

2022

# Findings of the Peer Review of Valuation Reports

**Based on Workshop on Peer Review of Valuation Reports conducted on 21st April 2022**



## **Preamble**

A peer review workshop was organised by ICAI Registered Valuers Organisation in association with Insolvency and Bankruptcy Board of India (IBBI) to share findings of Peer Review of Valuation Report for the three Asset Classes, i.e., Securities or Financial Assets, Land & Building and Plant and Machinery as per Companies (Registered Valuers and Valuation) Rules, 2017. The workshop was held through video conferencing on 21<sup>st</sup> April 2022.

Two such similar Workshops were organised by ICAI RVO in association with IBBI on 14th February 2020 and 17th February 2021. The outcome of both these workshops have been published on the website of IBBI and RVOs.

The workshop was addressed by Sh. Sudhaker Shukla Whole Time Member IBBI and Mr. Rakesh Sehgal, Managing Director ICAI RVO. CA. Ms Sarika Singhal, Officiating-CEO of ICAI RVO moderated the proceedings.

MD/CEOs of sixteen RVOs participated in the workshop and a collated presentation on findings of peer review was made by ICAI RVO incorporating the findings of all other RVOs.

Valuation is an area guided by public interest and retains a key relevance in business sustenance, more so in case of business restructuring. Under such situations, the exercise of undertaking peer review of valuation reports issued by Registered Valuers plays a pivotal role in not only capturing the journey of Registered Valuers in terms of how they have fared so far as regards to compliance with the statute but also in connection with the quality of reports issued, finding possible areas of gaps/improvements and providing reasonable solutions to fill those gaps basis a joint discussion with all the RVOs, taking in learnings from each other. The findings so captured serve the dual purpose of driving the quality of valuation reports in coming future along with acting as a guideline for upcoming Registered Valuers.

The peer review exercise in addition to checking the compliance with provisions as applicable on RVs, also examined compliance with the Guidelines on Use of Caveats, Limitations and Disclaimers by the Registered Valuers in Valuation Reports and it was noted that most Registered Valuers have welcomed the guidelines and these formed part of majority of reports reviewed. However, it was observed that its implementation still needs to be monitored closely.

In general, the RVOs were of the opinion that quality of valuation reports had improved considerably compared to the previous year and most of the shortcomings observed in the previous year's peer review were not observed in the current peer review.

## **Contents**

1. Concept of Peer Review
2. Extents and Scope of Peer Review Exercise
3. Peer Reviewer- Role and Selection
4. Key Considerations to be referred by a Peer Reviewer
  - 4.1 Terms of Reference (TORs) for the Peer Reviewer
  - 4.2 Key Peer Review Parameters
  - 4.3 Key Aspects Considered in The Peer Review of Valuation Report
5. Major Findings of the Peer Review of Valuation Report
  - 5.1 Most commonly observed findings of the Peer Review of Valuation Reports
  - 5.2 Individual Observations by RVOs
6. Recommendations
  - 6.1 Common Recommendations by RVOs
  - 6.2 Additional individual recommendations by RVOs
7. Conclusion

## **1. Concept of Peer Review**

The term 'peer' means a person of similar standing. The term 'review' means re-examination or retrospective evaluation of the subject matter. In generality, for a professional, the term "peer review" would mean review of the work done by a professional, by another member of the same profession with similar standing.

Peer review is basically an examination of a professional's performance or practices in a particular area by other professional in the same area. The objective of the exercise is to help the professional under review to improve its performance, decision making, adopt best ethical practices and standards, comply with relevant laws, established standards and principles. The system relies heavily on mutual trust among the professional involved, as well as their shared confidence in the process.

The peer review is a discussion among equals, not a hearing by a superior body that will hand down a judgement or punishment. This makes it a more flexible tool, a professional may be more willing to accept criticism, if both sides know it does not commit them to a rigid position or obligatory course of action.

## **2. Extent and Scope of Peer Review**

Peer Review process is based on the principle of systematic monitoring of the procedures adopted and records maintained while carrying out valuation services in the course of one's professional responsibility to ensure and sustain quality.

Valuers Peer review is the evaluation of work by one or more Registered Valuer (RV) Member with similar competences as of the Valuer under review (**peers**). A Valuer's peer review focuses on the performance of Valuers, with a view to improving

- quality,
- upholding ethical standards,
- adherence with valuation standards,
- relevant laws, regulations, rules, guidelines and amendments made there under from time to time,
- methodologies and approaches adopted for conducting valuation and preparation of valuation report.

Moreover, a peer review process is often used to assist a client in building reliability and credibility of the work done by the respective Valuer appointed by the client.

Peer Review is primarily directed towards ensuring as well as enhancing the quality of valuation and valuation reports issued by Registered Valuers under the applicable legal ambit. Peer Review is conducted by an independent evaluator known as a Peer Reviewer.

### **3. Peer Reviewer- Role and Selection**

The Peer Reviewer selected for the process should be a person of good professional repute and be experienced in the relevant field and/or latest mythologies/updates in the field of valuation.

While assigning peer review to the reviewer, the identity of the valuer to be reviewed is to be redacted. Further the peer reviewer may not be provided with the working papers of valuer under review.

While conducting peer review, the reviewer must:

- a. be free of potential bias, and give unbiased, objective and independent opinion about the quality of work under review
- b. comment on
  - a. Valuation report, both objectively and subjectively
  - b. Justification of valuation approaches/methodology adopted in the valuation assignment
  - c. adequacy of caveats, limitations and disclosures used/made in the report

### **4. Key Considerations to be referred by a Peer Reviewer**

In addition to the general scope of Peer Review as elaborated in the previous section, IBBI in discussion with the existing Registered Valuers Organisations (RVOs) have specified some specific requirements to be checked by the RVOs while conducting a peer review exercise. These requirements are communicated to the Reviewer at the time of initiating the peer review exercise and primarily pivot around checking compliance of the undermentioned provisions in valuation reports under review:-

- Companies (Registered Valuers and Valuation) Rules, 2017
- ICAI Valuation Standards Vs International Valuation Standards (IVS)
- Other applicable rules, guidelines, regulations etc. issued by IBBI

#### **4.1 Terms of Reference (TORs) for the Peer Reviewer**

Some general Terms of Reference (TORs) for the Peer Reviewer arising from the discussions are as follows:

- a. To give **opinion on the quality** of the Valuation Report under review basis the "Key Aspects to be reviewed"
- b. To review compliance with the
  - i) Rule 8 of the Companies (Registered Valuer and Valuation) Rules, 2017
  - ii) Specific Rules, Regulations and Guidelines issued by related Regulators
- c. Not to give opinion on the Conclusion of Value
- d. To maintain confidentiality;

- e. Not to accept any such review assignments where reviewer might have any interest either in the Valuer or the Valuation Report under Review.
- f. To provide the Review summary in the format supplied by RVOs.

#### **4.2 Key Peer Review Parameters**

Key Peer Review parameters, as required to be forming part of the Peer Report, are as follow:

- a. Name of the Registered Valuer
- b. Assignment received in the name of RV/Partnership/Firm/LLP/Pvt Ltd Co/Ltd Co
- c. Name of the Corporate Debtor under reference
- d. Name of IP/IRP
- e. Date of Receipt of Assignment
- f. Date of submission of Valuation Report
- g. The Valuation Date
- h. Approach/approaches adopted
- i. Method or methods applied
- j. Key inputs used
- k. Fees Received
- l. Any Other Comment by Valuer

#### **4.3 Key Aspects Considered in The Peer Review of Valuation Reports**

Basis the previous years' peer review findings and discussions with IBBI, the below mentioned key aspects were considered in the peer review of valuation reports conducted for FY 2021-22:

- a. To check that **the valuation report contains**
  - i) Background information of the asset being valued
  - ii) Purpose of Valuation & Appointing Authority
  - iii) Identity of Valuers and other experts involved
  - iv) Disclosure of conflict of interest
  - v) Date of Appointment, Valuation Date and Date of Report
  - vi) Inspections/investigations undertaken
  - vii) Nature, source of information used or relied upon
  - viii) Restrictions on use of report, if any
  - ix) Major factors considered
  - x) Conclusions

- xi) Caveats, limitations, and disclaimers explaining or elucidating the limitations faces by Valuer, without restricting his responsibility for the valuation report
- b. To check that the **requirement of Rule 8 met utilization** of
  - i) ICAI Valuation Standards
  - ii) Other applicable Valuation Standards
  - iii) Scope of work-VS 201 or otherwise is covered
- c. To check if the valuer has placed reliance on the valuation report issued by another Registered Valuer while undertaking the assignment
- d. To check if there have been some significant deviations/variations from standards including relevant ICAI VS
- e. To check whether a Comprehensive Narrative Report or Abbreviated Summary Report is forming part of the valuation report.
- f. To check whether information for intended users of valuation report provides
  - i) clear and accurate description of scope, purpose and intended use of the report
  - ii) adequate disclosure of assumptions including special assumptions if any
  - iii) adequate disclosure of significant uncertainties impacting the report
  - iv) details of limiting conditions directly impacting the valuation
  - v) premise for base of value
- g. To check whether the compliance is sufficient to communicate to the intended users
  - i) The scope of valuation assignment
  - ii) Work performed by the valuer
  - iii) Conclusions reached
  - iv) And principal reasons for conclusions reached at

## **5. Major Findings of the Peer Review of Valuation Report**

### **5.1 Most commonly observed findings of the Peer Review of Valuation Reports**

- a. Date of appointment, valuation date, inspection date and date of report- included in majority of reports. But in some reports, it has been observed that the date or engagement/inspection are not disclosed or there are inconsistencies in the dates in some reports.
- b. Identity of the valuer and any other experts involved in the valuation is not explicitly mentioned. However, in some of the reports, it is unclear as to whether the assignment is executed by the CA firm or the valuer in his/her individual capacity. This is largely because of the letterhead used and the reference used at multiple places.
- c. Under purpose of valuation and appointing authority, it has been observed that incorrect mention of legislation involving Sec 230 to 232 of the Companies Act 2013 has been done for infusion of funds. A separate head could have been used with a proper technical name.

- d. Though the scope of assignment has been clearly mentioned in majority reports, in some reports it has not been mentioned that the valuation analysis is done per International Valuation Standards (IVS).
- e. In some cases, no clear indication of valuation approaches being used in the assignment has been made.
- f. In many reports, nature and source of information relied upon has not been clearly disclosed as required.
- g. Restriction on use, distribution and publication of valuation report has not been placed in some of the valuation reports.
- h. Key observations under inspections and/ or investigations undertaken for the assignment are as under:
  - i) Though book value approach has been taken with adjustment for fair value of investments, a key investment with a material impact to the valuation has been valued below carrying value - no clarification provided as to whether the said investment has been impaired by the company or if not, what is the rationale for accepting this value.
  - ii) Analysis of past financials not presented though the company is in operation for long now. Also, many reports do not contain the details of investigation done.
  - iii) Where the investment has been considered at a significantly lower than carrying value as per books, no comments on whether the carrying value has been impaired by the company or not is included and the same could have been more elaborate.
- i. While most reports reflect that the procedures adopted in carrying out the valuation standards have been followed, in some cases rational for using NAV (cost as per books) and not PECV etc. is not clearly elaborated.
- j. While most reports were in compliance, some key observations pertaining to Rule 8 compliance are as given under:
  - i) Utilization of ICAI Valuation Standards not specifically mentioned
  - ii) Scope of work- VS 201 or otherwise not explicitly stated
  - iii) Utilization of Valuation Standards covered under different statutes like FEMA, Rule 11UA of Income Tax Act 1961 not specifically mentioned.
- k. Fees received from the client has not been mentioned in some of the reports reviewed.
- l. Base of value relied upon not clearly stated in some reports.
- m. Clear and accurate description of intended use and users through majorly covered but could have been given more precisely.

- n. Limiting conditions impacting valuation have not been covered in few isolated cases. Further the limiting conditions do not provide the affirmative confirmation, as required in some isolated reports.
- o. Significant uncertainty impacting valuation should ideally be presented more clearly under a separate header to draw the attention of users of report for a more impactful report.
- p. Abbreviated summary report was found to be part of most of the reports.
- q. In few of the reviewed reports, ICAI Valuation Standards referred, if any, were not mentioned specifically.
- r. In some of the reports, Valuation Standards followed not disclosed or explicitly stated though the method is covered by ICAI Valuation Standard.
- s. The caveats, limitations and disclaimers are forming part of most of the reports barring few exceptions. Further, the assumption underlying the projections have not been reviewed. The assumptions should be report relevant and should not be a mere copy paste from other valuation assignments.
- t. Disclosure of special assumptions not clearly mentioned in some of the reports. For instance, no clear rationale for why investments not impaired in books; rationale for considering volatility at 0.001% not appropriate and may need to be considered more appropriately. Logic behind assumption not clearly explained.
- u. Disclosure of valuer's interest or conflict of interest not explicitly stated in isolated reports.
- v. Methods and Approaches have been interchangeably used which leads to confusion for the readers.
  - i) In some of the reports though the cost approach has not been applied in the valuation analysis, but it is inadvertently mentioned "Hence, we abide using Cost Approach for valuation of this Company." The wrong selection of word "abide" leads to confusion for the users of the report.
  - ii) In some reports though the main business is of providing services. However, the explanation for applying DCF mentions that "As forecasted by the Management, there is an enough demand for products of..." appears to be inconsistent and leads to lack of business understanding for the reader.
  - iii) In some of the reports it is mentioned that the report is valued on a going concern assumption. The losses forecasted over the forecast period are significant to cast a doubt on the going concern nature of the business. Also, there are no discussions around the fact that the entire value is coming from the terminal value and that the forecast period projections lead to a negative result.
  - iv) Use of Adjusted Net Assets Method: It is observed that in some reports though it is mentioned that the valuation analysis is performed on a going concern basis,

the approach adopted, and the method applied are cost approach and adjusted net assets method, respectively. The Adjusted Net Asset method is not a recognized method as per the ICAI IVS.

- w. While ensuring that compliance is sufficient to communicate work performed, analysis of historical information should ideally form part of the report.
- x. Compliance sufficient to communicate conclusions reached could be more detailed in some reports. Further, compliance sufficient to communicate principal reasons for results reached through implied but could be made more explicit for better understanding of end users of valuation reports.

## 5.2 Individual Observations by RVOs

S. No.	RVO	Observations
1.	CVSRTA RVO	Relevant asset standard referred to, if any, should also be mentioned separately.
2.	RVO Estate Managers & Appraisers Foundation	<b>Extent of investigation-</b> There is no annexure as regards to the current price of the similar assets and no annexure was found in the report regarding the current quotation of a similar asset. The asset valuation figures were written in a column just like that. No derivation or logic or market price quote was evident from the report so that one can judge the logic of the methodology.
3.	Divya Jyoti Valuers Foundation	<b>Methods &amp; Approaches- Land &amp; Building-</b> Only one line is written. No details or process is mentioned. Detail explanation not there. Reason of the same is also required.
4.	Divya Jyoti Valuers Foundation	<b>Assumptions made- Land &amp; Building -</b> In assumptions it is written that the assets are valued in-situ. Whereas these are for liquidation.
5.	IIV India Registered Valuers Foundation	"The estimated values of plant / machinery are valid only for 30 days from the date of issue of this report"- In any valuation exercise, the value of asset is tied to the date of valuation. So, after 5 years... even 10 years also - on the particular date, the value of the asset is

		same. Hence, comment about validity is not reqd. & not valid.
6.	IIV India Registered Valuers Foundation	<p>"The Valuer has <b>no responsibility to modify this report</b>, for events and circumstances occurring subsequent to the date of this report. "</p> <p>This comment is abundant &amp; excess caution and not required too.</p> <p><b><u>A detailed discussion on the responsibility of Registered Valuer for making modifications in the issued report was carried out and the key observations are as noted below:</u></b></p> <p>A Registered Valuer carries out a valuation exercise to meet a particular need <b>on a particular date</b> <u>based on data available with him till that particular date</u> and hence the report issued on that date is a circumstantial report. Once the report is issued, it goes out in circulation and may be relied upon by various interested parties at different points of time for decision making.</p> <p>The essence of this statement is to simply imply that the engagement given to the Registered Valuer ends with the issuance of this report and as such the responsibility of the valuer to make modifications gets restricted in the event of new circumstances/information coming to the knowledge of the Registered Valuer leading to change in scope.</p> <p>All the RVOs agreed that this is a fairly protective statement used by Registered Valuers as a standard industry practice which is reflective of only that which is otherwise supposed to be implied and endorsed its usage as a good practice.</p>

		<p>Further, to avoid the situations where additional facts come up before the Registered Valuer, it has been suggested that, as a general practice, the Registered Valuer should get a confirmation of all facts existing as on the date of issuance of the report and then basis the confirmation, issue the report.</p> <p>Still if there are cases, where some new facts pertaining to the issued report come to the knowledge of the Registered Valuer either through management representation of through any other route, the Registered Valuer may issue a new report drawing specific inference to the changes coming in the revised report owing to the additional facts coming into light.</p>
7.	IIV India Registered Valuers foundation	<p>"The Valuer, by reason of performing this valuation and preparing this report, is not to be required to give expert testimony nor to be in attendance in court or at any government hearing with reference to the matters contained herein, unless prior arrangements have been made regarding such additional engagement and which, the Valuer shall be at a liberty to accept or <b>decline</b>".</p> <p>The valuer doing IBC valuation is bound to answer the related cases in the court of law. He can't decline. For practical reasons, he may seek alternate ways &amp; means... or even alternate dates. But can't decline.</p> <p><b><u>Observation basis the discussion undertaken on above</u></b></p> <p>Generally, a valuation assignment involves a commercial engagement between a valuer and the client involving professional skills of the valuer for issuance of a report based on certain fees.</p> <p>The purpose of including such statement is to restrict the client from involving the valuer in any matter</p>

		<p>involving the client and any third party which involves further commercial engagement of client or where the client expects the valuer to bear testimony for him basis the report issued in any matter not involving the valuer directly, beyond the original scope as underlined by the engagement letter or contact, and which subsequently further imposes a commercial engagement cost on the valuer or a legal liability.</p> <p>In case there is any legal obligation either covered in the scope of the contact itself or where a valuer is required to protect himself, in his personal capacity, he cannot deny responsibility.</p> <p>Thus, as a good practice, while the personal responsibility of the valuer towards statues remains, he cannot be obligated to bear testimony for client in any of his personal dealings beyond his original scope of engagement.</p> <p>Further, clause 3.4.xxii of caveats, disclosures and limitations as issued by IBBI provide an illustrative limitation statement providing that a valuer may be required to give a testimony in the court/judicial proceedings, though it may be out of scope, given that the party seeking such evidence shall bear the professional cost of attending such proceedings.</p> <p>All the RVOs, endorsed the viewpoint that the usage of such statement not only meets the requirements of the statute but also protects the valuer from incurring additional commercial engagement costs and is thus welcomed as a standard part of the valuation report.</p>
8.	IOV Registered Valuers Foundation	Valuation report should mention about the liabilities also, since valuation of liabilities is more crucial for a

		company under liquidation. This was <b>found to be missing</b> in the reports of <b>all three</b> asset classes.
9.	IOV Registered Valuers Foundation	Under assumptions- <b>no specific assumption</b> taking in the <b>COVID impact</b> either in reports or projection factored in by the RV under SFA.
10.	IOV Registered Valuers Foundation	Statement that the report is IVS compliant is found missing in certain reports.
11.	IOV Registered Valuers Foundation	Under <b>valuation approaches</b> , most of the valuers under all three asset classes, i.e. L&B, P&M, SFA, <b>did not specify if sufficient data was collected</b> and if necessary adjustments made under Market approach method.
12.	CEV IAF RVO	<b>Proper approach not adopted in Leasehold Properties.</b> In one valuation which is done based on the comparable sale method is used, but no referred comparable are mentioned, also on what basis the comparison was done is not mentioned.
13.	CEV IAF RVO	While reviewing <u>Plant &amp; Machinery</u> Valuation Reports following deficiencies were observed such as: <ol style="list-style-type: none"> <li>1. Improper report headings;</li> <li>2. Details of investigations conducted for various machines were not provided; and</li> <li>3. Technical specifications of some machines not provided.</li> </ol>
14.	CEV IAF RVO	While reviewing <u>Land &amp; Building</u> Valuation Reports certain <b>deficiencies were observed such</b> as: <ol style="list-style-type: none"> <li>1. lack of evidence for market survey of prices; and</li> <li>2. Exact size and directions of the land measured at the time of physical identification not found incorporated in the report anywhere</li> <li>3. Either physical measurements were not provided or non-authentication thereof.</li> </ol>

		<p>4. In some cases valuation was done as Going Concern Value instead of HABU .</p> <p>5. Actual market survey of auction sales was not done in locality, before adopting arbitrary 15% or 30% deduction for forced sale value.</p>
15.	ICSI RVO	<p>1. <b>Valuation basis-</b> (MV, Equitable Value, Synergistic Value, LV, FV, etc.)- <b>not mentioned</b> in few of the reviewed reports.</p> <p>2. <b>Premise of Value-</b> (HABU, Current use/existing use, orderly liquidation, forced sale.)- <b>not mentioned</b> in few of the reviewed reports</p> <p>3. <b>Valuation Approach-</b> CAPM working are <b>missing.</b></p>
16.	ICSI RVO	<p><b>Valuation date-</b> Financials as on 9 June used for Cost Approach whereas for Income Approach –DCF method considered from 1 April. <b>Inconsistency in Valuation approach vis-à-vis Valuation date</b></p>

## 6. Recommendations

### 6.1 Common Recommendations by RVOs

- a. **Explicit declaration** required under **Rule 8** regarding **compliance with the Valuation Standards** followed in valuation (VS issued by ICAI RVO or any other VS) is required to be mentioned. However, the same has not been mentioned in the valuation reports and needs to be factored in.
- b. While defining purpose of Valuation and appointing authority, incorrect mention of legislation involving Sec. 230 to 232 of the Companies Act, 2013 for infusion of funds has been done and should be taken care of.
- c. **Disclosure of valuer interest or conflict**, if any has not been explicitly stated in certain reports and ideally should be clearly reported. an affirmative statement in this regard will give credibility to report.
- d. It may also be prudent for the Registered Valuer member to draw the client's attention to the fact that values change over time, and that a valuation given on a particular date may not be valid on an earlier or later date.
- e. The RV should also include in his report: an **affirmative statement** that information provided, and assumptions used by management/others in developing projections have been **appropriately reviewed**, enquiries made regarding basis of key assumptions in context of business being valued and the industry/economy; and an affirmative statement on adequacy of information and time for carrying out the valuations.

- f. The RV should **mention any key factors** which have a **material impact on the valuation**, including inter alia the size or number of the assets or shares of the company, its/their materiality or significance, minority or majority holding and changes on account of the transaction, any impacts on controlling interest, diminution or augmentation therein and marketability or lack thereof; prevailing market conditions and government policy in the specified industry as a disclaimer depending upon the factor.
- g. In certain reports, the valuation date is inconsistent throughout or is not disclosed at all. Date of appointment, valuation date and date of report need to be expressly mentioned in the report.
- h. Identity of the valuer and any other expert involved in valuation should ideally be explicitly stated. However, it is unclear as to whether the assignment is executed by the CA firm or the valuer in his/her individual capacity. This is largely because of the letterhead used and the reference used at multiple places.
- i. Though in certain reports, the scope is provided, conducting valuation analysis in accordance with IVS is not mentioned.
- j. The base of value used in the report as communicated to the intended user, though amply clear by interpretation, should ideally be explicitly stated.
- k. Relevant ICAI VS referred, if any, are either not explicitly stated or vaguely referred and the disclosure could be more express.
- l. While checking if sufficient compliance done to communicate work performed, analysis of past historical information should ideally be presented.
- m. The details of sources of information relied upon must be clearly mentioned in report by the RV. The RV must also mention in the report if, wherever applicable, verification is needed on any information or assumption on which the valuation is based.
- n. Under **caveats, limitations and disclaimers** to the extent they explain or elucidate the limitations faces by valuer, which shall not be for the purpose of limiting his responsibility for the valuation report, the assumptions underlying the projections have not been reviewed. It has been further observed that Valuers are still not using or incorporating CLDs issued by IBBI properly any deviation beyond the CLDs must be explained with reason/ justification.
- o. All generated reports must accompany with caveats, disclaimers and limitations as prescribed by IBBI.
- p. In some reports, the limiting conditions do not provide the affirmative confirmations, as required.
- q. The key valuation assumptions should ideally be justified to ensure that the compliance is sufficient to communicate principal reasons for conclusions reached.
- r. An executive summary to understand the valuation report shall be provided, it shall include the methodology used, the value, which is arrived, important dates, valuation standard followed and purpose of valuation etc.
- s. The valuation report should also elaborate how the information/ data obtained by the RV has been further processed in terms of discount/ premium factors, indexation etc. The report under review has missed including these aspects
- t. A particular case observed by RVO Estate Managers:
  - i) CIRP announcement date- January 2019
  - ii) Valuation date is given same as CIRP commencement date
  - iii) AND, inspection date is September 2019

- iv) Inference: Generally, it becomes very difficult for the valuer to assume the situation of the asset in any previous date. Here is a gap of 9 months that may show a wrong opinion and increase degree of uncertainty.

## 6.2 Additional individual recommendations by RVOs

S. No.	RVO	Recommendations
1.	ICAIRVO	Where the investment has been considered at a significantly lower than carrying value as per books, no comments on whether the carrying value has been impaired by the company or not are included and should ideally form part of the report.
2.	ICAI RVO	Analysis of past financials not presented though the company is in operation for long now. Report needs to include historical financials and analysis. This is critical considering that a large portion of the value is coming due to working capital release in year 1 which is not explained. Even as a good practice, historic analysis may be included as part of the investigation into the entity.
3.	ICAI RVO	Rationale for using NAV (cost as per books) and not PECV etc., not clearly explained. Why other methods such as PECV not used should be explained.
4.	ICAI RVO	Rationale for a high terminal growth rate of 8% when the discount rate used itself is 9.85% is not explained-Ideally the key valuation assumptions must be justified.
5.	RVO Estate Managers and Appraisers Foundation	The RV must declare the relevant IVS No.
6.	RVO Estate Managers and Appraisers Foundation	<p><b>Success fee charged</b> by a RV in a one-off case and in an ideal case scenario should not be so charged. A success fee should be allowed to be charged with more stringent rules like the usage of proposed Unique number (UVRIN).</p> <p><b><u>Additional observations basis discussions:</u></b> In case a Registered Valuer is signing a valuation report as a valuer, he cannot charge success fees as that may impacts his independence and objectivity as prescribed in the code of conduct for Registered Valuers.</p>
7.	RVO Estate Managers and Appraisers Foundation	As the definition of Fair Value and Liquidation Value do not fall under IVS per IBBI, the RV may declare that the overall valuation has been done per IVS and mention deviation, wherever appropriate.
8.	RVO Estate Managers and Appraisers Foundation	<b><u>Ambiguity on liquidation value-</u></b> It is observed that the liquidation value of all assets are more or less flat 70% of the corresponding fair values of each asset. This flat rate percentage deduction to arrive at the liquidation value is imprudent and the process of arriving at liquidation value must form part of the report.

9.	RVO Estate Managers and Appraisers Foundation	The assignment/engagement letter must form part of the valuation report and should include the minimum points set forth by the RVO in its sample letter.
10.	RVO Estate Managers and Appraisers Foundation	Approach and Methodology considered for lease hold property not properly reflects the methodology of leasehold valuation. Appropriate and suitable methodology not been used. The appropriate method of valuation to be considered. Direct Market Comparison Approach, Income Approach, Cost Approach.
11.	RVO Estate Managers and Appraisers Foundation	Did not find use of HABU in any report. This is a suggestion on the use of the same asset, most importantly this alternative use of the asset would fetch maximum value, which should be legally, financially and technically possible and highest and best use is the use, from a participant perspective, that would produce the highest value for an asset. Although the concept is most frequently applied to non-financial assets as many financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered.
12.	Divya Jyoti Valuers Foundation	<p><b>Approaches &amp; methods- SFA Class-</b> conceptual errors observed like</p> <ul style="list-style-type: none"> <li>• Risk Free Rate has to be taken up according to Government Bond</li> <li>• Provisional balance sheet balances (Cash/ Loan) must be adjusted in PV of FCFF.</li> <li>• Growth rate must be taken according to the industrial growth and GDP. Growth rate of 1 % seems low as compared to India's GDP growth or Industry growth.</li> <li>• Company Specific Risk Premium is used by the Valuer.</li> <li>• Valuers must apply ratio analysis on projections provided by client to test the sensibility of projections.</li> <li>• It seems like valuer is confused with pre money and post money concept. The valuer is required to mention if the valuation is based on pre money or post money.</li> </ul> <p><b><u>Additional recommendations basis discussions</u></b></p> <ul style="list-style-type: none"> <li>• As a general practice, RBI yield rate should be used as a base for computing discount rate as on date.</li> <li>• Another recommended practice followed during periods of high volatility like COVID surge, would be using monthly/15 days average of the yield rates.</li> <li>• Further, currency premium and country of operations are also some factors to be considered while computing discount rate. For</li> </ul>

		instance, for an export-oriented company, the currency of country of operations and the volatility may be factored in to arrive at the discount rates as on date.
13.	Divya Jyoti Valuers Foundation	<p><b>Approaches &amp; methods- Land &amp; Building Class-</b></p> <p>Conceptual errors observed like</p> <ul style="list-style-type: none"> <li>• Only one line is written. No details or process is mentioned. Detail explanation not there. Reason of the same is also required.</li> <li>• Loading of 3% but why was this done is not made clear. If any change is there, it has to have a logic as per the IVS.</li> <li>• As per the expert of L&amp;B, the model must accompany with proper explanation and the model must be explained in detail so that the user of report must keep rely on the calculations done.</li> </ul>
14.	Divya Jyoti Valuers Foundation	Rf, Rm, Beta, Growth must be appropriate. The selections must come from Govt Bond yield, industry norms, peer companies or GDP and proper explanation in using the factors must be mentioned.
15.	IOV Registered Valuers Foundation	<p><b><u>For Land &amp; Building: Following were found to be missing and should ideally form part of the report</u></b></p> <ol style="list-style-type: none"> <li>1. No evidence of market survey/sale comparisons was found</li> <li>2. Disclosure of other experts not forming part of reports explicitly.</li> <li>3. Compliance with valuation standards not mentioned specifically</li> <li>4. Reasons to justify extent of liquidation discount applied not recorded.</li> <li>5. Title deeds of properties not verified at Registrar's office.</li> <li>6. The RV has endeavored to visually identify the land boundaries and dimensions. A RV, however, is not a surveyor and thus where there is a doubt about the precise position of the structures, it is recommended that a licensed Surveyor be contacted.</li> <li>7. The sale of the subject property is assumed to be on cash basis. Financial arrangement costs would affect the price of the property, if placed in market.</li> </ol>
16.	IOV Registered Valuers Foundation	<p><b><u>Land &amp; Building:</u></b> Following were found to be missing and should ideally form part of the report</p> <ol style="list-style-type: none"> <li>1. Reports found non-compliant with IVS 101, 102, 103,104,105</li> <li>2. Reports have followed general formats</li> <li>3. Justification for adoption/rejection of a valuation approach not properly documented.</li> <li>4. Remarks given need to be more precisely and accurately worded.</li> </ol>

		5. Investigation not done properly to determine the fair value and liquidation value
17.	IOV Registered Valuers Foundation	<p><b><u>Securities or Financial Assets:</u></b> Following were found to be missing and should ideally form part of the report</p> <ol style="list-style-type: none"> <li>1. Economy and industry analysis not provided in the reports</li> <li>2. Assumptions and limitations were not justified and pertinent to the valuation in hand and did not cover points stipulated by IBBI like RV responsibility, Value estimate etc. Limitations and disclaimers could be more descriptive in nature and in compliance with IBBI guidelines.</li> <li>3. Where the Company is a wholly-owned subsidiary (WOS), Valuation Report does not mention the layers of shareholding.</li> </ol>

## 7. Conclusion

The Companies (Registered Valuers and Valuation) Rules, 2017 require every Registered Valuer to prepare their valuation report in compliance with Act, Rules, Valuation Standards, Guidelines etc. as applicable to them under relevant statutes.

By conducting the peer review of valuation reports issued by Registered Valuers for all three assets classes over the past three years by the Registered Valuers Organisations in collaboration with IBBI, it has been observed that the quality of valuation reports has successively improved. It has been further observed that the observations given in the previous years peer review have been duly accepted by the Registered Valuers while undertaking valuation assignments and that the observations being observed in the current year are becoming more value added in nature. There still are some areas of improvements or compliance to be adhered to, but as a majority, maximum of the reports reviewed were compliant with the statute requirements and that the observations of previous peer reviews were duly incorporated.

The findings of the Peer Review as captured in this concept paper need to be complied with all the Registered Valuers to ensure that the requirements of Law and Rules are met in letter and spirit.