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Exposure Draft
of
ICAI Valuation Standard 302
Intangible Assets

Issued by Insolvency, Bankruptcy and Valuation Standards Board

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up under an Act of Parliament)

Exposure Draft

ICAI Valuation Standard 302 *Intangible Assets*

Following is the Exposure Draft of the ICAI Valuation Standard 302 Intangible Assets issued by the Insolvency, Bankruptcy and Valuation Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, to be received not later than ***22nd November 2026****.*

1. *Electronically: Click on* ***https://forms.gle/nMGwmaGe7oxdHDLs5*** *to submit comments online. (Preferred method)*
2. *Email: Comments can be sent to* ***commentsvsb@icai.in***
3. *Postal: Secretary, Insolvency, Bankruptcy and Valuation Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, A- 29, Sector- 62, Noida - 201309.*

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to ivsb*@icai.in*.

Draft

ICAI Valuation Standard 302
Intangible Assets

CONTENTS	PARAGRAPH
OBJECTIVE	**1-3**
SCOPE	**4-5**
VALUATION BASES	**6**
FUNDAMENTAL PRINCIPLES	**7-14**
Intangible assets	**15-18**
Goodwill	**19-24**
IDENTIFICATION AND CLASSIFICATION OF INTANGIBLE ASSETS	**25-27**
Customer-based intangible assets	**28-29**
Marketing-based intangible assets	**30-31**
Contract-based intangible assets	**32-33**
Technology-based intangible assets	**34-35**
Artistic-based intangible assets	**36-37**
SIGNIFICANT CONSIDERATIONS	**38-44**
Life of Intangible Assets	**45-49**
Discount Rates	**50-55**
Tax Amortisation Benefits	**56-60**
VALUATION APPROACHES AND METHODS	**61-64**
Market Approach	**65-69**
Price /Valuation multiples/Capitalisation rates	70
Guideline pricing method	71-72
Income Approach	**73- 76**
Relief from Royalty (RFR) Method	77-78
Multi-Period Excess Earnings Method (MEEM)	79-83
With and Without Method (WWM)	84-88
Greenfield Method	89- 91
Distributor Method	92-95
Cost Approach	**96-100**
Reproduction Cost Method	101-103
Replacement Cost Method	104-105
EFFECTIVE DATE	**106**

*The ICAI Valuation Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. (This ICAI Valuation Standard should be read in the context of Framework for the preparation of Valuation Report in accordance with ICAI Valuation Standards)*

OBJECTIVE

1. **The objective of this Standard is to prescribe specific guidelines and principles which are applicable to the valuation of intangible assets that are not dealt specifically in another Standard and to identify, analyse and value intangible assets.**

2. The importance of valuing intangible assets arises from the fact that the reported net worth of businesses may not be reflecting its true value, which most likely is in the form of intangible assets. Certain areas where intangible assets are required to be valued are as follows:

    (a) purchase price allocation for accounting and financial reporting under Ind AS 103 *Business Combination;*

    (b) impairment testing under Ind AS 36 Impairment of Assets;

    (c) transfer pricing when an intangible asset is being transferred/licensed in/out between geographies/companies;

    (d) taxation by way of a purchase price allocation for claiming tax deductions when a business is transferred by a slump sale;

    (e) transaction (merger & acquisition) when the subject is the intangible itself, such as a brand/telecom license or for carrying out a pre-deal purchase price allocation to assess the impact of the deal on financials;

    (f) financing, when an intangible is used as a collateral;

    (g) litigation, when there has been a breach of contract/right and the compensation has to be determined;

    (h) bankruptcy / restructuring, etc;

    (i) insurance, such as determining the personal worth of a celebrity/football franchise/cricket franchise; or

    (j) issuance of sweat equity shares which are generally issued against technical knowhow/ technical expertise/intellectual property.

3. The standard aims to direct that a particular valuation approach and methodology may not be applicable to the same intangible and thus universal applicability of a particular valuation approach and method may not be presumed. Adoption of a particular valuation approach and methodology will be driven by appropriateness and specifics of the case, valuation purpose, basis of value, nature of the asset, economic life, availability and reliability of inputs and assumptions, and the intended use of the valuation.

SCOPE

4. **This Standard shall be applied for valuation of identified intangible assets for the given purpose of valuation.**

5. Goodwill is addressed only to the extent necessary to distinguish identifiable intangible assets from goodwill and to prevent double counting. It is the residual amount after considering values of identified intangible assets and other assets and liabilities from the total value.

VALUATION BASES

6. A *valuer* must consider the relevant valuation bases for valuation of an intangible asset in accordance with ICAI Valuation Standard 102 *Valuation Bases*. However, a *valuer* should follow the bases prescribed by a prescribed law or regulation, if it is applicable.

FUNDAMENTAL PRINCIPLES

7. The valuer shall identify precisely what intangible asset or bundle of rights is being valued through a broad analysis of the legal, functional and economic characteristics of the asset before selecting the valuation method along with understanding of the various applicable intangibles with the Management.

8. The valuer shall distinguish legal ownership from economic control and shall assess the rights actually available to the holder.

9. The valuer shall distinguish the legal life of an intangible asset from its economic life.

10. The valuer shall consider the asset's expected contribution to economic benefits rather than relying solely on accounting recognition or historical cost.

11. The valuer shall use data and sources that are applicable, reliable, sufficient and appropriate to the purpose and basis of value as of or in close proximity to the valuation date / measurement date.

12. The valuer should consider forecasts provided by the Management along with with suitable analysis, back-up of inputs and assumptions and adequate source data, especially where they are material to value. Explicit distinction should be made by the valuer between assumptions supplied by the management and assumptions independently considered by the valuer.

13. The valuer shall evaluate relevant inputs and assumptions which could equally applicable to derive the value of the intangible.

14. The valuer could consider using various automated valuation tools, softwares, external models and artificial intelligence for valuing an intangible. However, the use of such applications shall not transfer responsibility of the valuer for the valuation outcome.

Intangible Assets

15. **An intangible asset is an identifiable non-monetary asset without physical substance.**

16. An intangible asset is a non-monetary asset without physical substance, whereas a monetary asset is one where assets to be received are in fixed or determinable amounts of money. An intangible asset grants economic rights or benefits to its owner and can be identified and differentiated primarily on the basis of its ownership and utility. Intangible assets lack physical properties and may represent legal rights developed or acquired by an owner.

17. Intangible assets shall be able to generate quantifiable economic benefits for its owner and can be either directly owned through own business (internally developed) or purchased by paying royalty or licence fee. Common examples of items of intangible assets are computer software, patents, copyrights, trademark, brands, motion picture films, customer lists/contracts, mortgage servicing rights, franchises, marketing rights, non-competition agreements, internet domain names, distribution network, literary works/musical works, telecom licenses, gaming platforms, trade design, licensing arrangements, royalty agreements, employment contracts, trade secrets, processes, designs, formulae, etc. Intangible assets may be transferable, i.e. intangible assets can be bought, sold, rented, etc.

18. An intangible asset is identifiable if it either:

(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Goodwill

19. **The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill.**

20. **Goodwill is defined as an asset representing the future economic benefits arising from a business, business interest or a group of assets, which has not been separately recognised in another asset.**

21. Goodwill can also be measured as the difference between fair value of the business and net fair value of the identifiable assets, liabilities and provisions for contingent liabilities. In such cases, goodwill is the residual amount after ascribing values to identified intangible assets, other assets and liabilities.

22. Goodwill can be transferable or non-transferable.

23. The goodwill subsumes the value of an acquired intangible asset that is not identifiable as of the acquisition date. Goodwill includes elements of company and business-related synergies. Goodwill could certain times include elements of assembled workforce, going concern value, new customers, future technologies, etc.

24. Amount of goodwill could vary depending on the purpose of valuation as the value of goodwill is dependent on the value of tangible and other intangible assets.

Identification and Classification of Intangible Assets

25. Intangible asset to be valued shall be identified by the Client / Appointing Authority in discussion with the valuer.

26. Intangible assets can generally be classified under the following broad categories (not intended to be exhaustive):

    (a) Customer-based intangible assets;

    (b) Marketing-based intangible assets;

    (c) Contract-based intangible assets;

    (d) Technology-based intangible assets; or

    (e) Artistic-based intangible assets.

27. Intangible assets within the same category have certain similarities as well as differences based on characteristics such as their ownership, market position, function, and image. Additionally, certain intangible assets, such as brands, may belong to more than one category. Similarly, the value assigned to intangible assets belonging to the same category could differ depending on the valuation subject and purpose of valuation. For example, the intangible assets under customer-based category like customer contracts could fetch a different value than customer lists.

Customer-based Intangible Assets

28. **Customer-based intangible assets are created with an entity establishing relationships with its customers in the due course of its business. Such intangibles may be contractual or non-contractual.**

29. The examples of customer-based intangible assets are:

    (a) customer contracts;

    (b) customer relationships;

    (c) order backlog; or

    (d) customer lists.

Marketing-based Intangible Assets

30. **Marketing-based intangible assets are created with the evolvement of a business and such intangibles are also used for further growth of the business through marketing.**

31. The examples of marketing-based intangible assets are:

    (a) trademark;

    (b) brand;

    (c) trade name;

    (d) internet domain name; or

    (e) trade design.

Contract-based Intangible Assets

32. **Contract-based intangible assets are created from rights arising from contracts in a business.**

33. The examples of contract-based intangible assets are:

    (a) lease agreements;

    (b) non-compete agreements;

    (c) licensing agreements; or

    (d) royalty agreements

Technology-based Intangible Assets

34. **Technology-based intangibles are those intangible assets that create propriety knowledge.**

35. The examples of contract-based intangible assets are:

    (a) patents;

    (b) know-how;

    (c) trade secrets;

    (d) copyrights;

    (e) processes;

(f) software;

(g) designs; or

(h) formulae.

Artistic-based Intangible Assets

36. **Artistic-based intangible assets are created from the benefit arising from artistic works**.

37. The examples of contract-based intangible assets are:

(a) films and music;

(b) books;

(c) plays; or

(d) copyright (non-contractual).

Significant Considerations

38. The following are some of the significant factors which shall be considered for valuation of intangible assets:

(a) to determine the purpose and objective of the overall valuation assignment;

(b) to consider the legal rights of the intangible asset to be valued, for example, a registered trademark may have a higher value as compared to an unregistered trademark. However, an unpatented technology (as not in public domain) may have a higher value than a patented technology;

(c) to evaluate the highest and best use considerations;

(d) to assess the history and development of the intangible asset; or

(e) to consider any specific laws or regulations guiding the intangible asset valuation in the country

39. The valuer should consider factors like material restrictions, geographical limitations, exclusivity provisions, sublicensing rights, renewal provisions, termination rights, etc.

40. The valuer should consider whether the subject asset is legally transferable or otherwise capable of generating economic benefits independently or only in combination with other assets.

41. Legal factors which may be considered for the valuation include ownership, registration, contractual rights, remaining protection period, renewal, enforceability, infringement, litigation, encumbrances and jurisdictional limitations to the extent information is made available.

42. Functional factors which may be considered for the valuation include utility of the asset, its contribution to revenue or cost savings, technological considerations, dependence on complementary assets to the extent information is made available.

43. Economic factors which may be considered for the valuation include market position, competitive advantage, pricing power, expected growth, attrition, margins, obsolescence, investment requirements, to the extent information is made available.

44. The strength of legal protection shall not be treated as synonymous with economic value. A legally protected asset may have limited value if it is commercially obsolete or readily substituted. Conversely,

an asset with limited formal legal protection may have material value where secrecy, first-mover advantage, network effects, contractual arrangements or other economic factors provide durable benefits.

Life of Intangible Assets

45. **Economic Life:** The period over which the intangible asset is expected to contribute economically to the subject interest, which may be different than its legal life.

46. **Legal Life:** The period during which legal or contractual rights are available, including renewal periods where renewal is reasonably supportable.

47. Intangible assets could have a finite or indefinite life where finite life will usually be established by law or a contract, technology, function or economic factors along with the pattern of replacement of the intangible asset to be valued. Economic life of an intangible asset is not the same as the remaining useful life for tax or accounting purpose.

48. The economic and legal factors shall be considered together as well as individually while determining the useful life of an intangible asset. Economic factors determine the period over which future economic benefits will be received by the entity. Legal factors may restrict the period over which the entity controls access to these benefits. The useful life is the shorter of the periods determined by these factors.

49. Economic life of customer-based intangible assets is to an extent dependent on the attrition. Attrition refers to the possible expected loss of customers which is based on the historical behavior of customers. Historical attrition can be based on the following:

    (a) *Variable loss rate*: dependent on the age of customer relationship;

    (b) *Constant loss rate*: calculated as a percentage of previous year's parameters.

Discount Rates

50. ***Discount Rate*** **is the return expected by a market participant from a particular investment and shall reflect not only the time value of money but also the risk inherent in the asset being valued as well as the risk inherent in achieving the future cash flows.**

51. Discount rate shall be indicative of the risk associated with the cash flows arising from the intangible asset to be valued. Some of the factors which should be considered for determining the discount rate are:

    (a) generally intangible assets have relatively more risk associated than tangible assets, a group of assets or business as a whole;

    (b) intangible assets having a higher economic life have more risk associated than intangible assets having a lower economic life, other things remaining the same; and

    (c) intangible assets with definite and determinable cash flows have relatively less risk associated as compared to intangible assets not having determinable cash flows.

52. The following discount rates are most commonly used:

    (a) weighted average cost of capital (WACC) of the company or market participants;

    (b) cost of equity for the company using the intangible assets or the participants;

(c) cost of debt having maturity similar to the economic life of the intangible asset to be valued;

(d) risk-free interest rates which have a maturity similar to the economic life of the intangible asset to be valued; or

(e) internal rate of return of the transaction for the particular intangible asset.

53. The discount rate is commonly considered with necessary premiums or discounts to arrive at the appropriate discount rate for the intangible asset to be valued.

54. In case of a business valuation or valuation of all assets, a *valuer* shall determine the Weighted Average Return on Assets (WARA) to confirm the reasonableness of the discount rate / WACC so considered for valuation of the intangible asset. WARA is the expected rate of return on a particular asset and can be determined based on the riskiness involved for a particular asset.

55. The discount rates are discussed in detail in ICAI Valuation Standard 103 *Valuation Approaches and Methods*.

Tax Amortisation Benefits

56. **Tax Amortisation Benefit (TAB) is a hypothetical benefit available to a market participant by way of amortisation of the acquired intangible assets, thereby reducing the tax burden.**

57. Tax amortisation benefits (TAB) can be computed and added to the overall value of the intangible asset based on nature of the asset and purpose of valuation, if appropriate.

58. Intangible assets can be amortised based on nature of asset, tax jurisdiction and amortisation rules. TAB generally needs to be computed and added under the income approach as the value of TAB is understood to be embedded in the value of the intangible asset under the market or cost approach.

59. The valuer shall disclose whether the valuation includes or excludes Tax Amortisation Benefit and the principal assumptions used.

60. The discount rate to be used for determining the present value of tax saving can be:

(a) weighted average cost of capital;

(b) discount rate used for valuation of the intangible asset to be valued.

Valuation Approaches and Methods

61. Generally, the following three main valuation approaches are adopted to measure value of intangible assets in correlation with the valuation approaches and methodologies prescribed under ICAI Valuation Standard 103 *Valuation Approaches and Methods*.

(a) Market approach;

(b) Income approach; and

(c) Cost approach.

62. The requirements of this Standard shall be followed consistently in addition to the requirements as contained in ICAI Valuation Standard 103, while selecting and applying the valuation approach.

63. A particular intangible asset can be valued using more than one approach or methodology as this provides the *valuer* multiple value indications thus setting a range of value for the intangible asset to

be valued. A *valuer* shall consider some factors like availability of data, quality of data available, consideration of actual transaction in the industry, characteristics of the intangible, etc.

64. Intangible assets are generally entity specific and price information is rarely available.

Market Approach

65. **Market approach is a valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.**

66. Valuation of an intangible asset using the market approach is based on a certain market transaction or activity.

67. In accordance with the requirements contained in ICAI Valuation Standard 103, the market approach shall be adopted only if adequate information is available about the comparable intangible asset from a recent transaction and there are instances of orderly transactions that can be compared with the intangible asset to be valued. A comparable intangible asset is an intangible asset which is of the same nature, age, function and is at same stage of its life cycle.

68. Valuation will be based on a transaction of a comparable intangible asset which can be considered to obtain pricing multiples. The rate obtained can be applied to arrive at the value of the intangible asset.

69. The following are the common methodologies for the market approach:

    (a) Price/Valuation multiples/Capitalisation rates;

    (b) Guideline pricing method.

Price/Valuation multiples/Capitalisation Rates

70. This method considers certain multiples/ capitalisation rates to arrive at the valuation of a comparable intangible asset. The multiples shall be adjusted appropriately to factor in any differences between the intangible asset to be valued and comparable intangible asset.

Guideline pricing method

71. This method determines the value of an intangible asset by considering the price paid in an orderly transaction for a comparable intangible asset (called as the guideline intangible asset which is similar to the intangible asset to be valued).

72. However, in most instances, it may be difficult to obtain reliable data in the form of a public transaction, valuation multiple or a guideline intangible asset.

Income Approach

73. **Income approach is the valuation approach that converts maintainable or future amounts (e.g., cash flows or income and expenses) to a single current (i.e. discounted or capitalised) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.**

74. Valuation of an intangible asset using the income approach is based on the expectation of economic benefits from the intangible asset to be valued. In other words, the value of an intangible asset is the present value of the income expected or costs saved by the owner of the intangible asset either through owned operations or licensing of the intangible asset. The income so determined is adjusted with any related expenses pertaining to the maintenance or enhancement of the intangible asset. The projected net cash flows are then discounted to present value using a risk-adjusted discount rate.

75. Income approach is commonly used for the valuation of intangible assets like customer relationships and contracts, technology, non-competition agreements, leasehold rights, trademark, brand, etc. The income approach shall be applied in accordance with the requirements contained in ICAI Valuation Standard 103 *Valuation Approaches and Methods*.

76. Some of the common valuation methods under the income approach are as follows:

    (a) Relief-from-royalty-method;

    (b) Multi-period Excess Earnings Method (MEEM);

    (c) With-and-Without method or premium profit method;

    (d) Greenfield method; and

    (e) Distributor method

Relief-from-Royalty-Method

77. Under *relief-from-royalty-method*, the value of an intangible asset is determined by estimating the value of total costs saved that would have otherwise been paid by the user as royalty payments, if had been taken on lease from another party. Alternatively, it could also indicate the value of an intangible asset that could have fetched cash flows in the form of royalty payments, had it been leased to a third party. Any associated costs expected to be incurred by the licensee needs to be adjusted from the forecasted revenues.

78. The following are the major steps in the RFR method:

    (a) obtain the projected income statement associated with the intangible asset to be valued over the remaining useful life of the said asset. The value of the intangible asset to be valued is determined by first considering projections (of royalty income adjusted with associated expenses like maintenance or marketing) relevant to the intangible asset to be valued for its estimated useful life. Forecasted revenue is royalty computed as a percentage of revenue using an appropriate royalty rate.

    (b) analyse the projected income statement and its underlying assumptions to assess the reasonableness.

    (c) select the appropriate royalty rate based on market-based royalty rates for similar intangible assets: An appropriate royalty rate (which can be based on royalty rates of similar transactions or can be determined using the profit-split method).

    (d) apply the selected royalty rate to the future income attributable to the said asset: The selected royalty rate is then applied to the cash flows so determined. Royalty rate should consider the features of the intangible asset to be valued relevant to the profit attributable to the intangible asset to be valued or the observed transactions to determine the royalty rate. Other factors that should be considered to determine the royalty rate are the significance of the intangible asset to be valued to its owner and the expected economic life of the intangible asset with any risks relating to obsolescence.

(e) use the appropriate marginal tax rate or such other appropriate tax rate to arrive at an after-tax royalty savings.

(f) discount the after-tax royalty savings to arrive at the present value using an appropriate discount rate: The value of the intangible asset to be valued is the present value of the after-tax cash flows so computed by using an appropriate risk-adjusted discount rate.

(g) Tax amortization benefit (TAB), if appropriate considering nature of the asset and purpose of the engagement, should be added to the overall value of the intangible asset.

Multi-period Excess Earnings Method (MEEM)

79. The MEEM is used to value an intangible asset which is the primary intangible asset of the business. For example, for valuation of two intangible assets, say customer contracts and intellectual property rights, MEEM should be considered for valuation of one of the intangible asset while the other intangible asset should be valued using another method, unless both intangible assets are significant for the business.

80. Under this method, the value of an intangible asset is equal to the present value of the incremental after-tax cash flows ('excess earnings') attributable to the intangible asset to be valued over its remaining useful life. In other words, it is the present value of the excess cash flows attributable to the intangible asset to be valued (based on attrition rate of customers) as adjusted by the associated expenses required for the generation of the cash flows and cash flows pertaining to contributory assets (assets that contribute to the cash flows relating to the intangible asset to be valued).

81. The following are the major steps in deriving a value using the MEEM:

(a) obtain the projections for the entity or the combined asset group over the remaining useful life of the said intangible asset to be valued from the client or the target to determine the future after-tax cash flows expected to be generated;

(b) analyse the projections and its underlying assumptions to assess the reasonableness of the cash flows;

(c) Contributory Asset Charges (CAC) or economic rents to be reduced from the total net after-tax cash flows projected for the entity/combined asset group to obtain the incremental after-tax cash flows attributable to the intangible asset to be valued;

(d) the CAC represent the charges for the use of an asset or group of assets (e.g., working capital, fixed assets, assembled workforce, other intangibles) based on their respective fair values and should be considered for all assets, excluding goodwill, that contribute to the realization of cash flows for the intangible asset to be valued;

(e) discount the incremental after-tax cash flows attributable to the intangible asset to be valued to arrive at the present value using an appropriate discount rate; and

(f) Tax amortisation benefit (TAB) can be appropriately built and added to the overall value of the intangible asset.

82. Contributory assets are assets that assist/support the intangible asset to be valued to generate cash flows and are used in combination with the intangible asset to be valued. Contributory asset charge (CAC) is widely used by the *valuers* and refers to the return on assets supporting the cash flow generation of the intangible asset to be valued. Contributory assets could be in the form of working capital, fixed assets, assembled workforce and any other intangible asset so considered and valued.

An appropriate rate of return on each asset needs to be determined and shall be applied to the revenues to arrive at the CAC. The rate of return will depend on the nature of asset and is considered on post-tax basis.

83. For customer-based intangible assets, a *valuer* needs to consider attrition, which refers to the possible expected loss of customers which is based on the historical behavior of customers. Attrition can either be calculated using the mid-point convention (average of beginning and end of the year) or by considering the year-on-year customer count or change in revenue.

With-and-Without method

84. The value of an intangible asset using the With and Without Method (WWM) is computed by comparing the below-mentioned scenarios in which the business:

(a) utilises the intangible asset to be valued ('With' scenario); and

(b) does not utilise the intangible asset to be valued ('Without' scenario).

It should be noted that all other factors relating to valuation should remain constant.

85. **Under this method, the value of the intangible asset to be valued is equal to the present value of the difference between the projected cash flows over the remaining useful life of the asset under the following two scenarios:**

(a) business with all assets in place *including* the intangible asset to be valued; and

(b) business with all assets in place *except* the intangible asset to be valued.

86. The following are the major steps in deriving a value using the WWM:

(a) obtain the projections comprising revenue, expenses, working capital and capital expenditure under the following two scenarios:

(i) with scenario; and

(ii) without scenario.

(b) discounted the projections obtained under two scenarios to present value using an appropriate discount rate;

(c) difference between present value of cash flows under two scenarios is considered to be the value of the intangible asset. The difference so computed can also be probability-weighted depending on the likelihood of competition expected to affect the cash flows; and

(d) Tax amortisation benefit (TAB) can be appropriately built and added to the overall value of the intangible asset.

87. The value of the intangible asset can also be computed by determining the difference in the value of the business under 'with' and 'without' scenarios. The value of the intangible asset under both approaches, i.e. using difference in cash flows or business values, should be similar. Further, the discount rate used in both approaches shall be same.

88. This method is commonly used for valuation of non-compete agreements.

Greenfield Method

89. The basic assumption for valuation using the greenfield method is that the intangible asset to be valued is the only asset with all other tangible or intangible assets being created, leased or acquired. Instead of the contributory asset charge generally deducted from the cash flows, a *valuer* is required to subtract replacement cost of the asset that is required to be built or bought.

90. The greenfield method is usually used to value franchise agreements and certain licenses.

91. The following are the major steps in deriving a value using the greenfield method:

    (a) prepare cash flow projections with the premise that the intangible is the only asset in the business;

    (b) project the related revenues, expenses, working capital and capital;

    (c) project the amount and timing of expenditure relating to acquisition, creation or rentals of other assets required by the intangible asset to be valued;

    (d) compute the present value of the net cash flows using an appropriate discount rate; and

    (e) Tax amortisation benefit (TAB) can be appropriately built and added to the overall value of the intangible asset.

Distributor Method

92. This is a variation of MEEM and is adopted for valuation of customer-based intangible assets when MEEM is applied to value another intangible asset (considered to be more significant). The fundamental assumption used in this method is that cash flows of each segment of a particular business are expected to generate profits.

93. The following are the major steps in deriving a value using the distributor method:

    (a) prepare revenue and expenses projections of existing customers relationships along with relevant attrition;

    (b) determine profit margins of distributors who are comparable to the subject business and apply the same to the cash flows projected;

    (c) determine the support of distributor contributory assets like working capital, fixed assets, workforce, etc;

    (d) determine excess earnings after considering the contributory asset charges;

    (e) compute the present value of cash flows using an appropriate discount rate; and

    (f) calculate tax amortisation benefit, if appropriate and applicable, and add it to the value of the intangible asset to be valued.

94. Other than the methods explained above, there can be other methods that can be adopted to value intangibles, like Probability-weighted cash flows method/ Risk-adjusted Net Present Value method, Profit Premium method and Differential Cash Flows method.

95. For an intangible asset under development, the valuer shall consider the stage of development, remaining expenditure, expected completion date, probability of technical success, probability of commercial success, expected time to market and expected cash flows and profitability.

Cost Approach

96. **Cost approach is a valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).**

97. Valuation of an intangible asset using the cost approach is based on the principle rule of substitution, i.e. the amount that will be required to create a new similar intangible asset as adjusted for any depreciation becomes the value of the intangible asset to be valued. This approach may not hold good when the intangible asset to be valued is not replaceable and is unique, e.g., patents, which is a unique intellectual property and cannot be perfectly recreated.

98. Cost method is commonly used to value acquired or internally generated intangible assets like software, technology, assembled workforce, etc. Also, cost approach is generally adopted when market and income approach cannot be applied. The cost approach should be used with discretion and generally for intangible assets that are not the primary business drivers and for which a market participant may not be willing to pay a significant premium.

99. For an intangible asset under development, the valuer shall consider the stage of development, remaining expenditure, expected completion date, probability of technical success, probability of commercial success and expected time to market.

100. The following are the commonly used valuation methods under the income approach:

    (a) Reproduction Cost Method;

    (b) Replacement Cost Method.

Reproduction Cost Method

101. ***Reproduction Cost Method*** **involves valuing an asset based on the cost that a market participant shall have to incur to recreate a replica of the asset to be valued, adjusted for obsolescence.**

102. Under this method, the value of an intangible asset is the total cost (based on current prices) to produce an exact replica of the intangible asset to be valued. Nevertheless, since intangible assets are generally not developed (other than certain assets like software), any intangible asset that can be hypothetically developed using the same function and utility, can provide a value base for the intangible asset to be valued.

103. Costs to reproduce could include data-sets like direct costs, indirect costs, developer's profit for the intangible asset, etc. The cost obtained under this method shall be adjusted for any physical, functional or economical obsolescence.

Replacement Cost Method

104. ***Replacement Cost Method*** **involves valuing an asset based on the cost that a market participant shall have to incur to recreate an asset with substantially the same utility (comparable utility) as that of the asset to be valued, adjusted for obsolescence**.

105. Under this method, the value of an intangible asset is the total cost (based on current prices) to produce an asset similar to the intangible asset to be valued. Nevertheless, since intangible assets are generally not developed (other than certain assets like software), any intangible asset that can be hypothetically developed using the same function and utility, can provide a value base for the intangible asset to be valued. Costs to replace could include datasets like direct costs, indirect costs, developer's profit for the intangible asset, etc. The cost obtained under this method shall be adjusted for any physical, functional or economical obsolescence.

Effective Date

106. ICAI Valuation Standard 302 *Intangible Assets* shall be applied for the valuation reports issued on or

after []