



To,
Insolvency and Bankruptcy Board of India
Valuer Division,
7th Floor, Mayur Bhawan,
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New Delhi - 110 001

30th October, 2019

Via email to: sahu.amit@ibbi.gov.in;
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Ref: IBBI/PR/2019/28 dated 08th October, 2019

Sub: Consultation Paper on Institutional Framework for Regulation and Development of Valuation Professionals

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON INSTITUTIONAL FRAMEWORK FOR REGULATION AND DEVELOPMENT OF VALUATION PROFESSIONALS.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, although we are yet in the process of studying this area of regulation, we would like to provide our initial comments consistent with our objective to promote fair and transparent global capital markets and to advocate for investor protection.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to some of the important points from Annexure I in the above referred press release by IBBI are mentioned below:



A. Details of our Organisation:

1. **Name:** Indian Association of Investment Professionals (CFA Society India)
2. **Contact number:** +91 98196 30042
3. **Email address:** advocacy@iaipirc.org
4. **Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051

B. Key Contributors:

1. Mr. Om Kumar Jha, CFA
2. Mr. Devan Furia, CFA

C. General Views:

Our primary comment is directed towards acceptability of global credentials and practices in India. In addition to the domestic valuation industry, India has a large and growing industry that supports global valuation needs. This industry has grown at an outstanding rate over the last decade as global corporations have moved valuation work to India in order to take advantage of lower costs and talent availability. Many well known overseas financial services names have outsourced part of their operations to India and this is expected to continue to grow further. There are more than 150,000 Indian employees who are operating in these firms.

Given the acceptance of IFRS and fair value reporting in India, as well as global markets, we believe the Indian valuation industry will grow significantly, especially domestically, which makes a strong case for Indian policy makers to formally recognise international certifications like the CFA Charter in order to promote global best practices of ethics and professional excellence, thus improving investor protection and market integrity. Before we provide our specific comments, we would like to share a couple of links to our website which the Committee might be interested in:

- i. Regulator and Program Recognition (Fact Card):
<https://www.cfainstitute.org/-/media/documents/factsheet/rpr-factsheet.ashx>
- ii. CFA Program Candidate Body of Knowledge (CBOK):
<https://www.cfainstitute.org/en/programs/cfa/curriculum/cbok>

D. Specific Views:

Sr. No.	Issue	Views / Suggestions
10.	Type of Regulation	<p><u>Move towards Regulated Self-Regulation</u></p> <p>We would like to share a link to a research report which the Committee might be interested in:</p> <p>https://www.cfainstitute.org/en/advocacy/market-integrity-insights/2013/09/cfa-institute-report-can-self-regulation-work-in-securities-markets</p> <p>The above webpage provides a background and a link to a detailed CFA Institute report - Self-Regulation in the Securities Markets: Transitions and New Possibilities - which addresses the questions being raised about the continued utility of self-regulation in today's markets and highlights the</p>



		<p>great potential it offers, especially in emerging markets.</p> <p>This report highlights that, for all the potential benefits, self-regulatory systems also have a number of inherent conflicts that must be addressed in order to remain credible. The report notes a number of them (particularly the failures of prominent SROs like the CBOE and FINRA in policing and controlling conflicts of interest) and urges future improvements to SRO governance structures to enhance market and investor trust.</p> <p>Despite all the challenges, we do believe that self-regulation holds the potential for alleviating the strain on regulators (which suffer from budgetary pressures and overseeing voluminous regulations), among other benefits.</p> <p>If a regulated self-regulatory structure for the valuation profession is considered, we need to ensure that the activities of the self-regulatory organisations are palatable and transparent to market participants. Unless these organisations are seen to enhance market integrity, their activities could have the reverse effect. To that end, the above mentioned CFA Institute report proposes a few recommendations (refer page no. 36 of the report) designed to make SROs an accepted and trusted part of the global financial market regulatory system.</p>
<p>27.</p>	<p>Eligibility to be a Valuer: Qualification, Experience, Entity</p>	<p>Presently there is certification for 3 asset classes. We suggest incorporating more asset classes as well as making qualification criteria more robust. Both of these points have been separately elaborated below:</p> <p><u>Incorporating more asset classes</u> This will enable specialized study, examination and establishment of professional framework relevant to the specific asset classes.</p> <p>Present Classification of Asset Classes:</p> <ol style="list-style-type: none"> 1. Land and Building 2. Plant and Machinery 3. Securities or Financial Assets <p>Suggested Additional Asset Classes:</p> <ol style="list-style-type: none"> 1. Gems, Jewelry and Precious Art 2. Private equity and Pre-IPO equity 3. Distressed Assets and Illiquid Securities 4. Derivatives, specifically exotic / complex structures 5. New Technology Based Businesses, which have cash flow and profitability dynamics that are different than the older businesses <p>Categories 2 to 5 of suggested additional asset classes could be categorized as area of specialization within Securities or Financial Assets.</p> <p>Identify specific areas of specialization will have following advantages:</p> <ul style="list-style-type: none"> • <u>Specialized Body of Knowledge:</u> Separate curriculum and/or recognizing other reputed degree / diploma / certifications that provide required knowledge by making them eligible for some exemptions



- **Appropriate Regulatory Framework:** Facilitation in identifying asset class specific requirements and gauging the impacts of breaches on overall economy. For example, derivative mispricing can impact financial institutions and destabilize the markets, or failing to price IPOs in a fair manner might make the primary markets riskier and impact investor confidence.
- **Establishing Professional Associations of certified members catering to specific asset classes:** This has the potential to help in promoting global best practices and developing innovative ideas in valuing complex assets by valuation professionals specializing in their respective domains.

Enhancing Emphasis on Relevant Qualification (With Securities Or Financial Assets class as an example)

Having a more rigorous study curriculum and examination system will ensure that those who get certified are better prepared to handle challenges in the profession.

The existing curriculum for certification exam covers:

S. No.	Topic	Weight (%)
1.	Macroeconomics	4
2.	Finance and Financial Statement Analysis	6
3.	Professional Ethics and Standards	4
4.	General Laws	18
5.	Financial Reporting under Indian Accounting Standards	5
6.	Overview of Valuation	4
7.	Valuation Approaches	3
8.	Valuation Application	33
9.	Regulations Relevant to Financial Asset Valuation	4
10.	Judicial Pronouncements on Valuation	3
11.	Case Studies	16
Total		100

This is a sound curriculum; however following are some limitations of the existing system that we have identified and where we would like to suggest improvements:

1. Training of 50 hours only, conducted by Registered Valuer Organizations
2. Only one examination of 2 hours to test everything
3. All kinds of Financial Assets being clubbed in one test

Our suggestions are:

1. **Create different levels and study topics**, to test following level of proficiency:
 - a. Understanding of Concepts
 - b. Application of Concepts
 - c. Ability to take and explain decisions in complex situations



		<ol style="list-style-type: none"> 2. Provide <u>robust study material</u>, created with support of experts in the specific field, including real life case studies for candidates to understand various aspects of the valuation profession 3. Provide <u>relevant exemptions to candidates with certain professional qualification</u> who might have studied a specific part of the curriculum in depth, for example: <ol style="list-style-type: none"> a. <u>CFA Charterholders may be exempted from most of the modules covering valuation of asset classes</u>, as they have been tested for achieving a certain level of mastery of those concepts as part of the CFA Program, and therefore, they may be allowed to proceed with fulfilling the testing requirements which are not covered in the CFA Program, like the knowledge of local laws and regulations. This will motivate more people with professional qualifications to register as valuers. 4. <u>Conduct each level of examination after some gap</u>, for example six months, depending on level of robustness of the curriculum <ol style="list-style-type: none"> a. This, along with the previous point, will ensure that the course will be longer for candidates with no professional education background while it will be shorter for candidates with relevant professional qualifications. 5. Just as B. Com and B. Com (Honors) are distinct degrees, <u>distinct qualifications</u> can be provided for candidates choosing to either <u>pursue the program with only general focus on business valuation to pursue specialized knowledge</u> of one or more of the following areas: <ol style="list-style-type: none"> a. Private equity and Pre-IPO equity b. Distressed Assets and Illiquid Securities c. Derivatives, specifically exotic / complex structures d. New Technology Based Businesses, which have cash flow and profitability dynamics that are different than the older businesses <p>Citations of some global programs on business valuation that provide some exemptions to CFA Charterholders:</p> <ul style="list-style-type: none"> • Certified in Entity and Intangible Valuations Credential offered by American Society of Appraisers: https://www.appraisers.org/credentials/ceiv-certification • Chartered Business Valuator Credential offered by CBV Institute, Canada: https://cbvinstitute.com/course-exemptions
32.	Reputation of the Profession	<p><u>Recognition of Experience Along With Education</u> To establish certain amount of trust, recognition of those who have significant relevant experience of applying knowledge obtained through education.</p> <p><u>Different level of certifications / professional recognition</u></p> <ol style="list-style-type: none"> 1. Whoever has the requisite education and has <u>cleared certification examination</u>, may start working, however with limited authorities 2. Whoever <u>meets the first criteria and also has relevant and significant experience</u> (for e.g. 4 years), may have more authorities in conducting valuation assignments



		<p>Example from one of the global valuation framework: Different certifications provided by American Society of Appraisers, link: https://www.appraisers.org/credentials</p> <p>This can be modeled after CFA Institute’s approach to award the CFA Charter as noted below:</p> <ol style="list-style-type: none"> 1. <u>Clearing Exams</u>: An individual might mention the level of CFA curriculum he/she has successfully cleared. However, even after clearing all levels of the CFA curriculum, one is not eligible to apply for the CFA Charter unless they acquire requisite work experience, which is 48 months. 2. <u>Charter Award</u>: After acquiring requisite relevant work experience, those who have cleared all levels of the program can apply for the CFA Charter. <p>There can be alternative approaches to ensure candidates obtain relevant work experience, however key elements to consider could be:</p> <ol style="list-style-type: none"> 1. <u>Allow Tapping Market Value</u>: If it is a stipend based training for a few years, then the stipend may be appropriately stipulated by the regulator, otherwise it might discourage individuals with professional qualifications to pursue the profession on a low stipend. Allowing them to tap their market value soon after obtaining a recognized qualification relevant to the valuation profession will invite talent to this profession. 2. <u>Accountability and Professional Conduct</u>: A well-defined and structured procedure may be laid out and accountability clearly defined for the below three parties in the process of recognizing relevant experience for certification: <ol style="list-style-type: none"> a. The candidate who is claiming fulfilment of requisite relevant experience b. The reference who is substantiating it c. Institute / Organization verifying the claim and awarding the recognition <p>If any breach is found, the parties mentioned above shall have responsibility to prove that they followed processes independently and objectively.</p>
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Thank you again for the opportunity to comment on this important regulatory framework. As mentioned earlier, we are still in the process of studying this important area of regulation and due to paucity of time, we were unable to provide detailed comments on some of the other important topics the Committee would be focusing on while deliberating on this regulatory framework. Therefore, we would like to request you to allow us about one month of additional time to contribute further with additional inputs and insights on this subject. We would really appreciate if you would be able to revert to us on this request for extension of time.



If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at CFA Society India by email at advocacy@iaipirc.org

Sincerely yours,

Rajendra Kalur, CFA
Director - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute