VALUATION INDIA INSIGHT SERIES 2025

Valuation INDIA

Valuation ARABIA

Issued Oct - 2025

Navigating Strategy, Governance & Compliance in a Transforming Business Landscape

Published by: Valuation India *Division of VI Advisors Pvt. Ltd.*

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How Boards Are Rethinking Fair Value Accountability Introduction

The evolving corporate landscape is compelling boards of directors to take a closer look at fair value accountability—an area once confined to finance teams and auditors. With increasing regulatory oversight, market volatility, and investor expectations for transparency, boards are being held directly responsible for the integrity of valuation judgments and the governance processes behind them.

Today, fair value is not just an accounting principle—it is a strategic reflection of management intent, governance maturity, and stakeholder trust.

1. The New Fair Value Imperative

Drivers of Change	Implications for Boards
Volatility in global and domestic markets	Continuous revaluation of asset and investment assumptions
ESG-linked valuations and sustainability factors	Inclusion of non-financial parameters in fair value assessment
SEBI, ICAI, and IFRS convergence	Heightened disclosure obligations and board sign-offs
M&A, restructurings, and PE-backed investments	Increased scrutiny of valuation basis and independence of reports

Boards are now expected to ensure that fair value estimates are robust, auditable, and aligned with economic reality—not merely compliant with accounting standards.

2. From Valuation Oversight to Strategic Accountability

a. Strengthening Valuation Governance

Leading boards are institutionalizing valuation governance frameworks that include:

- **Independent valuation committees** under the audit or risk committee.
- **Third-party fairness opinions** for related party transactions and M&A.
- **Periodic stress-testing** of valuation models against macroeconomic scenarios.

This shift ensures that valuation judgments reflect business intent, not management optimism.

b. The Role of Independent Directors

Independent directors are playing a larger role in validating valuation rationale and ensuring investor protection. They increasingly ask:

- *"Are the assumptions used reflective of market benchmarks?"*
- *"Have potential impairments or write-downs been transparently communicated?"*
- *"Does fair value align with long-term shareholder interest?"*

Their fiduciary responsibility now extends into valuation integrity and disclosure adequacy.

c. Integration with Risk and Strategy

Boards are integrating fair value oversight into broader risk management and strategic planning. For instance:

- Asset-heavy sectors (infrastructure, energy, manufacturing) are mapping fair value changes to operational KPIs.
- Financial services boards are using valuation models as early indicators of market and credit risk.

Fair value is evolving from a static number to a dynamic risk signal guiding capital allocation and business continuity decisions.

3. Regulatory and Audit Landscape

Recent developments have reinforced the accountability of boards:

Regulatory Framework	Key Board Responsibility
Companies Act, 2013	Directors' duty to ensure "true and fair view" of financial statements.
SEBI (LODR) Regulations, 2015	Audit Committee's role in reviewing valuation reports and disclosures.
ICAI Valuation Standards (IVS)	Governance on independent valuation reports and methodologies.
IFRS 13 / Ind AS 113	Disclosure of hierarchy, assumptions, and sensitivity of fair value estimates.

Audit committees are increasingly expected to document valuation discussions, review independence of valuers, and ensure transparency in assumptions disclosed to investors.

4. Practical Challenges Boards Face

Despite progress, boards encounter several hurdles:

- **Judgment Dependency:** Fair value often relies on management assumptions, making oversight challenging.
- **Data Gaps:** Limited availability of comparable market data, especially in private company valuations.
- **Model Complexity:** DCF, option-pricing, and probability-weighted models require technical understanding.
- **Conflict of Interest:** Use of internal valuers in related-party or intra-group transactions can raise red flags.

Boards must respond by ensuring education, independence, and expert engagement.

5. Emerging Best Practices

To address these complexities, leading organizations are implementing:

- **Board Training Modules** on valuation frameworks and evolving regulatory expectations.
- **Mandatory Peer Review** of major valuation reports.
- **Integrated Disclosure Dashboards** linking financial, ESG, and operational indicators to fair value.
- **Rotation of Valuers** every 3–5 years to ensure independence.
- **Audit-Committee Level Discussions** on valuation sensitivity and potential impairments.

Such practices are strengthening investor confidence and aligning governance with global benchmarks.

6. The Strategic Dimension

Boards that approach fair value as a **strategic governance tool**—not a compliance burden—stand to benefit in several ways:

- Enhanced **investor confidence** through transparent, defensible disclosures.
- Better **capital allocation decisions**, driven by realistic asset values.
- Improved **merger and acquisition discipline**, reducing post-deal write-downs.
- Strengthened **corporate credibility** in global markets.

Fair value, when governed effectively, becomes a measure of *how well the board understands its own balance sheet*.

Conclusion

As capital markets evolve and valuation expectations tighten, boards must own the narrative of fair value. Accountability now lies not only in approving numbers but in demonstrating the governance process behind them. Independent directors, audit committees, and CFOs must together ensure that every fair value estimate reflects integrity, transparency, and sustainable shareholder value.

THANK YOU

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