demand and supply schedule in real estate</li> <li>- Concepts of green building</li> </ul>	10
	<p><b>Income Approach to Value</b></p> <ul style="list-style-type: none"> <li>- Relation between income and value</li> <li>- Valuation of property affected by the Rent Control Acts; licensed property under the Easement Act, 1882; leasehold properties under the Transfer of Property Act, 1882</li> <li>- Derivation of yield rate from market derived data</li> <li>- Remunerative rate of interest and accumulative rate of interest</li> <li>- Types of rent: outgoings, income, yield, years purchase</li> <li>- Determination of market rent and standard rent</li> <li>- Lease - lessor and lessee: types of lease; lease provisions and covenants</li> <li>- Valuation of lessor's interest, lessee's interest including sub-lease in leased property; premature termination of lease or surrender of lease</li> <li>- Real estate as an investment; yield from real estate vis-à-vis other forms of investments; sound investment comparison</li> <li>- Investment decisions: discounted cash flow techniques, internal rate of return, net present value and capital assets pricing model</li> <li>- Profit method for valuation of special properties: hotels, cinema, mall, petrol pump, hill resorts</li> </ul>	7
	<p><b>Market Approach to Value</b></p> <ul style="list-style-type: none"> <li>- Types of market</li> <li>- Market survey and data collection; sources of sale transactions</li> <li>- Comparison of sale instances: factors of comparison and weightages for adjustment in value</li> <li>- Hedonic model and adjustment grid model under sales comparison method</li> <li>- Land characteristics and its effect on land values</li> <li>- Hypothetical plotting scheme for value of large size land</li> <li>- Residue technique and other development methods</li> <li>- Valuation for joint venture development of property</li> </ul>	7

Sl. No.	Coverage	Weight (%)
	<p><b>Cost Approach to Value</b></p> <ul style="list-style-type: none"> <li>- Methods of cost estimates for buildings</li> <li>- Life of building: economic, physical, legal</li> <li>- Factors affecting life of the building</li> <li>- Total life, age, estimating future life</li> <li>- Various methods of computation of depreciation, functional, technological and economic obsolescence</li> <li>- Reproduction cost/replacement cost, depreciated replacement cost (DRC) working, adopting DRC as value subject to demand and supply aspect</li> <li>- Land value by market approach and building value by cost estimation method for owner occupied bungalows, factories, public buildings</li> </ul>	7
	<p><b>Various purposes of Valuation</b></p> <ul style="list-style-type: none"> <li>- Valuation of properties for purposes such as: bank finance, auction reserve, building insurance, sale, purchase, valuation disputes in court, probate, partition, rent fixation, stamp duty, capital gains tax, as per rule 11ua of the Income Tax Act, 1961, lease and mortgage of property, any other purposes not referred above</li> <li>- Valuation standards as per the provisions of the Companies Act, 2013</li> <li>- Indian accounting standards (Ind AS 16, Ind AS 36, Ind AS 40, Ind AS 113) as applicable to valuation</li> <li>- Valuer as an expert witness in court</li> <li>- Valuers' functions &amp; responsibilities, error of judgement and professional negligence</li> </ul>	4
	<p><b>Important Case Laws on principles of valuation of Real Estate:</b></p> <ul style="list-style-type: none"> <li>- R.C. Cooper Vs. Union of India, (1970) AIR SC 564</li> <li>- Sorab D. Talati Vs. Joseph Michem, Appeal No. 101 Of 1949 in R.A. Application No. 805 of 1948</li> <li>- CWT Vs. P.N. Sikand (1977) 107 ITR 922 (SC)</li> <li>- Wenger &amp; Co. Vs. DVO (1978) 115 ITR 648 Delhi HC</li> <li>- Jawajee Nagnathan Vs. Revenue Divisional Officer (1994) SCC (4) 595 (SC)</li> <li>- Chimanlal Hargovinddas Vs. SLAO, Pune AIR 1988 SC 1652</li> <li>- CED Vs. Radhadevi Jalan (1968) 67 ITR 761 (Cal)</li> <li>- CIT Vs. Ashima Sinha (1979) 116 ITR 26 (Cal)</li> <li>- CIT Vs. Anupkumar Kapoor &amp; others (1980) 125 ITR 684 (Cal)</li> <li>- CIT Vs. Smt. Vimlaben Bhagwandas Patel (1979)118 ITR 134(Guj)</li> </ul>	2
9.	<p><b>Principles of Insurance and Loss Assessment</b></p> <ul style="list-style-type: none"> <li>- Principles and legal concepts in relation to insurance of buildings; contract of insurance; insurable interests; liability to insure; duties of the insurer and the insured</li> <li>- Types of fire policies; reinstatement value, indemnity policies and policies for other perils; terms and conditions; perils, beneficial and restrictive clauses</li> <li>- Value at risk, sum insured and condition of average, over and under insurance; provisions regarding inflation, depreciation, obsolescence and betterment; other provisions</li> <li>- Preparation of claim for damages due to insured perils</li> <li>- Obligations and rights of insurer and insured</li> </ul>	3

Sl. No.	Coverage	Weight (%)
10.	<b>Report writing</b> - Reports: quality, structure, style - Report writing for various purposes of valuation: sale, purchase, purchase, mortgage, taxation, insurance, liquidation etc. - Contents of the report: instruction of clients; date as on which valuation is made and date of report; site inspection; location; ownership history; data collection and analysis; type of construction; valuation method; value estimation; assumptions and limiting conditions including caveats and conclusion	3
11.	<b>Case Study</b> Two case studies on valuation of land and building: - One case study with six 2-mark questions, for 12 marks - One case study with four 2-mark questions, for 8 marks (This section will have case studies for application of valuation techniques. For each case there will be a comprehension narrating the transaction based on which questions will be asked from the case)	20
<b>Total</b>		<b>100</b>

Note: Wherever any Law, Act of Parliament or any Rule/Regulation is referred in the syllabus, the same shall be taken as updated as on 29<sup>th</sup> February 2020.

## II. 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 centres 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 enrol and register at <https://certifications.nism.ac.in/nismaol/> ;
- e. A fee of Rs.1500 (One thousand five 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.

Further details of the Examination, if any, will be provided subsequently.

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