

The Ultimate CFO's Handbook: CFO Advisory on Regulations in India

— GUIDE 2026 —

Companies Act • FEMA • Income Tax • SEBI

A Compliance-Focused
Practitioner's Guide for Indian
CFOs, Finance Directors &
Regulatory Counsel



INCOME TAX

Sections 50CA, 56(2)(x),
56(2)(viib) & Rule 11UA
Valuation Compliance



COMPANIES ACT
Registered Valuers,
Statutory Reports &
Corporate Transactions



FEMA

FDI, ODI, CCPS,
CCD & Cross-Border
Valuation Compliance



IND AS & ESOP

Fair Value, PPA,
Impairment & ESOP
Valuation



TRANSFER PRICING

Arm's-Length Valuation
under Section 92
& Rule 10B



CFO GOVERNANCE

Policies, Controls &
Valuation Decision
Frameworks



SEBI

ICDR, LODR, SAST
& Buyback Valuation
Obligations



**FAIR MARKET
VALUE**

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BY

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Sagar Shah is one of India's most respected independent valuation practitioners, with 15 years of experience that spans Big Four advisory, regulatory practice, and boutique specialisation. He spent 9 years at Ernst & Young (EY) working across transaction advisory, multi-jurisdictional tax, and regulatory compliance for India's largest corporate groups, MNC subsidiaries, and capital market participants. At EY, he developed the cross-regulatory valuation perspective - understanding how the same transaction is seen differently by the Income Tax department, the RBI, SEBI, and the NCLT - that defines the practice at Elite Valuation today.

Since founding Elite Valuation, Sagar has become the trusted valuation partner for CFOs and finance teams navigating the intersection of regulatory frameworks that govern corporate India. His engagements routinely require simultaneous compliance with Companies Act, FEMA, Income Tax, and SEBI valuation requirements - a multi-framework capability that distinguishes Elite Valuation from narrowly specialised practices.

Core Expertise

- Regulatory valuation compliance across Companies Act, Income Tax, FEMA, and SEBI frameworks simultaneously
- Section 56(2)(x) and Section 50CA fair market value certification for income tax compliance
- FEMA 20(R) FMV reports for FDI, ODI, CCPS, CCD, and cross-border restructuring transactions
- SEBI SAST, ICDR, LODR, and Buyback Regulation valuation reports and fairness opinions
- Companies Act registered valuer reports for sweat equity, mergers, demergers, and capital reductions under Section 247
- Transfer pricing valuation for intangible assets, financial instruments, and intra-group transactions under Section 92 and Rule 10B
- Ind AS 103 Purchase Price Allocation and Ind AS 36 Goodwill Impairment Testing
- ESOP valuation for Ind AS 102 accounting, perquisite tax compliance, and IBBI regulatory purposes
- Expert valuation for NCLT, ITAT, arbitration, and regulatory adjudication proceedings

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Multi-Framework Regulatory Valuation - Integrated valuation reports that simultaneously satisfy Companies Act, FEMA, Income Tax, and SEBI requirements - eliminating the need for multiple single-framework reports from different advisors.

Income Tax Compliance Valuation - Section 50CA, 56(2)(x) and Rule 11UA FMV certification for share transfers, capital gains, deemed gift, and share issuance transactions.

FEMA & RBI Compliance Valuation - FMV reports for FDI, ODI, CCPS, CCD issuances, FCCB conversions, and cross-border restructuring under FEMA 20(R) and RBI Master Directions, certified by qualified professionals.

SEBI Mandated Valuation - Open offer and Regulation 26 opinions, delisting floor price and advisory, preferential allotment pricing, RPT fairness opinions, scheme SERs, and buyback pricing under SEBI regulations.

Companies Act Registered Valuer Reports - Section 247-compliant registered valuer reports for sweat equity, merger and demerger schemes, capital reduction, and all transactions requiring statutory valuation under the Companies Act, 2013.

Ind AS Fair Value & Impairment - Purchase Price Allocation (Ind AS 103), goodwill impairment testing (Ind AS 36), financial instrument fair valuation (Ind AS 109/113), and share-based payment accounting (Ind AS 102).

Transfer Pricing Valuation - Arm's-length price determination for intangible asset transfers, financial guarantees, intra-group loans, and management service agreements under Section 92 of the Income Tax Act and OECD guidelines.

CFO Regulatory Compliance Advisory - Ongoing valuation compliance advisory for finance teams - identifying valuation obligations, sequencing regulatory filings, and building internal governance frameworks for valuation decisions.

"The CFO who understands regulatory valuation is not just managing compliance - they are managing risk, protecting the balance sheet, and building the governance credibility that investors and regulators expect from world-class Indian enterprises." - Sagar Shah

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SECTION 1 - THE COMPLIANCE MAP

Chapter 1: The CFO's Valuation Compliance Map: Four Frameworks, One Transaction

The Indian regulatory landscape imposes valuation obligations on companies through four principal frameworks: the Companies Act, 2013, which regulates corporate transactions and mandates registered valuers for specified statutory purposes; the Income Tax Act, 1961, which uses fair market value to determine the tax treatment of transfers, receipts, and issuances of securities; the Foreign Exchange Management Act, 1999, which requires FMV certification for all cross-border transactions involving securities; and SEBI's framework of regulations, which mandates independent valuation for capital market transactions involving listed companies. For a CFO managing a complex corporate group, the same transaction may simultaneously trigger obligations under two, three, or all four frameworks - each with its own prescribed methodology, prescribed professional, and prescribed timeline.

The failure to recognise this multi-framework reality is the single most common source of regulatory valuation non-compliance in Indian corporate practice. CFOs who manage each framework independently - delegating income tax valuation to the tax team, FEMA compliance to the treasury team, and SEBI matters to the company secretary - frequently discover, at the cost of a regulatory notice or deal delay, that the frameworks interact in ways that require an integrated, coordinated approach. This handbook provides that integrated perspective.

1.1 Why the Same Transaction Needs Multiple Valuations

Consider a straightforward transaction: a listed Indian parent company proposes to issue equity shares to its foreign wholly-owned subsidiary by way of preferential allotment. This single transaction triggers: a Companies Act Section 42 private placement process requiring board and shareholder approval;; a FEMA 20(R) compliance analysis (the foreign subsidiary as allottee means the pricing must meet the FEMA FMV floor); and a SEBI ICDR Regulation 164 preferential allotment process (since the issuer is a listed company) requiring VWAP-based floor price computation and disclosure.

Each framework's FMV is conceptually the same - the price a willing buyer and willing seller would agree to - but the methodology prescribed by each framework differs. Income Tax Rule 11UA specifies a balance sheet-based formula or a Merchant Banker DCF. FEMA 20(R) requires a CA or Merchant Banker using internationally accepted methods. SEBI ICDR requires a VWAP-based floor for frequently traded shares. The CFO must navigate all four simultaneously, which requires a registered valuer who understands the full compliance picture and can produce reports that satisfy all applicable requirements without contradiction.

Transaction Type	Companies Act	Income Tax	FEMA	SEBI
Issue of shares to employees (ESOP)	Sec 62 + Reg. Valuer	Sec 17(2)(vi) FMV	If NRI employee - FEMA 20(R)	Listed: ICDR pricing
Intra-group share transfer	Sec 247 if merger	Sec 50CA / 56(2)(x)	FEMA 20(R) if foreign party	Listed: LODR / SAST
Preferential allotment	Sec 42 / Sec 62	Sec 56(2)(x) if above FMV	FEMA if foreign allottee	Listed: ICDR Regulation 164
Merger / Amalgamation	Sec 230-232 + Reg. Valuer SER	Sec 2(1B) - neutral if conditions met	FEMA if cross-border	Listed: SEBI Obs. Letter
Buyback of shares	Sec 68-70	Sec 46A - capital gains	FEMA if NRI shareholders	Listed: SEBI Buyback Regs

Transaction Type	Companies Act	Income Tax	FEMA	SEBI
Foreign subsidiary acquisition	Board approval	Sec 50CA / indirect transfer	FEMA ODI - FMV required	Listed: LODR disclosure

Table 1: Cross-Framework Regulatory Valuation Matrix - Key Transaction Types

1.2 The Registered Valuer: The CFO's Compliance Anchor

The introduction of the IBBI Registered Valuer framework under the Companies (Registered Valuers and Valuation) Rules, 2017, has created a single professional class that is specifically qualified and regulated to conduct statutory valuations under Indian law. An IBBI Registered Valuer in the Securities and Financial Assets class is recognised by the Companies Act (Section 247), the Income Tax Act (through Merchant Banker equivalence in certain contexts), and SEBI regulations - making them the natural anchor professional for multi-framework valuation compliance.

For CFOs, the practical implication is clear: maintaining an ongoing relationship with a qualified, independent, IBBI-registered valuer - one who is engaged at the planning stage of each significant transaction rather than reactively when a notice arrives - is the single most effective investment in regulatory valuation compliance. The cost of a proactive, well-documented valuation is invariably a fraction of the cost of a regulatory dispute, penalty, or deal unwind caused by inadequate compliance.

KEY INSIGHT

We regularly encounter situations in our practice where a CFO has managed one regulatory framework well - for instance, they have an excellent relationship with their income tax valuation advisor - but has not integrated that framework with the others. A cross-border group restructuring that satisfies Section 50CA perfectly may still attract FEMA compounding proceedings if the same valuation report does not satisfy the FEMA 20(R) prescribed professional requirement. In one engagement, we were brought in after the fact to support a company responding to an RBI compounding notice arising from a restructuring that had been meticulously planned from an income tax perspective but had used an unsigned, informal valuation for FEMA purposes. The integrated, multi-framework approach - where a single qualified professional produces a report designed to satisfy all applicable frameworks simultaneously - eliminates this gap.

1.3 Sequencing: When Must the Valuation Be Done?

Each regulatory framework has its own timing requirements for the valuation, and these timing requirements can be in tension with each other and with the commercial timeline of the transaction. Understanding the sequencing obligations is an essential part of CFO compliance planning.

- **Companies Act:** The registered valuer's report must be available before the relevant resolution is passed by the board or shareholders. For mergers, the valuation must be filed with the NCLT petition.
- **Income Tax:** The FMV is determined as of the transaction date - the date of allotment, transfer, or issuance. A valuation prepared after the transaction date and backdated to the transaction date is technically compliant if the information used is as of the transaction date, but contemporaneous preparation is strongly recommended to avoid challenges.
- **FEMA:** The FMV must be certified as of a date not more than 90 days before the transaction date for most FDI transactions. Stale valuation reports - those prepared more than 90 days before the actual share issuance - require refreshing.
- **SEBI:** The VWAP floor price for preferential allotments is computed with reference to the "relevant date" - the board meeting date - and must be updated if the board meeting is rescheduled. The Regulation 26 opinion for open offers must be submitted before the tendering period opens.

PRO TIP

Build a Regulatory Valuation Calendar at the start of each financial year. For each anticipated transaction - planned share issuances, group restructurings, ESOP grants, related party agreements - identify which regulatory frameworks are engaged and what the valuation timing requirements of each framework are. Mandate that the registered valuer is engaged at least 45–60 days before the earliest valuation deadline in any multi-framework transaction. A calendar-driven approach to valuation compliance converts a reactive, crisis-driven activity into a manageable, planned process - and consistently produces better regulatory outcomes at lower total cost.

SECTION 2 - COMPANIES ACT

Chapter 2: Companies Act Valuation: Registered Valuers, Sweat Equity & Statutory Reports

The Companies Act, 2013 introduced the concept of the "Registered Valuer" - a credentialed, IBBI-registered professional who alone is authorised to conduct statutory valuations for specified purposes under the Act. Section 247 of the Companies Act, read with the Companies (Registered Valuers and Valuation) Rules, 2017, established this framework, creating for the first time in Indian corporate law a regulated valuation profession with examination requirements, continuing education obligations, and disciplinary accountability.

For CFOs, the Companies Act valuation obligations span the corporate lifecycle: from the issuance of sweat equity at the time of company formation, through ESOP schemes during the growth phase, to merger and demerger schemes as the group evolves, and capital reductions as part of restructuring. Each of these events requires a Registered Valuer report, and the failure to obtain one - or to obtain one from an unregistered professional - renders the corporate action potentially void or challengeable.

2.1 Sweat Equity: Section 54 and the FMV Obligation

Sweat equity shares - shares issued to employees or directors at a discount or for non-cash consideration including intellectual property, know-how, or value additions - are regulated under Section 54 of the Companies Act, 2013. The section requires that the value of the intellectual property or know-how being received in exchange for the sweat equity be determined by an IBBI Registered Valuer, and that the issue price of the sweat equity be not less than the FMV of the shares as determined by a Registered Valuer.

The practical compliance requirement is therefore a dual valuation: the Registered Valuer must independently assess both the FMV of the shares being issued and the value of the non-cash consideration being provided by the employee. Where the value of the non-cash consideration equals or exceeds the FMV of the shares, the issue is at zero or negative effective cost. Where there is a gap, the difference may be treated as a perquisite for income tax purposes.

Companies Act Provision	Transaction / Event	Valuation Requirement	Prescribed Professional
Section 54	Sweat equity issue	FMV by Registered Valuer	IBBI Registered Valuer (SFA)
Section 62(1)(b)	ESOP exercise	FMV for compliance with Sec 17(2)	Registered Valuer or Merchant Banker
Section 62(1)(c)	Issue other than rights - to specific persons	Price per special resolution + Sec 56(2)(x)	Board determination + Tax FMV
Section 230–232	Merger / Amalgamation / Demerger	Registered Valuer report + SER	IBBI Registered Valuer (SFA)
Section 66	Capital reduction	FMV of cancelled shares	Registered Valuer
Section 247	All statutory valuations under the Act	Registered Valuer mandatory	IBBI Registered Valuer
Section 281 (IBC cross-reference)	Attachment / Insolvency	Registered Valuer report for assets	IBBI Registered Valuer (L&B / P&M / SFA)

Table 2: Companies Act 2013 - Key Valuation Provisions and Prescribed Professionals

2.2 Section 230–232: Registered Valuer Reports for Schemes

Mergers, amalgamations, and demergers under Sections 230–232 of the Companies Act require the company to submit a registered valuer's report as part of the petition filed with the NCLT. The report must address: the FMV of the shares or assets of each entity involved in the scheme, the share exchange ratio (SER) proposed in the scheme, the basis and methodology for the SER determination, and a declaration of the valuer's independence and absence of conflict.

The NCLT reviews the registered valuer's report as part of its assessment of whether the scheme is fair and reasonable to all classes of shareholders and creditors. Inadequate valuation reports - those that lack methodology transparency, do not address the interests of different shareholder classes, or present a SER that cannot be explained by the underlying analysis - are a frequent cause of NCLT queries and adjournments. The registered valuer's report is not a formality; it is a substantive governance document on which the NCLT relies.

KEY INSIGHT

We have prepared registered valuer reports for over forty schemes of arrangement filed with NCLT benches across India. The most consistent observation from these engagements is the importance of methodology transparency. NCLT judges and their technical members are increasingly sophisticated in their review of valuation reports, and a report that presents a conclusion without a clear, step-by-step explanation of how each methodology was applied - and how the different methodological outputs were synthesised into the final SER - invites queries that delay the scheme. In one recent merger engagement, we received zero NCLT queries on the valuation, despite a complex multi-entity scheme involving holding and operating companies with cross-holdings. The reason: our report was structured to anticipate and pre-answer every question a technical reviewer would naturally ask. Valuation reports prepared for NCLT filing should be written for a technically informed reader who is sceptical - not for a management audience that already accepts the conclusion.

2.3 Section 66: Capital Reduction and Valuation

Capital reduction - the reduction of a company's share capital with or without cancellation or extinguishment of paid-up capital - requires NCLT approval under Section 66 of the Companies Act. Where the reduction involves cancellation of shares (other than in an equally proportionate reduction across all shareholders), the cancelled shareholders must receive the FMV of their shares as consideration. This FMV must be determined by a Registered Valuer.

Capital reductions are commonly used in group restructuring - eliminating minority shareholdings, consolidating subsidiary ownership, or simplifying complex holding structures. The income tax treatment of the consideration received by cancelled shareholders depends on whether it is characterised as a dividend or as capital gains, which in turn depends on the specific mechanism of the reduction and the company's accumulated profits. The Registered Valuer's FMV determination is the starting point for both the Companies Act compliance and the income tax analysis.

2.4 The Registered Valuer's Independence and Liability

Section 247(2) of the Companies Act makes the Registered Valuer personally liable for any valuation that is incorrect or misleading. This provision creates genuine professional accountability: a valuer who provides an inflated or deflated valuation - whether through incompetence or improper influence - faces personal consequences including monetary penalties, debarment, and potential criminal liability under Section 447 (fraud). For CFOs, this means that engaging a Registered Valuer who genuinely exercises independent judgment is not merely a governance preference but a legal protection: a valuation that was conducted independently, with proper documentation, and by a registered professional provides the board with a defense against shareholder or regulatory challenge that a non-independent or unregistered opinion cannot.

PRO TIP

For all Companies Act registered valuer reports, ensure that the engagement letter explicitly defines the scope, the purpose, the valuation date, and the standard of value. A registered valuer's report prepared for one purpose - say, a Section 54 sweat equity issue - cannot simply be repurposed for an NCLT-filed scheme of arrangement. Each regulatory purpose requires its own specifically scoped engagement and report. Using a report prepared for one regulatory purpose to satisfy a different regulatory requirement is a compliance risk that creates the appearance of compliance without the substance.

SECTION 3 - INCOME TAX COMPLIANCE

Chapter 3: Income Tax Valuation: Sections 50CA, 56(2)(x) & Rule 11UA

The Income Tax Act, 1961, uses fair market value as a central concept in the taxation of securities transactions - not just as a reference point, but as the statutory deemed value for computing income or capital gains where the actual transaction price deviates from FMV. Sections 50CA and 56(2)(x) together form the most consequential set of income tax valuation provisions for CFOs managing intra-group transactions, investor rounds, ESOP programs, and promoter stake transfers. Non-compliance - whether through using an incorrect valuation method, engaging a non-prescribed professional, or simply failing to obtain a report - can result in tax assessments, interest, and penalties that are multiples of the cost of proper compliance.

3.1 Section 50CA: The Seller's FMV Floor for Capital Gains

Section 50CA, effective from Assessment Year 2018-19, provides that where a person transfers unquoted shares of a company for a consideration that is less than the FMV determined under Rule 11UA, the FMV shall be deemed to be the full value of consideration for the purposes of computing capital gains in the hands of the transferor. In simple terms: you cannot sell shares of an unlisted company at a concessional price and pay capital gains tax only on the actual price received. The tax is computed on the higher of actual price and FMV.

Section 50CA applies to all transfers of unquoted equity shares, preference shares, and any other securities not listed on a recognised stock exchange - regardless of whether the transfer is to a related party, a third party, or within a corporate group. Intra-group share transfers executed at book value, at face value, or at any price below FMV will attract Section 50CA, making the FMV determination a pre-condition for any planned intra-group restructuring.

$$\text{Capital Gains (Sec 50CA)} = \text{Max}(\text{Actual Sale Price, FMV under Rule 11UA}) - \text{Indexed Cost of Acquisition}$$

Section	Transaction	Who Bears Tax Risk	Valuation Standard	Method
Sec 50CA	Transfer of unquoted shares below FMV	Transferor (seller)	FMV - deemed full consideration	Rule 11UA (BS or MB-DCF)
Sec 56(2)(x)	Receipt of shares below FMV	Recipient (buyer)	FMV of shares received	Rule 11UA
Sec 56(2)(vii)	Legacy - pre-2017 transactions	Recipient	FMV at receipt	Prescribed method (historical)
Sec 17(2)(vi)	ESOP exercise perquisite	Employee	FMV on exercise date	Merchant Banker / Registered Valuer
Sec 45 / Sec 48	Capital gains on transfer	Transferor	FMV for full consideration under 50CA	Rule 11UA

Table 3: Income Tax Act - Key Valuation-Linked Provisions for Securities Transactions

3.2 Section 56(2)(x): The Recipient's Deemed Gift Provision

Section 56(2)(x) taxes the recipient of shares received for a consideration less than FMV - the difference between FMV and actual consideration is taxable in the hands of the recipient as income from other sources. This provision mirrors Section 50CA from the recipient's perspective: while the seller is taxed on the FMV under Section 50CA, the buyer is also taxed on the gain of receiving shares below FMV under Section 56(2)(x).

The combined effect of Sections 50CA and 56(2)(x) is that any transfer of unquoted shares at below-FMV is doubly taxed: the seller on deemed capital gains, and the buyer on deemed gift income. However, there are exemptions: transfers between "relatives" as defined under the Explanation to Section 56(2)(x) are exempt; transfers in contemplation of death are exempt; and most importantly for companies, transfers arising out of transactions not involving consideration (such as inheritance) are exempt. The "relative" definition is narrow and specific - CFOs should not assume that intra-group or family transfers are automatically exempt without verifying the specific relationships involved.

KEY INSIGHT

We have assisted multiple corporate groups in navigating the interaction between Sections 50CA and 56(2)(x) in the context of intra-group restructurings. A frequent situation: a holding company proposes to transfer shares of a subsidiary to a sister company within the group at book value, as part of an internal reorganisation. The tax team flags Section 50CA - the holding company will be taxed on FMV capital gains. But frequently the Section 56(2)(x) implication for the receiving sister company is overlooked: if the receiving company is not a "relative" of the transferring company (which, as a legal entity, has no relatives in the ordinary sense), the deemed gift provisions also apply. We have seen assessments raised on both the transferor and the transferee in the same transaction, resulting in the same economic gain being taxed twice. The solution is proper advance planning, including a Rule 11UA valuation that sets the transfer price at or above FMV - eliminating both exposure simultaneously.

3.3 Rule 11UA: The Valuation Methodology for Income Tax

Rule 11UA prescribes the specific methodology for determining FMV for income tax purposes. For equity shares of a company other than a quoted company, the FMV is the higher of: (a) the value as determined under the prescribed balance sheet formula (essentially an adjusted net asset value per share); and (b) the value as may be determined by a Merchant Banker using the Discounted Cash Flow method as per Rule 11UA(2)).

The balance sheet method formula under Rule 11UA uses audited balance sheet data: $FMV = (A - L) \times PV / PE$, where A is the book value of all assets, L is specified liabilities, PV is the paid-up value of the shares being valued, and PE is total paid-up equity capital. This formula uses historical book values, not current market values - and for businesses with significant real estate, brand value, or goodwill, book value can dramatically understate economic value. In these situations, the DCF method may produce a higher FMV, and taxpayers must be alert to which method is being used and whether it serves their compliance objective.

Rule 11UA FMV = (Book Value of Assets – Prescribed Liabilities) × (PV of Shares / Total Paid-Up Equity)

PRO TIP

CFOs should maintain a documented Rule 11UA valuation for each unlisted subsidiary and associate company, updated at least annually. This annual valuation serves multiple purposes: it provides a current FMV reference for any planned intra-group transactions; it establishes the FMV basis for ESOP grants and exercises; it satisfies the pre-transaction planning requirement for Section 50CA and 56(2)(x) compliance; and it provides the cost basis for promoter shares that will be relevant for capital gains computation in any future transaction. Annual documentation is not a regulatory requirement - it is a CFO best practice that eliminates the scramble for valuation when a transaction is proposed with a short timeline.

SECTION 4 - FEMA & RBI

Chapter 4: FEMA Valuation Compliance: FDI, ODI, Convertible Instruments & Cross-Border Deals

The Foreign Exchange Management Act, 1999, and its subordinate regulations - principally FEMA 20(R) (Non-Debt Instruments Rules, 2019) and the RBI Master Directions on ODI - impose mandatory FMV certification requirements on virtually every transaction that involves the movement of securities across India's borders. For a CFO managing a company with foreign shareholders, cross-border subsidiaries, or international expansion plans, FEMA valuation compliance is a continuous, recurring obligation rather than a one-time event.

The fundamental FEMA valuation principle is a pricing floor for inbound investment (FDI) and a pricing ceiling for outbound investment (ODI). When a foreign investor subscribes to Indian shares, the issue price cannot be below FMV - the Indian company must not undervalue itself to benefit the foreign investor at the expense of existing Indian shareholders. When an Indian company acquires a foreign company, the acquisition price cannot exceed the FMV of the foreign company - protecting Indian foreign exchange from being used to overpay for overseas assets.

4.1 The FMV Certification Requirement Under FEMA 20(R)

Rule 21 of the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, is the master provision for FDI pricing: the price of equity or equity-equivalent instruments (CCPS, CCDs) issued to foreign investors shall not be less than the FMV arrived at as per any internationally accepted pricing methodology on an arm's-length basis, duly certified by a SEBI-registered Merchant Banker or a Chartered Accountant as the case may be.

The phrase "internationally accepted pricing methodology on an arm's-length basis" gives the valuer methodological flexibility - DCF, market comparables, and NAV are all acceptable - but the certification requirement makes the professional's identity and qualification a compliance element in its own right. An unsigned valuation, a valuation by a non-CA professional, or a valuation prepared by an advisor who is not independent of the company fails the FEMA certification requirement regardless of its analytical quality.

Transaction	FEMA Rule	Pricing Direction	Prescribed Professional	Filing
FDI - equity shares to foreign investor	FEMA 20(R), Rule 21	Issue not below FMV	CA or Merchant Banker	FC-GPR within 30 days
FDI - CCPS to foreign investor	FEMA 20(R), Rule 21	Issue not below FMV	CA or Merchant Banker	FC-GPR within 30 days
FDI - CCDs to foreign investor	FEMA 20(R), Rule 21	Issue not below FMV	CA or Merchant Banker	FC-GPR within 30 days
Transfer of shares from resident to non-resident	FEMA 20(R), Rule 21(7)	Not below FMV	CA or Merchant Banker	FC-TRS within 60 days
Transfer of shares from non-resident to resident	FEMA 20(R), Rule 21(7)	Not above FMV	CA or Merchant Banker	FC-TRS within 60 days

Transaction	FEMA Rule	Pricing Direction	Prescribed Professional	Filing
ODI - acquisition of foreign company	FEMA 120 / ODI Directions	Not above FMV of foreign company	Internationally recognised firm	Form ODI; RBI approval above threshold

Table 4: FEMA Valuation Requirements - Key Cross-Border Transaction Matrix

4.2 Equity-Equivalent Instruments: CCPS and CCDs

The most common instruments used in FDI transactions are not ordinary equity shares but preference instruments: Compulsorily Convertible Preference Shares (CCPS) and Compulsorily Convertible Debentures (CCDs). Under FEMA 20(R), these instruments are treated as equity-equivalent for pricing purposes - meaning the FMV certification requirement applies at both issuance and conversion, and the pricing at issuance must reflect the equity value of the company at that time.

CFOs must be particularly alert to the conversion mechanics of CCPS and CCDs. The conversion ratio - which determines how many equity shares each CCPS or CCD converts into - is typically set at issuance and cannot be revised downward without triggering a new FEMA pricing analysis. Where the company's valuation has changed significantly between issuance and conversion, the original conversion ratio may produce a conversion price that is now either above or below the current FMV - creating a compliance risk if the conversion price is below the current FMV (which would effectively result in the foreign investor receiving equity below the current FMV, violating the FEMA floor).

KEY INSIGHT

We regularly encounter a compliance gap that arises from the time difference between CCPS issuance and conversion. A company issues CCPS to a foreign investor at a price of Rs. 100 per share (which was the FMV at issuance, duly certified). The CCPS converts to equity two years later at a pre-agreed conversion formula that implies a conversion price of Rs. 85 per share - below the then-current FMV of Rs. 130 per share. Technically, the conversion results in the foreign investor receiving equity below the current FMV. Some practitioners argue that the FEMA compliance was satisfied at the issuance stage and that the conversion is a mechanical execution of the agreed terms. We take a more conservative view - and the RBI's compounding framework suggests that a conversion below current FMV may require specific documentation and, in some cases, a fresh FMV certification at the conversion date. Engaging valuation counsel at the conversion stage, not just at issuance, is the prudent approach.

4.3 Secondary Transfers: The FC-TRS Framework

When existing shares change hands between a resident and a non-resident - as opposed to a fresh issuance - the transaction is reported through Form FC-TRS (Foreign Currency Transfer of Shares) filed on the FIRMS portal. The FEMA pricing rules for secondary transfers are symmetrical: a resident selling to a non-resident must sell at or above FMV (the non-resident cannot buy cheap at the resident's expense); a non-resident selling to a resident must sell at or below FMV (the resident cannot be forced to overpay).

For listed shares, the FMV for FC-TRS purposes is the market price - specifically the SEBI-prescribed pricing for block deals or negotiated transactions on the stock exchange. For unlisted shares, the FMV must be certified by a CA or Merchant Banker using internationally accepted methods. The FC-TRS must be filed within 60 days of the transfer - a deadline that is frequently missed by companies that treat the FEMA filing as an afterthought following a transaction that was primarily negotiated on commercial terms.

4.4 Overseas Direct Investment: The FMV Ceiling

When an Indian company acquires shares in a foreign company - creating or increasing a foreign subsidiary - the Overseas Direct Investment (ODI) framework applies. Under the FEMA 120 framework and the RBI Master Direction on ODI, the acquisition price cannot exceed the FMV of the foreign company as certified by a SEBI-registered Merchant Banker or an internationally recognised accounting or appraisal firm. This ceiling protects Indian foreign exchange from being used to overpay for offshore assets.

The valuation of a foreign company for ODI purposes presents unique challenges: the financial statements may be in a foreign currency and prepared under non-Indian standards; the comparable companies may be

in overseas markets with different risk profiles; and the country risk premium for the foreign jurisdiction must be incorporated into the discount rate. The ODI valuation report must be documented in a form that satisfies RBI scrutiny, which means it must be prepared by a qualified professional and must clearly disclose all key assumptions including currency exchange rate and country risk premium.

PRO TIP

Establish a FEMA Valuation Register within the treasury or company secretarial function - a live document that tracks every outstanding FEMA compliance obligation: FC-GPR deadlines for open FDI rounds, FC-TRS deadlines for completed transfers, ODI reporting timelines, and the expiry dates of valuation reports used in the preceding 90 days (after which a fresh valuation is required). The FIRMS portal maintains the official records, but a company-side register provides the operational visibility that prevents missed deadlines. Late filing compounding fees under FEMA are disproportionately high relative to the amount of the underlying transaction and relative to the compliance cost of filing on time.

SECTION 5 - SEBI OBLIGATIONS

Chapter 5: SEBI Valuation for Listed Companies: ICDR, LODR, SAST & Buyback Obligations

For a CFO of a listed company, SEBI's valuation obligations are not a peripheral compliance matter - they are central to every significant capital market transaction. The preferential allotment that raises growth capital, the related party agreement that rationalises group costs, the open offer that changes the company's ownership, and the buyback that deploys surplus cash: each requires a specific SEBI-compliant valuation, and the failure to obtain one exposes the company, its directors, and its advisors to regulatory penalties, deal delays, and shareholder litigation.

5.1 Preferential Allotments: The VWAP Discipline

A preferential allotment under SEBI ICDR Regulation 164 is the most commonly executed listed company valuation event. The VWAP-based floor price - the higher of the 90-days VWAP and the 10-days VWAP as of the relevant date - is a mechanical calculation but requires precise execution: the correct stock exchange (the one with the highest trading volume), the correct observation period (90 and 10 weeks from the relevant date, excluding the relevant date itself), and adjustment for any corporate actions (bonus issues, splits, rights) during the period.

CFOs who allow their company secretarial team to compute the VWAP floor price without independent verification create a compliance risk: a VWAP error - even a computational error of a few rupees per share - can result in an under-priced allotment that SEBI characterises as a violation of Regulation 164. In transactions involving foreign allottees, the VWAP floor must also be cross-checked against the FEMA FMV floor, and the higher of the two governs.

SEBI Regulation	Valuation Event	Prescribed Professional	CFO Action Required
ICDR - Preferential Allotment (Reg. 164)	VWAP floor price computation	Board / Merchant Banker	Verify VWAP calculation; ensure FEMA alignment
ICDR - Preferential Allotment (infrequent trading)	FMV by independent valuer	Registered Valuer / Merchant Banker	Commission FMV report before board meeting
LODR - RPT (Reg. 23)	Fairness opinion for material RPTs	Registered Valuer / Merchant Banker	Engage before RPT negotiation is finalised
SAST - Open Offer (Reg. 26)	Regulation 26 independent opinion	Registered Valuer appointed by independent directors	Facilitate access for independent valuer
Delisting Regulations - Floor Price	Floor price computation	Merchant Banker / Registered Valuer	Commission before board meeting considers delisting
Buyback Regulations - Tender Offer	Fairness of buyback price; solvency	Board + Registered Valuer	Prepare solvency model; commission fairness view
SEBI AIF Regulations - Portfolio	Portfolio NAV and fair value	SEBI-empanelled independent valuer	Appoint independent valuer; establish policy

Table 5: SEBI Valuation Obligations - CFO Action Matrix for Listed Companies

5.2 SEBI LODR and RPT Fairness Opinions

SEBI's LODR Regulation 23 governs the approval and disclosure of related party transactions by listed companies. Material RPTs - those exceeding specified thresholds - require audit committee approval and, above higher thresholds, shareholder approval by ordinary resolution with no related party permitted to vote. For the audit committee to meaningfully approve a material RPT, it must be satisfied that the terms of the transaction are fair and reasonable - which, for complex commercial arrangements, requires an independent fairness opinion from a registered valuer or merchant banker.

The CFO's role in the RPT fairness opinion process is critical: the CFO must ensure that the independent valuer is engaged before the commercial terms of the RPT are finalised (not after), that the valuer has full access to the relevant information including the benchmarking data for comparable arm's-length transactions, and that the audit committee receives the fairness opinion in sufficient time to make an informed decision rather than a time-pressured rubber stamp. An RPT where the commercial terms were negotiated and agreed before the fairness opinion was commissioned is structurally compromised - the fairness opinion becomes an ex-post justification rather than an independent assessment.

KEY INSIGHT

We have observed a pattern in listed company RPT governance that creates significant regulatory risk: the CFO presents the RPT terms to the audit committee as a fait accompli, with the fairness opinion commissioned from the same firm that provides the company with other advisory services, and obtained in a compressed timeline that does not permit genuine independent analysis. In one engagement where we were retained to independently review a contested RPT fairness opinion, we identified that the prior opinion had used a comparable set of transactions that were not genuinely comparable - including international transactions in different regulatory environments - and had not benchmarked the pricing against the most directly relevant Indian market data. Our independent review identified a pricing gap of approximately 18%, which the company ultimately corrected through a renegotiation with the related party. The lesson: the fairness opinion that is genuinely independent, adequately timed, and methodologically rigorous is the one that provides real protection to the audit committee and the board.

5.3 The Regulation 26 Opinion: Independent Director Governance

When a listed company becomes the target of a mandatory open offer under the SEBI SAST Regulations, the board must constitute a committee of independent directors to consider the open offer and provide a recommendation to shareholders. This committee must obtain a Regulation 26 opinion from an independent registered valuer - a fundamental valuation of the company's intrinsic worth to assess whether the offer price is adequate.

For the CFO, the Regulation 26 process presents a specific governance challenge: the registered valuer appointed by the independent directors requires access to the company's financial information, management projections, and business plans - information that management controls but which the independent directors' committee needs to form an independent view. CFOs must ensure that this access is provided promptly and completely, without filtering or management intervention. The failure to provide an independent valuer with complete access - or the provision of selective information that steers the valuation toward a predetermined conclusion - is both a governance failure and a potential SEBI violation.

5.4 Buyback Pricing and the Solvency Certificate

A listed company buyback via the tender offer route requires the board to announce a fixed buyback price and certify the company's solvency. The buyback price must be fair - neither so high that it benefits tendering shareholders at the expense of continuing shareholders, nor so low that it penalises tendering shareholders. While SEBI does not mandate an independent valuation for buyback pricing (unlike for preferential allotments), the board's fiduciary duty requires that the price be anchored in a considered assessment of fundamental value.

The solvency certificate - signed by the company's board - requires CFO-level analysis: a detailed cash flow model showing that the company, post-buyback, will remain capable of servicing its obligations for at least twelve months. This is not a static balance sheet analysis but a dynamic liquidity assessment that must account for debt maturities, capital expenditure plans, working capital requirements, and contingent liabilities.

PRO TIP

Create a SEBI Valuation Calendar as a standing item in the company secretarial and CFO compliance function. This calendar should track: upcoming ESOP grant dates (requiring annual FMV updates), the schedule for the next preferential allotment or QIP (requiring advance VWAP monitoring), the timing of major RPT renewals (requiring fairness opinion updates), and any anticipated M&A activity (requiring Regulation 26 or scheme valuation preparation). SEBI compliance failures are rarely caused by ignorance of the regulatory requirement - they are caused by inadequate advance planning that compresses the time available for proper valuation.

SECTION 6 - TRANSFER PRICING

Chapter 6: Transfer Pricing & Intangible Valuation: Arm's-Length Compliance Under Section 92

Transfer pricing - the pricing of transactions between associated enterprises within a corporate group - is regulated under Chapter X of the Income Tax Act, 1961, specifically Sections 92 to 92F and the associated Rules 10A to 10THD. For CFOs of groups with international or domestic related party transactions above the specified threshold, transfer pricing compliance is one of the most significant regulatory valuation obligations in the compliance calendar - and one of the most frequently litigated areas of Indian tax law.

The arm's-length principle, which underlies all transfer pricing regulation, requires that transactions between associated enterprises be priced as if they were conducted between independent parties dealing at arm's length. Departures from the arm's-length price - whether deliberate or inadvertent - expose the group to transfer pricing adjustments, interest, penalties, and, in egregious cases, prosecution. For transactions involving intangible assets, financial instruments, and intra-group services, the arm's-length price determination requires rigorous economic and valuation analysis that goes well beyond simple benchmarking.

6.1 The Transfer Pricing Methods Under Rule 10B

Rule 10B of the Income Tax Rules prescribes six transfer pricing methods for determining the arm's-length price of international transactions: the Comparable Uncontrolled Price (CUP) method, the Resale Price Method (RPM), the Cost Plus Method (CPM), the Profit Split Method (PSM), the Transactional Net Margin Method (TNMM), and the Any Other Method (AOM). Additionally, Rule 10AB permits the use of any other method that provides the most appropriate method for the transaction. The selection of the most appropriate method depends on the nature of the transaction, the availability of reliable comparable data, and the functional and risk profile of the transacting entities.

For intangible-intensive transactions - which are the most valuation-demanding area of transfer pricing - the CUP method (finding a genuinely comparable royalty transaction or IP transfer in the open market) is the theoretically preferred method but is often impractical due to the uniqueness of the intangible. The PSM and TNMM are more commonly used, with the PSM being preferred where both parties make unique, valuable contributions that cannot be adequately compensated by a one-sided method.

Intra-Group Transaction	Transfer Pricing Method	Valuation Basis	Documentation Required
Intangible asset transfer (IP / Brand)	CUT / CPM / PSM	Royalty rate benchmarking / income approach	TP Study Report + CBCR
Financial guarantee to subsidiary	Internal CUP or Guarantee fee benchmarking	Market guarantee fee range	TP documentation + Form 3CEB
Intra-group loan	CUP - comparable uncontrolled rate	Market interest rate for equivalent borrower	TP Study + Form 3CEB
Management services / shared services	CUP or TNMM	Market rate for equivalent services	Service agreement + TP Study
Business restructuring (profit migration)	PSM / Residual profit split	Exit charge on transferred routine functions	Restructuring TP Study + Economist report
Cost contribution arrangement (CCA)	CCA - agreed contribution basis	Relative expected benefits	CCA agreement + TP documentation

Table 6: Transfer Pricing Methods for Common Intra-Group Transactions

6.2 Intangible Asset Transfer Pricing

The transfer of intangible assets between associated enterprises - whether through outright sale, royalty-bearing license, or cost contribution arrangements - is the most complex and most contested area of Indian transfer pricing. The income tax authorities have been particularly active in challenging intra-group royalty payments, brand license fees, and technology transfer pricing in the pharmaceutical, FMCG, and technology sectors.

The arm's-length royalty rate for a specific intangible is determined by reference to comparable royalty arrangements between unrelated parties - a benchmarking exercise that requires access to the Bureau van Dijk Royalty Rate database, the RoyaltyStat database, or comparable public licensing disclosures. In the absence of exact comparables, the income approach to intangible valuation - estimating the incremental profit attributable to the intangible and applying a profit split methodology - provides an economic foundation for the arm's-length rate.

$$\text{Arm's Length Royalty Rate} = \text{Incremental Profit from Intangible} \times \text{Licensor's Bargaining Share}$$

KEY INSIGHT

We have supported corporate groups in defending transfer pricing positions before the ITAT across a range of intra-group transactions. The most contentious area by far is intra-group royalty and management fee payments. Tax authorities routinely challenge these payments on two grounds: that the services were not actually rendered (a facts-based challenge requiring service delivery evidence) and that even if rendered, the price is above arm's-length (requiring economic benchmarking). Our experience is that groups with robust contemporaneous documentation - service agreements with specific scope, delivery evidence, and a benchmarked pricing analysis prepared in the same year as the transaction - consistently fare better in ITAT proceedings than those whose transfer pricing documentation is assembled retrospectively. The ITAT has specifically noted in multiple orders that retrospective documentation, prepared after receipt of a transfer pricing notice, deserves less evidentiary weight than contemporaneous documentation.

6.3 Intra-Group Financial Transactions

Intra-group loans and financial guarantees between associated enterprises are subject to transfer pricing requirements just as tangible goods and service transactions are. The arm's-length interest rate on an intra-group loan is determined using the Comparable Uncontrolled Price method - specifically the market interest rate that an equivalent borrower (same credit risk profile, same tenor, same currency) would obtain from an independent lender. The credit rating of the borrowing entity - not the group rating - is the appropriate reference point.

Financial guarantees provided by an Indian parent to the lenders of a foreign subsidiary require a guarantee fee assessment: the arm's-length fee is the premium that the subsidiary would have paid for a financial guarantee from an independent third party. This is typically quantified using the "credit uplift" approach - the difference in borrowing cost with and without the parent guarantee - or by reference to comparable guarantee fee arrangements in the market.

6.4 Business Restructuring and Exit Charges

When a multinational group restructures its value chain - converting a full-risk distributor to a limited-risk distributor, centralising IP ownership in a holding entity, or migrating manufacturing functions across jurisdictions - the restructuring may trigger an "exit charge" under transfer pricing principles. The exit charge compensates the entity losing the function, risk, or asset for the present value of the future profits it is surrendering.

Exit charge valuation is among the most specialised areas of transfer pricing economics, requiring a "before and after" DCF analysis that computes the NPV of the restructuring entity's future profits under the pre-restructuring business model and compares it to the NPV under the post-restructuring model. The exit charge

is the difference - the amount that the group must pay the restructured entity to compensate it for the profit potential being transferred away.

PRO TIP

Prepare the Master File, Local File, and Country-by-Country Report (CbCR) by the prescribed due date - do not defer these to the last moment. Beyond the compliance aspect, these documents provide the tax authorities with a high-level view of your group's value creation and profit allocation. A well-prepared Master File that clearly articulates the group's value chain, the location of genuine economic substance, and the rationale for profit allocation sets a positive foundation for any transfer pricing audit. Groups that file complete, coherent, and well-reasoned TP documentation rarely face the aggressive adjustment positions that arise when the tax authority fills information gaps with adverse assumptions.

SECTION 7 - IND AS FAIR VALUE

Chapter 7: Ind AS Fair Value: Business Combinations, Impairment & Financial Instruments

India's convergence to Ind AS (Indian Accounting Standards, converged with IFRS) has fundamentally changed the role of valuation in financial reporting. Under the older Indian GAAP, most assets were carried at historical cost, and valuation was primarily a transaction-triggered event. Under Ind AS, fair value measurement is embedded in the financial statements themselves: at every reporting date, a significant proportion of a company's balance sheet - financial instruments, investment properties, assets acquired in business combinations, share-based payment instruments - must be measured at fair value and disclosed with sufficient transparency for users to understand how that value was determined.

For CFOs, Ind AS fair value requirements create both a technical obligation and a governance responsibility. The technical obligation is to ensure that fair value measurements are conducted using appropriate methodologies, qualified professionals, and adequate information - and that the valuations are current as of each reporting date. The governance responsibility is to ensure that the audit committee and the statutory auditor receive adequate information about the valuation methodologies and assumptions, and that the fair value disclosures in the financial statements are complete and accurate.

7.1 Ind AS 103: Purchase Price Allocation

When a company acquires another business - whether through a share acquisition or an asset purchase that meets the definition of a "business combination" under Ind AS 103 - it is required to allocate the total consideration paid across all identifiable assets and liabilities of the acquired business at their fair values. Any excess of consideration over the net fair value of identifiable assets is recognised as goodwill; any deficit is recognised immediately in the profit and loss account as a "bargain purchase gain."

The Purchase Price Allocation (PPA) exercise requires a comprehensive fair value assessment of every identifiable asset, including intangibles that were not separately recognised in the acquired company's financial statements - customer relationships, trade names, technology, non-compete agreements, favourable contracts, and order backlog. For acquisitions of businesses with significant intangible value, the PPA exercise can be the largest and most consequential valuation work associated with the transaction, with values allocated to identified intangibles that then attract amortisation over their useful lives, directly affecting the acquirer's P&L in the consolidated financial statements.

Ind AS Standard	Event / Context	Valuation Requirement	CFO Impact
Ind AS 103 - Business Combinations	Acquisition of business	Purchase Price Allocation - FMV of identifiable assets / liabilities	Intangible assets must be recognised; goodwill is residual
Ind AS 36 - Impairment of Assets	Annual goodwill impairment test	Value in Use (DCF) or Fair Value Less Costs of Disposal	Goodwill write-down directly impacts P&L
Ind AS 113 - Fair Value Measurement	All fair value measurements	Level 1 / 2 / 3 hierarchy; exit price concept	Disclosure of valuation technique and inputs
Ind AS 109 - Financial Instruments	Financial assets at FVTPL / FVOCI	Fair value at each reporting date	Investment portfolio valuation; EIR for debt

Ind AS Standard	Event / Context	Valuation Requirement	CFO Impact
Ind AS 102 - Share-Based Payment	ESOP grant date valuation	Fair value of option (Black-Scholes or binomial)	ESOP expense over vesting period; EPS impact
Ind AS 40 - Investment Property	Fair value model (if elected)	FMV of investment property at each reporting date	Changes in FV recognised in P&L

Table 7: Ind AS Fair Value Requirements - Key Standards and CFO Implications

$$\text{Goodwill} = \text{Total Consideration} + \text{NCI Fair Value} - \text{Net FMV of Identifiable Assets and Liabilities}$$

KEY INSIGHT

We have conducted Purchase Price Allocations for acquisitions across FMCG, pharmaceutical, technology, and manufacturing sectors. A consistent observation: CFOs who do not commission the PPA exercise promptly after acquisition close - within the Ind AS 103 measurement period of 12 months - face significant pressure from their statutory auditors to complete the PPA before the first post-acquisition financial statements are finalised. A last-minute PPA conducted under audit pressure is invariably less rigorous than one commenced shortly after acquisition close, with full access to the acquisition team's information and the target's management team. The identified intangibles and their fair values in a rushed PPA are routinely challenged by auditors, resulting in audit adjustments that affect reported goodwill, intangible assets, and amortisation expense. Starting the PPA process immediately after deal signing - ideally, with a preliminary scoping that identifies the likely significant intangibles - eliminates this pressure.

7.2 Ind AS 36: Goodwill Impairment Testing

Goodwill recognised in a business combination is not amortised under Ind AS - instead, it is subject to an impairment test at least annually, and whenever there is an indication that it may be impaired. The impairment test compares the "recoverable amount" of the Cash-Generating Unit (CGU) to which goodwill is allocated against the CGU's carrying amount (including goodwill). If the recoverable amount is less than the carrying amount, an impairment loss equal to the difference must be recognised.

The recoverable amount under Ind AS 36 is the higher of the CGU's "value in use" (the present value of the future cash flows expected to be derived from the CGU, using a pre-tax discount rate) and its "fair value less costs of disposal" (the price that would be received to sell the CGU in an arm's-length transaction, less disposal costs). The value-in-use calculation is a DCF - effectively the same methodology as a business valuation - and its key inputs are the cash flow projections and the discount rate. Manipulating these inputs to avoid recognising a goodwill impairment that is economically justified is one of the most aggressively challenged areas of accounting judgment.

7.3 Ind AS 109 and Financial Instrument Valuation

Financial instruments under Ind AS 109 are classified and measured at amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit and loss (FVTPL), depending on the contractual cash flow characteristics of the instrument and the entity's business model for managing it. For equity instruments - including unquoted shares in investee companies, AIF units, and preference shares that do not meet the "solely payments of principal and interest" test - measurement at FVTPL is the default, meaning the fair value must be determined at every reporting date and any change recognised in the income statement.

For listed equity investments, fair value is the market price - a Level 1 input in the Ind AS 113 fair value hierarchy. For unquoted equity instruments and AIF units, the fair value must be determined using Level 2 or Level 3 inputs - observable or unobservable - and the determination requires the application of valuation techniques with full disclosure of the methodology and key assumptions. The Ind AS 113 disclosure requirements for Level 3 instruments are extensive: CFOs must ensure that the company's valuation policies for Level 3 instruments are documented, consistently applied, and independently reviewed.

PRO TIP

Establish a documented Valuation Policy for Ind AS purposes at the entity level - reviewed and approved by the audit committee annually. This policy should specify: the classification of each material financial instrument and investment property; the valuation technique to be used for each class; the frequency of valuation updates; the process for reviewing and approving management valuations; and the basis for determining when an external independent valuer is required versus when management's internal valuation is acceptable. Statutory auditors increasingly require this documentation as part of their assessment of the quality of management's fair value estimates, and a well-documented, consistently applied policy eliminates a significant source of audit friction.

SECTION 8 - ESOP VALUATION

Chapter 8: ESOP Valuation: The Four-Framework Intersection

Employee Stock Option Plans (ESOPs) sit at the precise intersection of all four regulatory frameworks that govern corporate valuation in India. An ESOP grant by an unlisted Indian company to a mix of resident and non-resident employees requires simultaneous compliance with the Companies Act (Section 62), Income Tax (Section 17(2)(vi) requisite provisions), FEMA (for NRI employees), and, where the company is listed, SEBI's ICDR framework. For CFOs, ESOP valuation is therefore the clearest illustration of why a single-framework, single-advisor approach to regulatory valuation is inadequate - and why an integrated, multi-framework valuation engagement is the standard of care.

8.1 Companies Act: The Issue Price Floor

Under Section 62(1)(b) of the Companies Act, 2013, read with the Companies (Share Capital and Debentures) Rules, 2014, the exercise price of an ESOP must not be less than the FMV of the shares on the date of the grant. This FMV determination - which sets the floor below which the ESOP exercise price cannot be set - is the starting point for all other ESOP valuation compliance.

For unlisted companies, this FMV is typically determined by a Registered Valuer or Merchant Banker using the DCF or net asset value method. For listed companies, the Companies Act requirement interfaces with the SEBI ICDR ESOP guidelines, which permit the exercise price to be set at or below the market price (with the discount treated as a cost). The Companies Act FMV is the regulatory floor; the SEBI guidance governs the permissible discount for listed company ESOPs.

Framework	ESOP Valuation Requirement	Method	Timing	Professional
Companies Act - Sec 62(1)(b)	Issue price not below FMV	Rule 11UA or MB valuation	At grant / exercise	Registered Valuer or MB
Income Tax - Sec 17(2)(vi)	Perquisite = FMV on exercise – exercise price	FMV certified by MB or RV	On exercise date	Merchant Banker or RV
Ind AS 102 - Share-Based Payment	Grant date fair value of option	Black-Scholes or Binomial model	At grant date	Qualified valuer (internal or external)
FEMA 20(R)	FMV for NRI / foreign employee grants	Internationally accepted method	At grant date	CA or Merchant Banker
SEBI ICDR - Listed Companies	Issue price not below Reg. 164 floor	VWAP-based floor (listed) or FMV (unlisted)	At grant / exercise	Board / MB certification
IBBI (for unlisted companies)	FMV for statutory compliance	DCF or market comparables	Annually or at scheme change	IBBI Registered Valuer

Table 8: ESOP Valuation - Four-Framework Compliance Matrix

8.2 Income Tax: The Perquisite Valuation

The income tax treatment of ESOPs creates a valuation obligation at the exercise date - not the grant date. Under Section 17(2)(vi) of the Income Tax Act, the difference between the FMV of the shares on the date of exercise and the exercise price paid by the employee is a perquisite, taxable as salary in the hands of the employee. The employer has a TDS obligation on this perquisite and must deduct tax at the time of exercise.

The FMV on the exercise date must be certified by a Merchant Banker for unlisted company shares. For listed company shares, the FMV is the market price (typically the previous day's closing price on the stock exchange with the highest volume). The employer's TDS is computed on this certified FMV minus the exercise price - making the accuracy of the FMV certification directly relevant to the employer's TDS compliance and the employee's income tax liability.

ESOP Perquisite Value = FMV on Exercise Date – Exercise Price Paid by Employee

TDS by Employer = ESOP Perquisite Value × Applicable Tax Slab of Employee

KEY INSIGHT

We have observed a compliance gap in many mid-size unlisted companies where ESOPs have been granted informally - without a board-approved scheme, without a formal valuation at the grant date, and without Merchant Banker certification at exercise. These companies discover the gap either when employees raise questions about their tax treatment or when the company prepares for a fundraising round and the incoming investor's legal team reviews the ESOP documentation. The retrospective regularisation of informal ESOP programs is significantly more complex and costly than proper compliance from the outset. The income tax perquisite liability cannot be retroactively corrected; the TDS that should have been deducted at exercise remains the employer's obligation regardless of whether the employee has already paid their own tax on the amount. We strongly advise unlisted companies with ESOP schemes to commission an annual FMV valuation - regardless of whether specific grant or exercise events have occurred - to maintain a current valuation baseline for compliance purposes.

8.3 Ind AS 102: The Accounting Valuation

Under Ind AS 102 - Share-Based Payment, the grant date fair value of the ESOP option must be determined and recognised as an expense over the vesting period. The grant date fair value is the value of the option itself - not the value of the underlying share - and must be computed using an option pricing model: typically the Black-Scholes model (for European-style options with no market conditions) or a binomial lattice model (for options with market conditions or early exercise features).

The Black-Scholes model requires five inputs: the current share price (FMV of the equity at grant date), the exercise price, the risk-free rate (yield on GOI securities of the option's expected life tenor), the expected life of the option (considering historical exercise patterns and the specific vesting schedule), and the expected volatility of the underlying equity. For unlisted companies, the expected volatility is the most judgmental input - estimated using the historical volatility of a peer group of listed comparable companies.

Black-Scholes Option Value = $S \times N(d_1) - X \times e^{(-rT)} \times N(d_2)$

8.4 FEMA: NRI Employee Grants

When an Indian company grants ESOPs to non-resident Indian (NRI) employees or foreign national employees, the grant constitutes a deemed acquisition of Indian securities by a non-resident, triggering FEMA compliance. The RBI has issued specific guidelines permitting ESOP grants to foreign employees of Indian companies under the automatic route, subject to the grant being at FMV certified by a CA or Merchant Banker. On exercise, the allotment of shares to the NRI employee is treated as FDI and must be reported through FC-GPR.

PRO TIP

Structure your ESOP compliance calendar around three annual valuation events: (1) an annual Companies Act / Income Tax FMV valuation for the equity shares, updated each year regardless of grant activity; (2) a grant date Black-Scholes valuation for Ind AS 102 purposes each time new options are granted; and (3) an exercise date FMV certification (by Merchant Banker for unlisted companies) for each exercise event. Maintaining these three valuations as separate, sequenced engagements - rather than attempting to use a single valuation for all three purposes - ensures that each regulatory requirement is met with the correct methodology and documentation.

SECTION 9 - RELATED PARTY TRANSACTIONS

Chapter 9: Related Party Transactions: Valuation Compliance Across All Frameworks

Related party transactions - commercial arrangements between a company and its promoters, directors, subsidiaries, associates, and other connected parties - are the single highest-priority compliance area at the intersection of all four regulatory frameworks. For Indian corporate groups, where promoter-controlled structures and multi-entity business arrangements are the norm rather than the exception, RPT compliance is not an edge case - it is a day-to-day governance challenge that pervades the company's commercial relationships.

The regulatory concern underlying all RPT frameworks is the same: related party transactions create the opportunity for value to be transferred from the company (and its minority or public shareholders) to the related party at non-arm's-length prices. Each regulatory framework addresses this concern differently - the Companies Act through approval requirements; income tax through transfer pricing adjustments; FEMA through pricing floors; and SEBI LODR through disclosure and fairness opinions. The CFO must ensure compliance with all applicable frameworks simultaneously, using valuation as the common analytical foundation.

9.1 Companies Act Section 188: The Approval Framework

Section 188 of the Companies Act prohibits a company from entering into contracts or arrangements with related parties in specified categories - purchase or sale of goods, supply of services, leasing of property, appointment to an office of profit, or underwriting of securities - except with the consent of the board. Transactions exceeding thresholds prescribed in Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014, require shareholder approval by ordinary resolution, with no related party entitled to vote.

While Section 188 does not prescribe a valuation requirement per se - it focuses on approval rather than pricing - the requirement that the transaction be on an "arm's-length basis and in the ordinary course of business" to qualify for the ordinary business exemption introduces a pricing standard. A transaction that is not at arm's-length cannot claim this exemption, and the determination of whether a price is arm's-length requires a valuation or benchmarking analysis.

Framework	RPT Definition	Valuation / Pricing Requirement	Consequence of Non-Compliance
Companies Act - Sec 188	Prescribed categories of transactions with related parties	Arm's-length and ordinary course; approval for exceptions	Voidable transaction; personal liability of directors
Income Tax - Domestic TP (Sec 92BA)	Specified domestic transactions above Rs. 20 Crore threshold	Arm's-length price under prescribed TP methods	Transfer pricing adjustment; 2% penalty
Income Tax - International TP (Sec 92)	International transactions between AEs	Arm's-length price; Form 3CEB; TP documentation	TP adjustment; 200%–300% penalty on income concealment
FEMA 20(R)	Cross-border RPTs involving FDI / ODI	FMV certification; arm's-length for non-equity transactions	Compounding proceedings; transaction held void

Framework	RPT Definition	Valuation / Pricing Requirement	Consequence of Non-Compliance
SEBI LODR - Reg. 23	All transactions between listed company and related parties	Fairness opinion for material RPTs; audit committee approval	SEBI penalty; shareholder derivative action
Ind AS 24 / 113	Disclosure of all RPTs in financial statements	Quantification at fair value for disclosure	Audit qualification; regulatory scrutiny

Table 9: Related Party Transactions - Multi-Framework Compliance Matrix

9.2 Domestic Transfer Pricing: Section 92BA

Section 92BA of the Income Tax Act extends transfer pricing requirements to "specified domestic transactions" - transactions between domestic related parties where the aggregate value exceeds Rs. 20 Crore. Specified domestic transactions include: payments between holding companies and subsidiaries, payments between entities covered under Chapter VI-A (deductions for specified entities) or Section 10AA (SEZ units), and transactions involving other tax-incentivised entities where pricing distortions could shift profits between higher-taxed and lower-taxed entities within the same group.

Domestic transfer pricing requires the same documentation infrastructure as international transfer pricing: an analysis of the transactions, selection of the most appropriate method, benchmarking against comparable data, Form 3CEB certification by a Chartered Accountant, and retention of documentation for a minimum of 8 years. The penalty for non-compliance - 2% of the value of the international or specified domestic transaction for failure to maintain documentation - is computed on transaction value, not on the adjustment, making it substantial relative to the compliance cost.

KEY INSIGHT

We have supported CFOs in designing integrated RPT governance frameworks that address all four regulatory frameworks through a single, coordinated process. The most effective approach is a three-layer structure: at the entity level, an Annual RPT Calendar that maps all anticipated related party transactions against their regulatory framework requirements; at the transaction level, a pre-transaction clearance process that engages legal, tax, FEMA, and valuation review before the commercial terms are agreed; and at the reporting level, a quarterly RPT disclosure package for the audit committee that presents all executed and anticipated RPTs with their valuation and compliance status. Companies with this structure - which we have helped implement across several large listed groups - consistently achieve superior regulatory outcomes because they treat RPT compliance as a governance process rather than a post-transaction remediation exercise.

9.3 The Arm's-Length Standard Across Frameworks

Each regulatory framework uses the concept of "arm's-length" but applies it differently. For income tax domestic transfer pricing, arm's-length is assessed using the prescribed transfer pricing methods (CUP, RPM, CPM, TNMM, PSM). For FEMA, arm's-length pricing for non-equity commercial transactions follows general market benchmarking. For SEBI LODR, arm's-length is assessed through the fairness opinion commissioned by the audit committee. For Companies Act Section 188, arm's-length is an implicit standard that determines exemption eligibility.

The CFO's challenge is ensuring consistency: a service agreement between a listed holding company and a promoter-controlled service provider must satisfy the arm's-length standard under each framework, and the methodology used to demonstrate arm's-length pricing should be consistent across all frameworks. A transaction that is benchmarked at 8% mark-up on cost for domestic TP purposes but characterised as at a 20% mark-up in the SEBI LODR fairness opinion creates a contradiction that both the tax authority and SEBI can exploit.

PRO TIP

Establish a single, integrated RPT Pricing Policy that is approved by the audit committee and serves as the reference document for all RPT pricing decisions across all regulatory frameworks. This policy should specify: the methodology for benchmarking each category of RPT (goods, services, leasing, financial transactions); the frequency of benchmark refresh; the process for escalating RPTs that cannot be benchmarked to standard; and the documentation to be maintained. A single policy, consistently applied, is both more efficient and more defensible than ad hoc pricing decisions made independently by each team (tax, treasury, legal) under their respective regulatory framework.

SECTION 10 - RESTRUCTURING VALUATION

Chapter 10: Mergers, Demergers & Restructuring: The Multi-Regulatory Valuation Nexus

Corporate restructurings - mergers, demergers, slump sales, capital reductions, and group simplifications - are among the most valuation-intensive events in any company's history. They are also among the most multi-regulatory events: a domestic merger between two Indian companies simultaneously engages the Companies Act scheme framework, income tax neutrality conditions, and (if any party is listed) SEBI's Observation Letter process. A cross-border restructuring adds FEMA compliance to this list. For CFOs, managing the valuation requirements across all applicable frameworks - with the correct professional, the correct methodology, and the correct sequencing - is the central challenge of restructuring execution.

10.1 The Merger Valuation: From Section 2(1B) to the SER

A merger (amalgamation) under Sections 230–232 of the Companies Act qualifies as a tax-neutral transaction under Section 2(1B) of the Income Tax Act if it satisfies specific conditions: all properties and liabilities of the amalgamating company vest in the amalgamated company; at least 75% of the shareholders of the amalgamating company receive shares in the amalgamated company as consideration; and the business of the amalgamating company continues after the merger. Tax neutrality means that neither the amalgamating company nor its shareholders are subject to income tax on the merger - a significant benefit that must be preserved by careful structuring.

The share exchange ratio (SER) - the valuation output that determines how many shares of the amalgamated company each shareholder of the amalgamating company receives - must be determined by a Registered Valuer and filed as part of the NCLT petition. Simultaneously, if any party is listed, the SER must be reviewed by the stock exchanges and SEBI as part of the Observation Letter process. The SER must be fair to shareholders of both entities, and any departure from relative FMV must be explained and justified in the valuation report.

Restructuring Type	Companies Act	Income Tax	FEMA	SEBI
Domestic merger (wholly-owned subsidiary)	Sec 230–232; RV report; NCLT	Sec 2(1B) neutrality if conditions met	N/A if no foreign parties	Listed: SEBI OL required
Domestic demerger	Sec 230–232; RV report; NCLT	Sec 2(19AA) neutrality conditions	N/A if no foreign parties	Listed: SEBI OL required
Cross-border inbound merger	Sec 234 + NCLT + RBI	Indirect transfer rules; Sec 9(1)(i)	FEMA - FMV certification; RBI approval	Listed: SEBI OL required
Slump sale of business undertaking	Board / shareholder approval	Sec 50B - lump sum capital gains on net worth	FEMA if cross-border buyer	Listed: LODR disclosure; RPT if related
Capital reduction	Sec 66; NCLT	Dividend vs capital gains characterisation	FEMA if NRI shareholders	Listed: SEBI OL / LODR
Holding company simplification	Sec 230–232 or Sec 66	Tax neutrality conditions critical	FEMA if any foreign element	Listed: full SEBI compliance

Table 10: Restructuring Transaction Types - Multi-Framework Regulatory Matrix

10.2 Demerger: The Section 2(19AA) Conditions

A demerger - the separation of a business undertaking from one company into a newly formed or existing resulting company - qualifies as tax-neutral under Section 2(19AA) of the Income Tax Act if specific conditions are met: all properties and liabilities of the demerged undertaking vest in the resulting company; all shareholders of the demerged company receive shares in the resulting company in proportion to their existing shareholding; and the resulting company is an Indian company. The proportionality condition is a valuation constraint: the SER must preserve proportionate shareholding, which means it must be calculated to give each shareholder of the demerged company shares in the resulting company whose FMV equals their proportionate share of the demerged undertaking's value.

For group demergers where the demerging undertaking and the remaining business have significantly different margins, growth profiles, or asset intensities, the valuation complexity is high: the registered valuer must separately value the demerged undertaking and the residual business using the most appropriate methodology for each, and the SER must reflect these relative values. A SER determined mechanically (e.g., based on net asset value from the balance sheet) without regard to the economic differences between the businesses will not withstand NCLT or shareholder scrutiny.

KEY INSIGHT

We have observed that the most complex restructuring valuation engagements are invariably those where the client attempts to structure the transaction first - deciding which assets go where and at what SER - and then engages the valuer to produce a report supporting the pre-decided structure. This approach creates multiple risks: the SER may not be supportable by genuine valuation analysis; the NCLT may identify the inconsistency between the proposed SER and the underlying valuation; and the statutory auditors may qualify the financial statements if the merger accounting does not reflect FMV principles. We strongly recommend engaging the registered valuer at the transaction design stage - before the SER is fixed - so that the valuation analysis genuinely informs the structure rather than retroactively justifying it. Restructurings designed in dialogue with the valuer consistently achieve better regulatory outcomes than those where valuation is the last step.

10.3 Slump Sale and Section 50B

A slump sale - the transfer of a whole undertaking as a going concern for a lump sum consideration without values being assigned to individual assets and liabilities - is governed by Section 50B of the Income Tax Act. Capital gains on a slump sale are computed as the difference between the lump sum consideration and the "net worth" of the undertaking, defined as the aggregate value of total assets (at book value, with recomputed depreciation) less all liabilities attributable to the undertaking. Importantly, for slump sales occurring after April 1, 2021, the Finance Act 2021 introduced the concept of "fair market value of the undertaking" - the slump sale consideration is deemed to be not less than the FMV of the undertaking if the FMV exceeds the actual consideration.

The FMV of the undertaking for Section 50B purposes is determined by a Merchant Banker or an IBBI Registered Valuer using internationally accepted methods - effectively the same methods as for any business valuation. This creates an alignment between the income tax floor for the slump sale and the economic value of the transferred business, and the CFO must ensure that the negotiated slump sale consideration is at or above the FMV floor to avoid a deemed income tax liability on the excess.

10.4 Cross-Border Restructurings and the FEMA Overlay

When any party to a domestic restructuring is a foreign entity, or when the restructuring results in a change in the foreign shareholding of an Indian company, FEMA compliance must be layered onto the Companies Act, income tax, and SEBI requirements. Cross-border mergers under Section 234 require prior approval from the Reserve Bank of India, and the FMV of the Indian company must be certified by a SEBI-registered Merchant Banker. Indirect transfers - where a foreign holding company is merged or restructured, changing the ultimate ownership of an Indian subsidiary - may trigger Section 9(1)(i) of the Income Tax Act (indirect transfer provisions), requiring Indian capital gains tax on the foreign transferor.

PRO TIP

For any multi-party, multi-entity restructuring, prepare a Regulatory Compliance Matrix before engaging advisors: a table that maps each entity involved in the restructuring against each applicable framework (Companies Act, Income Tax, FEMA, SEBI), identifies the specific provisions triggered, and specifies the valuation requirement under each provision. This matrix should be prepared jointly by legal counsel, tax advisors, and the registered valuer at the transaction planning stage. It serves as both a compliance checklist and a project management tool, ensuring that no framework is overlooked and that the sequencing of regulatory filings is correctly planned.

SECTION 11 - DISPUTE MANAGEMENT

Chapter 11: Regulatory Disputes & Defence: Responding to Tax, FEMA & SEBI Enquiries

Despite the best planning and compliance practices, CFOs of active Indian corporate groups will encounter regulatory enquiries related to valuation - income tax assessments challenging Section 50CA computations, FEMA compounding notices arising from pricing discrepancies, SEBI show-cause notices questioning the adequacy of fairness opinions, and NCLT objections to scheme share exchange ratios. The quality of the regulatory response in these situations depends entirely on the quality of the valuation documentation that exists: contemporaneous, well-documented, professionally certified valuations are the most powerful defense available.

11.1 Income Tax Valuation Disputes: Section 50CA and 56(2)

Income tax valuation disputes - particularly those involving Sections 50CA and 56(2)(x) - are among the most common regulatory challenges facing Indian corporate CFOs. The assessing officer may challenge the FMV determined under Rule 11UA on several grounds: use of incorrect balance sheet figures; failure to use the Merchant Banker DCF method where it would produce a higher FMV; application of incorrect methodology for the specific instrument being valued; and failure to include specific assets (real estate, investments) at their current market value rather than book value.

The most effective defence against an income tax FMV challenge is the existence of a contemporaneous, signed, detailed valuation report prepared by a qualified professional; CA or Merchant Banker for Section 50CA and 56(2)(x)) that clearly documents the methodology, all inputs with their sources, and the sensitivity of the conclusion to key assumptions. A valuation prepared after the transaction date in response to a scrutiny notice - while technically acceptable if the inputs are as of the transaction date - carries significantly less evidentiary weight than a valuation that was contemporaneous with the transaction.

Regulatory Notice Type	Issuing Authority	Primary Valuation Issue	Response Timeline
Income Tax Assessment / Scrutiny Notice	AO / ITAT	Section 50CA / 56(2)(x) FMV dispute	30 days (initial); extensions possible
Transfer Pricing Audit Notice (Form 3CD)	TPO	ALP deviation; method selection challenge	As per TP notice timeline
FEMA Compounding Notice	RBI / ED	Pricing below FEMA floor; late FC-GPR filing	Reply within 30 days of show-cause notice
SEBI Show-Cause Notice	SEBI adjudicating officer	ICDR / LODR / SAST valuation non-compliance	Reply within 21 days typically
NCLT Notice / Objection	NCLT bench	SER challenge; scheme fairness	Per NCLT direction; typically 4-8 weeks
Audit Committee / Board Query	Internal governance	RPT pricing; FMV methodology question	Immediate - within board meeting cycle

Table 11: Regulatory Notice Types - Valuation Issues and Response Framework

KEY INSIGHT

We have assisted multiple CFOs in responding to income tax assessments challenging the FMV determined for intra-group transactions. A common pattern in successful responses: we provide the assessing officer with a comprehensive rebuttal that does not merely re-assert the original valuation but demonstrates, step by step, why the AO's alternative computation is incorrect. This typically involves: showing that the assets identified by the AO as undervalued in our original analysis were in fact appropriately valued using the prescribed Rule 11UA methodology; demonstrating that the AO's proposed alternate value uses a method not prescribed under Rule 11UA; and providing sensitivity analysis showing that even under the AO's more aggressive assumptions, the impact on the FMV is within the range of reasonable professional judgment. Regulators respond to well-reasoned, methodologically grounded rebuttals more favourably than to responses that dispute the assessment without providing an alternative analytical foundation.

11.2 FEMA Compounding Proceedings

FEMA compounding proceedings are initiated by the Reserve Bank of India when a person has contravened FEMA provisions - including pricing violations (issuing shares below FEMA FMV), filing violations (late FC-GPR or FC-TRS), and structural violations (issuing non-compliant instrument categories to foreign investors). The compounding process involves filing a compounding application with the RBI's Compounding Authority, disclosing the nature and extent of the contravention, and paying a compounding amount determined by the RBI.

For pricing-related FEMA contraventions - where shares were issued to foreign investors at below the FMV certified under FEMA 20(R) - the compounding application must include a detailed explanation of why the pricing discrepancy occurred and an independent valuation demonstrating the FMV at the time of the transaction. The compounding amount is typically a multiple of the pricing shortfall, and the overall compounding amount for pricing violations can be substantial relative to the transaction value.

11.3 SEBI Adjudication and Valuation Defence

SEBI's adjudicating officers examine the adequacy of valuation reports in capital market transactions with increasing technical sophistication. SEBI enforcement orders in open offer, delisting, and preferential allotment matters have specifically cited: failure to use an IBBI-registered valuer where required; insufficient methodological disclosure in fairness opinions; failure to conduct sensitivity analysis; and use of management projections without independent verification or disclosure. The penalty range under SEBI adjudication for valuation-related violations is broad, and personal liability for directors who approved a transaction without adequate independent valuation is an established risk in SEBI enforcement precedent.

The most effective response to a SEBI show-cause notice on valuation adequacy is a systematic rebuttal that demonstrates: the valuer was appropriately qualified and independent; the methodology was appropriate for the transaction type and consistent with SEBI regulatory guidance and IBBI valuation standards; all key assumptions were disclosed and market-referenced; and the conclusion was within the range of outputs that a reasonable independent professional would reach using the same information. If the original report has gaps, a supplementary report addressing those gaps - commissioned promptly after receipt of the show-cause notice - is the appropriate response.

PRO TIP

Maintain a Valuation Defense File for each significant regulated transaction - a folder (physical or digital) that contains: the original valuation report with its working papers; all source data used in the analysis (financial statements, market data, comparable information); the engagement letter defining scope and professional qualifications; all correspondence with the valuer; and the board or audit committee minutes that record consideration of the valuation. This file should be retained for a minimum of 8 years (matching the income tax limitation period for assessment). In any regulatory dispute, the speed and completeness with which this file can be produced to the authority demonstrates the quality of the underlying governance - a powerful implicit argument for the reasonableness of the valuation.

SECTION 12 - VALUATION GOVERNANCE

Chapter 12: Building a Valuation Governance Framework: Policies, Controls & CFO Responsibilities

The preceding eleven chapters have traversed the full landscape of regulatory valuation compliance across the Companies Act, Income Tax Act, FEMA, and SEBI frameworks. Each chapter has identified specific valuation obligations, prescribed professionals, timing requirements, and compliance risks. This final chapter synthesises these requirements into a Valuation Governance Framework - a structured set of policies, processes, and controls that allows a CFO to manage regulatory valuation compliance proactively, systematically, and with the documentation discipline that regulators and auditors expect from well-governed Indian companies.

Valuation governance is not an additional compliance burden - it is the infrastructure that converts a reactive, crisis-driven compliance function into a planned, efficient, risk-managed process. Companies with strong valuation governance consistently achieve better regulatory outcomes, lower total compliance cost, and greater investor confidence than those that manage valuation on an ad hoc basis.

12.1 The Valuation Policy: Foundation of Governance

The Valuation Policy is the foundational document of any valuation governance framework. It is a board or audit committee-approved document that specifies: the purposes for which external independent valuations are required (distinguishing between mandatory regulatory requirements and discretionary governance best practices); the methodology to be used for each class of asset or transaction; the professional qualifications required for each type of valuation engagement; the independence requirements for valuers; and the process for commissioning, reviewing, and approving valuation reports.

The Valuation Policy should be structured around the four regulatory frameworks - Companies Act, Income Tax, FEMA, and SEBI - and should address the interaction between these frameworks for common transaction types. A well-drafted Valuation Policy eliminates ambiguity about when a valuation is required, by whom, and to what standard, creating a consistent and defensible basis for all valuation decisions across the company.

Governance Component	Description	Who Owns It	Review Frequency
Valuation Policy	Documents methodology, professional standards, and framework requirements for each transaction type	CFO / Board / Audit Committee	Annual
Valuation Calendar	Maps all anticipated valuation-triggering events to their regulatory deadlines across all frameworks	CFO / Company Secretary	Quarterly update
Registered Valuer Panel	Pre-approved list of independent, qualified valuers for each transaction type	CFO / Audit Committee	Annual reaffirmation
RPT Pricing Policy	Arm's-length benchmarks and approval processes for	CFO / Audit Committee	Annual + on new transaction

Governance Component	Description	Who Owns It	Review Frequency
	all recurring RPT categories		
ESOP Valuation Schedule	Annual FMV, grant date option value, exercise date FMV per regulatory framework	CFO / HR / Company Secretary	Annual + per grant/exercise event
Valuation Defense Archive	Retained working papers, source data, and correspondence for all regulated valuations	CFO / Legal / Compliance	8-year retention minimum

Table 12: Valuation Governance Framework - Components, Ownership, and Review Frequency

12.2 The Valuation Calendar: Proactive Planning

The Valuation Calendar is an operational document - maintained by the CFO or company secretary function - that maps all anticipated valuation-triggering events across the year against their applicable regulatory frameworks and required lead times. For a CFO managing a listed company with international operations, a large ESOP pool, and an active M&A pipeline, this calendar may include dozens of valuation events - each with different regulatory deadlines and professional requirements.

The calendar should be updated quarterly and reviewed at the beginning of each financial quarter. It should be shared with the registered valuer panel so that valuers are aware of upcoming engagements and can plan their availability accordingly. A calendar-driven approach eliminates the compressed-timeline valuation - one of the most common sources of inadequate regulatory documentation - by ensuring that valuers are engaged with sufficient lead time for a thorough, well-documented analysis.

KEY INSIGHT

We have implemented Valuation Governance Frameworks for CFOs across multiple sectors - pharmaceuticals, manufacturing, financial services, and technology. The most consistent finding from these implementations is that the time and cost savings from proactive governance significantly exceed the investment in building the framework. One client - a mid-cap listed company with a complex group structure, significant international operations, and an active ESOP program - reduced its annual valuation compliance cost by reorganising from six separate, single-framework valuation engagements across three different advisors to a single integrated engagement covering all frameworks simultaneously. Beyond cost savings, the client received one integrated report for each transaction that satisfied all regulatory frameworks consistently - eliminating the risk of contradictions between framework-specific reports. The governance investment required one structured planning session with the CFO, audit committee, and valuation advisor - the subsequent efficiency gains were immediate and ongoing.

12.3 The Registered Valuer Panel

A pre-approved panel of registered valuers - reviewed and endorsed by the audit committee - is a governance best practice that large listed companies and sophisticated private groups should establish. The panel approach ensures that: the company has an established, independent relationship with qualified valuers before a transaction arises (eliminating the risk of engaging an inappropriate professional under time pressure); the audit committee has visibility into the valuers being used and their qualifications; and the company can rotate valuers across engagements to maintain independence.

The panel should include at minimum one IBBI-registered valuer in the Securities and Financial Assets class (for Companies Act, SEBI, and financial instrument valuations), one Merchant Banker (for FEMA and SEBI mandated certifications), and one transfer pricing specialist (for TP documentation and benchmarking). The panel composition should be reviewed annually and whenever a valuer on the panel accepts a role that creates a conflict of interest with the company.

12.4 CFO as Valuation Champion

Ultimately, regulatory valuation governance is a CFO responsibility - not because the CFO is the technical valuation expert, but because the CFO controls the information flows, the financial systems, the transaction approval processes, and the relationships with advisors that determine whether regulatory valuation compliance is proactive and well-documented or reactive and fragmented. The CFO who treats valuation as a specialist function best left to advisors is abdicating a governance responsibility; the CFO who actively manages valuation as a risk - building the calendar, maintaining the policy, reviewing the reports, and challenging the conclusions - is fulfilling the full scope of the modern CFO's regulatory role.

India's regulatory frameworks are converging toward greater valuation rigour: IBBI's registered valuer standards are being progressively strengthened, SEBI's scrutiny of capital market valuations is intensifying, the income tax department's expertise in FMV assessments is growing, and RBI's FEMA compounding framework is being applied more consistently. The CFO who builds valuation governance today is building a competitive advantage - the ability to execute transactions quickly, compliantly, and with the confidence that comes from knowing the regulatory documentation will withstand scrutiny.

PRO TIP

Conduct an annual Valuation Compliance Review - a structured exercise, facilitated by the registered valuer panel, that reviews the company's valuation compliance across all four frameworks over the preceding year. This review should identify: all valuation-triggered events that occurred; the compliance status of each (was the valuation obtained, was the professional qualified, was the timing correct, has the required regulatory filing been made); any gaps or potential exposures; and actions required before the next review. Present the output of this review to the audit committee as a standing annual agenda item. A company that conducts this review annually is a company that can walk into any regulatory examination with the confidence that its valuation house is in order.

CONCLUSION

Conclusion: Working With a Regulatory Valuation Expert

The CFO's Valuation Imperative

This handbook has mapped the full terrain of regulatory valuation compliance across the Companies Act, Income Tax Act, FEMA, and SEBI frameworks - four regulatory systems, each with its own requirements, each with its own prescribed professionals, and each with its own enforcement consequences. For the Indian CFO managing a corporate group of any meaningful complexity, the regulatory valuation obligation is not a peripheral compliance matter. It is embedded in every significant corporate transaction, every capital market activity, every cross-border investment, every employee equity plan, and every related party arrangement.

The CFO who understands this landscape - who knows which frameworks are triggered by each transaction, which professionals are prescribed, what the sequencing requirements are, and how to build the documentation discipline that protects the company in any regulatory examination - is managing regulatory risk as an integral part of the finance function. The CFO who does not understand this landscape is accumulating exposures that may not crystallise for years but will, when they do, be significantly more costly than the compliance investment that would have prevented them.

When Independent Professional Valuation Is Non-Negotiable

Throughout this handbook, we have identified the specific situations where independent, professionally certified valuation is a legal obligation rather than a governance preference. To summarise the most critical:

- Any transfer of unquoted shares - whether intra-group, to investors, or to employees - where the price may deviate from FMV: Sections 50CA and 56(2)(x) require a Rule 11UA valuation
- Any issuance of shares to a foreign investor: FEMA 20(R) requires FMV certification by a CA or Merchant Banker before the shares are allotted and FC-GPR is filed
- Any Companies Act scheme of arrangement - merger, demerger, capital reduction: Section 247 requires a registered valuer report as part of the NCLT petition
- Any material RPT by a listed company: SEBI LODR Regulation 23 requires audit committee consideration of fairness, which for complex RPTs requires an independent fairness opinion
- Any open offer targeting a listed company: SEBI SAST Regulation 26 requires an independent registered valuer opinion for the independent directors' committee
- Any ESOP exercise by an unlisted company employee: Section 17(2)(vi) requires FMV certification by a Merchant Banker for perquisite tax computation and TDS compliance

How Elite Valuation Can Help

Elite Valuation provides integrated, multi-framework regulatory valuation across all contexts described in this handbook. Our services for CFOs and finance teams include:

- Integrated multi-framework regulatory valuation - single reports that simultaneously satisfy Companies Act, Income Tax, FEMA, and SEBI requirements for common transaction types including share transfers, issuances, and restructurings

- Income Tax FMV certification under Rule 11UA - Sections 50CA and 56(2)(x) compliance valuations for all classes of unlisted and unquoted securities
- FEMA compliance valuation for FDI, ODI, CCPS, CCD, FCCB, and secondary transfer transactions - FC-GPR and FC-TRS support including certified FMV reports and filing advisory
- Companies Act registered valuer reports for sweat equity (Section 54), merger and demerger schemes (Sections 230–232), capital reductions (Section 66), and all other Section 247 valuation requirements
- SEBI ICDR preferential allotment and QIP pricing, LODR RPT fairness opinions, SAST Regulation 26 independent opinions, delisting floor price and advisory, and buyback pricing support
- Transfer pricing documentation and benchmarking for international transactions (Section 92) and specified domestic transactions (Section 92BA) - Form 3CEB support and ITAT representation
- Ind AS fair value - Purchase Price Allocation (Ind AS 103), goodwill impairment testing (Ind AS 36), financial instrument valuation (Ind AS 109/113), and ESOP accounting (Ind AS 102)
- Valuation Governance Framework design - Valuation Policy drafting, Registered Valuer Panel constitution, Valuation Calendar development, and CFO Compliance Advisory on an ongoing retainer basis
- Regulatory dispute support - income tax valuation defence, FEMA compounding representation, SEBI adjudication support, and NCLT expert witness reports

The Value of Integration

The most important service Elite Valuation provides to its CFO clients is not a single valuation report - it is the integrated compliance perspective that ensures no regulatory framework is overlooked, no filing deadline is missed, and no valuation report is contradicted by another report prepared for a different framework. A transaction that is documented with one coherent, integrated regulatory valuation - satisfying all applicable requirements simultaneously - is a transaction that can be executed with confidence and defended with authority.

The CFOs and finance teams that have invested in this integrated approach consistently report three outcomes: faster transaction execution (because regulatory requirements are anticipated rather than discovered); lower total compliance cost (because integration eliminates duplicative engagement); and greater confidence in regulatory interactions (because the documentation is complete, contemporaneous, and consistent). These are not marginal benefits - they are the direct financial and governance returns on an investment in valuation compliance.

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"The CFO who treats regulatory valuation as a compliance cost to be minimised is underestimating both the risk of non-compliance and the value of the governance credibility that rigorous, independent valuation creates. In our experience, every rupee invested in proactive, well-documented regulatory valuation returns multiples in avoided disputes, faster transactions, and stronger investor confidence." - Sagar Shah