2024

Findings of the Peer Review of Valuation Reports

Based on Workshop on Peer Review of Valuation Reports conducted on 19th July 2024

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ORGANISATION

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ICSI REGISTERED VALUERS ORGANISATION
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Preamble

A peer review workshop was organised by ICMAI Registered Valuers Organisation in associationwith all the RVOs and 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 19th July 2024.

MD/CEOs of fifteen RVOs participated in the workshop and a collated presentation on findings of peer review was made by ICMAI 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, enabling identification of possible areas of gaps/improvements and providing reasonable solutions to fillthose gaps on the basis of 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 assimilated 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.

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* Wherever the words International Valuation Standards are mentioned, it should be takes as that the Valuation Standardsadopted/ followed by that respective RVO.

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 positionor 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 reviewer.

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
- 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 in terms of utilization of
    i) International Valuation Standards
    ii) ICAI Valuation Standards
    iii) Other applicable Valuation Standards
    iv) 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 isforming 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 somereports.
b) Identity of the valuer and any other experts involved in the valuation is not explicitly mentioned. Further, 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 becauseof the letterhead used and the reference used at multiple places.
c) Though the scope of assignment has been clearly mentioned in majority of the reports, in some reports it has not been mentioned that the valuation analysis is done as per International Valuation Standards (IVS).
d) In some cases, no clear indication of valuation approaches being used in the assignmenthas been made.
e) In many reports, nature and source of information relied upon has not been clearly disclosed as required.
f) Restriction on use, distribution and publication of valuation report has not been placed in

some of the valuation reports.

g) 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.

h) Fees received from the client has not been mentioned in some of the reports reviewed.

i) Base of value relied upon not clearly stated in some reports.

j) Clear and accurate description of intended use and users through majorly covered but could have been given more precisely.

k) 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.

l) 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.

m) 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.

n) Disclosure of valuer’s interest or conflict of interest not explicitly stated in isolated reports.

o) 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 of the reports it is mentioned that the estimate of value has been arrived at on a going concernassumption, However, The losses forecasted over the forecast period are significant to cast doubt on the going concern nature of the business.

    iii) 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.

5.2 Individual Observations by RVOs

S. No.	RVO	Observations

1.	IOV Registered Valuers Foundation	1.Most reports mention the valuation standard that was used to prepare the report by name, including any subparts with a proper number; however, in certain cases, the name of the valuation standard was omitted, even though the report's preparation ostensibly followed the valuation standard. 2.Conflict in adoption of Valuation Standards: a.) in some reports there is no specific reference made to VS followed, although the principles laid down in the standards are followed. b.) SFA valuers who are also Chartered Accountants follows ICAI Valuation Standards, instead of using the standards adopted by IOV RVF, which are International Valuation Standards. c.) Some reports have mentioned Internationally accepted standards while in some reports reference is given to International Valuation Standards for only the DCF approach 3. Background of the assets valued: a) valuers are confused between stating background of the assets valued and background of company. b) Some reports contain either incomplete information or the background information has been captured incorrectly. c) some reports does not have separate heading for the same. 4. Scope and Purpose of valuation: Valuers do not able to differentiate between Scope and Purpose of Valuation, some has mentioned Scope and some has mentioned purpose, however, Scope and Purpose both are different terms i.e. the Scope of Valuation defines the boundaries and parameters within which the valuation is conducted, while the Purpose of Valuation refers to the reason or objective for conducting the valuation. It answers the question of "why" the valuation is being performed 5. Experts involved: If there are any other experts participating in the valuation, their names, a brief description of their area of expertise, and the reason their services were used should all be accurately identified. Nevertheless, the report made no note of it because none of the valuers used the services of other experts. However, it advisable to report the same, if it has been used or not. 6. Disclosure of Interest and Conflicts, if any: In some cases, disclosures were either absent or not properly stated. Some valuers mentioned having no interest in the company, while others mentioned no interest in the company's assets. Both disclosures should be included. Additionally, there has been a lack of clarity regarding conflicts of interest, with many valuers failing to specify whether any exist. 7. Date of appointment, date of valuation and date of report: Many reports have omitted the date of appointment. We also recommend including the date of inspection along with the date of valuation. This can assist stakeholders in determining the gap in days between the inspection and valuation. 8. Restrictions on use of the report, if any: Some have mentioned, some have not. Those who have, didn't mentioned in the separate heading.

		9. Inspections and/or Investigations undertaken: A brief mention was made of the inspections and investigations that were conducted, and in instances where they were not conducted, as noted in the S&FA reports, it was specifically mentioned that the information relied upon was provided by management. It is imperative that most reports include a comprehensive explanation of whether inspections and/or investigations were conducted, and the rationale behind these decisions. In 80% cases, above details were not elaborated upon. Furthermore, despite the organization's decade-long engagement with this project, an analysis of previous performance has not been included in this particular report. Additionally, it remains unclear from a few reports whether the valuer conducted an in-person visit to the location or object in question. 10. Nature and Sources of the information used or relied upon; The nature and sources of information are mentioned in most reports, although there is room for improvement in how this information is presented. • Primary Data Collection i.e. Site Inspection, Interviews and Discussions; • Secondary Data and Documentation i.e. Financial Statements:, Business Plans and Projections: , Legal Documents: • Market Research and Analysis i.e. Market Comparable, Industry Reports • Third-Party Reports and Appraisals i.e. Independent Expert Opinions, Technical Reports • Historical Performance Data • Regulatory and Compliance Documents It is imperative that future reports meticulously incorporate these details to ensure accuracy, transparency, and compliance with the mandated guidelines. 11. Procedures adopted in carrying out the valuation: Procedures adopted in carrying out the valuation standards followed was mentioned in most of the reports however there is further scope of improvement and it should be properly explained under separate head. Suggestions: The "Procedures Adopted in Carrying Out the Valuation" refers to the systematic and methodical steps taken by valuers to assess the value of an asset. Following are the procedures: 1) Initial discussions w.r.t. Engagement and Scope of work 2) Data Collection 3) Data Verification and Analysis 4) SWOT analysis 5) Valuation Methodologies 6) Regulatory and Compliance Review 6) Handling Challenges 7) Report Preparation 12. Major factors that were taken into account during the valuation; The report does not explicitly list the major factors considered during the valuation. However, very few reports have mentioned under separate headings For P&M: which includes factors i.e. Physical condition of asset available at site, its usage and Upkeep, Market demand of such equipment, Present use of equipment, Machine, Plant for same/ alternative use.

		For SFA: strengths and weakness of each valuation approach and method, Discount for Lack of Marketability (DLOM) and Discount for Lack of Control (DLOC) or Discount for minority holding are the major discounts normally considered in the valuation exercise. we have not considered the valuation discounts in the valuation engagement. For L&B: Site visits, inspection of assets, their conditions, local market enquiries, state govt. website, statement provided by client for the land and building. 13.Conclusion: It is mentioned, however, some reports omitted it. "In conclusion summary of all below mentioned factors may be considered: • The methodologies applied and considered current market conditions, • Financial performance and industry trends, • Critical assumptions includes, • Acknowledged limitations related to. • The valuation aligns closely with the intended purpose, and the opinion of value provided. • Recommendations for any specific actions are suggested based on the findings. • Future considerations that can impact value, if known or anticipated. • Final value 13. Caveats, Limitations and Disclaimers: It has to be elaborated w.r.t specific asset class. Also, their shall be separate heading for Caveats, Limitation and Disclaimer simultaneously and should be align with IBBI issued guidelines on CLD. SOME OTHER OBSERVATION: 1.Mention of unique reference number in valuation report: IOV RVF has given the facility to generate unique no. for every valuation report in the form of VRN i.e. Valuation Reference No., still valuers do not mention the same in the reports. Valuers who are also CAs generate UDIN No. instead of VRN Nos. which is a biggest challenge in itself for RVO to monitor their work. 2. Usage of letterhead and Stamp: All valuers complied with the same. 3. Disclosure of capital employed or contribution by the director/partner: No proof of the entity's disclosure to the capital employed or contribution by the director/partner in the entity to the client company. 4. Bases of Valuation: Some valuers have defined, some not. It is recommended that basis of valuation shall be defined with separate heading in the report aligning correctly with the purpose of the report, how it is consistent with the valuation standards, explanation and justification, why a particular basis of value was chosen while taking into account the current market condition. 5. Premise of valuation: Some valuers have defined, some not. It is recommended that premise of valuation shall be defined with separate heading in the report aligning correctly with the purpose of the report, consistent with market and economic conditions and in compliance with relevant valuation standards.

		6. Major key factors which have a material impact on the valuation: Not specifically defined. 7. Responsibility of RV: None of the report mentioned about the same, Including such a statement in the engagement letter and valuation report is a standard practice to clearly delineate the responsibilities and liabilities of the RV. This helps both the RV and the client have a mutual understanding of the scope of the work and the limits of the RV's responsibility, ensuring that the valuation process is conducted smoothly and professionally.
	ICAI RVO	In one of the reports, a discrepancy is identified regarding the appointment date mentioned in Clause 5 of the report titled "Appointing Authority." The report states the appointment date as 10th May 2023, while the report itself is signed on 6th May 2023. This inconsistency is significant as the date of the report cannot precede the date of appointment. In one of the reports, while calculating FMV the valuer mentioned that the PPE has been taken at market Value. However, there are no such annexures in the report justifying the value assigned to PPE. Few of the reports reference the determination of Fair Value using Internationally Accepted Valuation Standards. However, they fail to specify which valuation standards have been adhered to or adopted. In one of the reports, while calculating the Cost of Equity (Ke) the valuer has not provided any basis for arriving at the CSRP or hurdle rate. Disclosure of RV's identity in the report: In one of the reports, the cover page of the valuation report states that it is prepared by another professional without having any reference to the Registered Valuer. It does not reference the Registered Valuer's registration number issued by ICAI RVO (Parent RVO) and IBBI (the Authority for RVs). Furthermore, the report is signed by the valuer in a different professional capacity than an RV. The signature also omits the RV registration number issued by ICAI RVO and IBBI. Nowhere in the cover letter or within the report is it indicated that the report has been prepared by a Registered Valuer, which is a requirement for this assignment. In another report, the valuer has been appointed to determine the Fair Value of the Equity Shares of the Investee Company as of 31.03.2023, as well as its enterprise value as of the same date. However, despite providing calculations to ascertain these values, the report states the fair value and enterprise value as of 31.03.2022 on both the cover page and within the report. This appears to be a typographical error. In one the report, the valuer has mentioned that he has used ICAI valuation standard 303 "Financial Instruments". While looking at the nature of valuation he should have mentioned ICAI valuation standard 301 "Business Valuation" also. In one of the reports, after 100% growth in sales in the last year of the explicit period there is a sudden drop in the growth rate to 3% p.a. This extensive fall in the growth rate in neither explained nor justified in the report. In the Assumptions section of one report, the valuer states as "We confirm the accuracy of financials of the Company provided to us. It is assumed that these statements are true and correct." Both statements are contradictory in nature and the valuer needs to pay attention to drafting while report writing.

		In another report, the valuer has used a discount for COVID-19 pandemic for a valuation date of 31.12.2022. It would have been better if the valuer had mentioned the rationale behind this discount. In annexures, the valuer has used DLOM. Usually, DLOM is not used for book value method, it would have been better if the valuer had given a rational behind using DLOM in the given situation. In another case, the Valuer has mentioned in the report that he is required to determine the Fair Value of the Equity Shares as defined in valuation standards but it appears that the Fair Value has been calculated as per Rule 11UA of the Income Tax Rules. Further, in the same report, the valuer has stated that the ICAI valuation standards have been followed. However, it appears that the book value of unquoted investments has been used as the Fair Market Value, which does not comply with the ICAI valuation standards. In another report, the company's most significant asset consists of unquoted investments in several other companies. Therefore, it would have been preferable for the valuer to provide detailed workings for the valuation of these investments and specify the method used for their valuation. One key observation form a report is that the whole report is only a generic description of the process adopted and does not include any computations in the determination of the values arrived at including key valuation assumptions such as computation of WACC, discounts applied etc. It is noticed that the detailed projections and computations for the various valuations undertaken for the parts valued separately using the DCF method / recent round of infusion method have not been detailed in the report. Further, it is noticed that the report is also not giving details of the computations and assumptions such as WACC and discounts used. It may be understandable to not share financial information including projections in certain cases for confidentiality purposes. However, the key valuation assumptions used and their computations must be disclosed.
	IIV India Registered Valuers Foundation	a) Mentioning details about Intended user of report is not clear in most of the reports -as to whether it is RP / IRP, Liquidator (or) CoC. Even in case of Liquidation assignment, it is being mentioned as RP by some of the valuers b) In P&M valuation report -Even after referring to Fixed asset register (FAR), confusion is seen in reports -about the owner of the assets in the premises -whether all belongs to corporate debtor or others too own few & to value them or not. c) c)Use of appropriate terms / words in valuation report & the understanding of their significance are still missing. It is observed that terms like Fair Market value, Realisable value& Distress sale value are still used in few reports, while IBC reports have to use terms like Fair value & Liquidation value, which are more relevant. d) In many cases the 4 salient dates expected in IBC Reports are missing viz., Date of Valuation, Date of appointment, Date of Inspection & Date of report. Many reports mention, date of inspection as date of valuation& moved ahead. Standard format & structure not insisted upon for the reports under IBC & company assets -may be the reason, as most of the valuers are used to -working over standard formats of report given by Banks / Fis

		e) Specific terms like Basis / Bases, Premise & their use & importance with respect to those who follow IVS standards has not picked up pace yet. f) Use of one approach & one method of valuation are found to be common. IVS recommendation of use of multiple methods & even multiple approaches are missing. In case situation permits use of only one approach / Method, then valid reasons / Justifications for not choosing other approaches / Methods are to be given, which is found missing g) In case of use 2 or more approaches & methods, the final value arrived at is found to be arithmetic average of the above results, which is not to followed as per IVS. Valuer has to make a judgement about different weightages for each of them, based on the relevance & reliability of the inputs & its sources h) CLD draft given by IBBI is known to & adopted by many valuers, but in most cases –tinkering it to the relevance of the particular assignment is missing i) Reports mention about Inspection & Investigation on text. But after inspection, details about any real investigation are missing. For example, in P&M reports, List of machineries mentioned in FAR are verified & reported. But 'whether they are in working condition or not?'is missing in the report, but they have been taken for valuation as if they are productive still j) Disclosure of valuer's interest is also not found in many reports Restrictions on use of the report -which is important -in the interest of the Valuer, is also missing in most cases
3.	RVO ESMA Foundation	1.In some cases while taking special assumption, no specific guideline followed. No explanation regarding where from special assumption been taken to arrive the conclusion IVS or IBC or IBBI Rules. 2.In most of the cases assumption taken based on the data supplied by the management only. Assumptions should cover more points e.g. market data verification, macro and micro investigation. 3. Some Valuation Reports not clearly mentioned which method /approach followed. Refurbishment is considered but “Fair Value” or “Liquidation Value” as per the definition of IBC generally do not cover refurbishment. 4. Method applied but no clear mentioning of the same in the report. 5.It is observed that apart from very few cases Caveat, Limitation and Disclosure are mentioned properly. 6. Identification of valuer is not specifically mentioned in some cases. 7. Identification of clients and intended users – details not available in some of the cases. 8. Assignment Letter – though RV appointed by IRP but mentioned that appointment by clients, since as per IBC / IBBI Rule clients means corporate debtors.

		9. Extend of investigation – instead of Fair and Liquidation value in actual condition (in situ) & age of assets on the date of valuation - comments by RV reflects that the assignment for valuation for the purpose of refurbishment. 10. Ambiguity in the language sometimes leads to wrong meaning in few cases. 11. The assets lying at site without any Income generating capability valuation done on Income Approach Method and in some cases Income Approach Method not been considered – contradiction in applying of approach / methodology. 12. Some case approach taken has no relevance with the assets valued. 13. Almost all the cases Statutory Compliance been observed. 14. No proper assignment letter, in some cases. 15. Appointment date and other relevant date are not mentioned clearly in few cases. 16. Report should contain date & extent of the inspection if any inaccessible part of property, to be mentioned. 17. Source of information need to be discussed properly. 18. Some cases "Fair Value" defined as per the IFRS which is significant difference from "Fair Value" defined by IBC. 19.Inspection & Investigation procedure mentioned are mostly satisfactory. 20.Confidentiality & environment matter wherever required been covered and found satisfactory. 21. Comments on depreciation, Impairment loss, Residual Value, Useful life are seems to be satisfactory. 22. Significant Assumption and / or Special assumption taken by RV are satisfactory. 23.The valuer should consider Depreciation considering the Obsolescence part considering the IVS guideline i.e. In the context of the cost approach, "depreciation" refers to adjustments made to the estimated *cost* of creating an *asset* of equal utility to reflect the impact on *value* of any obsolescence affecting the subject *asset*. This meaning (Depreciation) is different from the use of the word in financial reporting or tax law where it generally refers to a method for systematically expensing capital expenditure over time.
4.	PVAI Valuatio n Professio nal	All three asset class reports reviewed had clear and concise mention of Name of RV, Name of Individual or Entity in whose name the assignment was received, Name of Corporate Debtor, Name of IP/IRP (if any), Date of receipt of assignment, Date of submission of Valuation Report to IP/IRP & Date of Valuation Approach / Approaches adopted was / were mentioned in some reports. In Plant & Machinary valuation report, replacement cost of item wise machinery was missing in some.

	Organisation	Method / Methods Applied were given but reason/s for not adopting other methodology/s was overlooked in some L & B and P & M valuation report/s while S&FA reports carried working with reasons. Limiting conditions that would directly affect the Valuation need to be mandatorily mentioned Key inputs used were fairly mentioned in L & B and S&FA reports while P & M reports did not give that clarity on account of missing computations. Fees received was not mentioned in two out of three asset classes. There was no mention of any other comments offered by Valuers in the reports. 1. Rule 8 a) Although all RVs have prepared their valuation report in compliance with IVS, most reports lacked a specific reference, section wise. b) Use of different valuation standards was observed in some tangible asset valuation reports, references were drawn to ICAI valuation standards and definitions used from that standard, which was in contravention to adoption of IVS. c) Scope of work was neither elaborately captured in engagement letter nor in transmittal letter/ Executive summary for valuation. 2. In all the Valuation reports reviewed of each asset class, none of the valuations under review were conducted by another registered valuer of any other / different asset class. No expert of particular asset was mentioned in any report reviewed. a)The background information of the asset being valued were adequately mentioned. b) The purpose of valuation and appointing authority was found to be mentioned in most reports but the reference of Companies Act with relevant section not given. c)The identity of the valuer and any other expert/s involved in the valuation was not explicitly conveyed. d)Disclosure/s of the valuers interest or Conflict, needs to be mentioned. e) Date of Appointment has been missed in most Valuation reports, date of report was found missing in one report. However the Date of Valuation was found to be mentioned in all reports. a) Inspections and Investigations undertaken were mentioned in brief and, wherever not undertaken as in S&FA reports, specific mention to having relied on data shared by management was observed. Elaborate explanation on whether/why the Inspections and/or investigations undertaken or not undertaken needs to be mentioned elaborately in most reports. b) Nature and sources of information used and /or relied upon was mentioned in brief however it was observed that specific mention of audited data, on purchase price or invoice and other capitalized items, needs elaboration.

		c) Procedures adopted in carrying out valuation standards followed was not clearly mentioned as required, explicitly. d) Restrictions on use of the report, if any, was mentioned in few amongst all the reports reviewed. e) A need for greater diligence while mentioning major factors that were taken into account during valuation, was observed. f) Conclusion - A separate section where a Valuer 'Reconciles' values estimated using one or more approaches to finally arrive at a single value opinion is found lacking in some of the reports. g)Caveats, Limitations, Disclaimers and Deviations needed to be more explicit, relevant and tenable in few reports. 3. Intended User/s of the Valuation report needs to be mentioned explicitly. a) Clear and accurate description of the scope of assignment was observed in most. b) Purpose of assignment was described in most. c) Description of intended use of assignment was mentioned in most reports. d)Disclosure/s, given for assumptions, needs standardization in the disclosures required to be made OR assumptions used while preparing the report. e) Specific mention of special assumptions were given in most reports. f)IVS 104 – Bases of Value – Para 200.4 – Special Assumptions was complied with as and wherever applicable. g)There was a clear mention of significant uncertainty that would directly affect the Valuation in almost all reports reviewed majorly due to ongoing pandemic situation. h)There were less observations made regarding mention of any limiting conditions. i)The Narrative report given was required to be more comprehensive. j) Abbreviated summary report given, could have covered basic regulatory, legal and statutory aspects also. k)Variations from standards could have been given with proper reasoning. l) Additional requirements reported for variation from standards given. m) IVS Asset Standards needs to be referred to exhaustively. 5.Compliance found sufficient to communicate :

		- to the intended user/s. - the scope of Valuation assignment. - the work performed. - conclusions reached. - but could be more explicit on the efficiency and status of life - economic / useful / physical. - principal reasons for conclusions reached but could have been more elaborate. 6. Infirmities observed in Report writing: Valuers are primarily from technical background and in our opinion, specific training to hone report writing skills would be of immense help e.g. Use of grammatically correct language, Short yet cogent sentences for descriptions etc. Similarly, standardisation and quality of presentation of the reports is an area that needs to be improved upon e.g. use of varying fonts, text size etc., 7. Lack of Comparable data/ Inadequate representation: Mathematical accuracy was not observed to be a cause of concern. However, some reports submitted were noted to be without back-up calculations for their value conclusion. 8. Description of the subject: Inadequate, since reports still follow tabular format and instead of describing the subject, one-word replies are stated against a particular column.

19. 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 some of the valuation reports and needs to be factored in.

b. **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.

c. 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.

d. 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.

e. The RV should mention any key factors which have a material impact on the valuation,

f. 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 changeson 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. Though in certain reports, the scope is provided, conducting valuation analysis in accordance with IVS is not mentioned.
i. The base of value used in the report as communicated to the intended user, though amply clear by interpretation, should ideally be explicitly stated.
j. The details of sources of information relied upon must be clearly mentioned in report by the RV.
k. All valuation reports must include statements relating to caveats, disclaimers and limitations as prescribed by IBBI.
l. The key valuation assumptions should ideally be justified to ensure that the compliance is sufficient to communicate principal reasons for conclusions reached.
m. 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.
n. 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
o. 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.	ICAI RVO	▶ **Express Mention of Valuation Standards used in the report:** Rule 8(1) of the Companies (Registered Valuers and Valuation) Rules, 2017 mandates that a Registered Valuer shall, while conducting a valuation assignment, comply with the valuation standards as notified or modified under Rule 18. The proviso within Rule 8(1) stipulates that until the Central Government notifies or modifies valuation standards, a valuer must conduct valuations in alignment with either internationally accepted valuation standards or those endorsed by any registered valuers organization. It is further to be noted that R-8(3)(h) of the Companies (Registered Valuers and Valuation) Rules, 2017 provides that a valuer shall mention in his report the valuation standards followed. To enhance transparency and bolster the credibility of the valuation results, it is strongly recommended that the valuation reports explicitly state the specific valuation standards employed in the value determination process. The deviation if any from the standard should also form part of the valuation report. This will contribute to a more transparent and credible valuation outcome
2.	ICAI RVO	▶ **Inclusion of Company Background and Industry Context:** To ensure compliance with the R-8(3)(a) of the Companies (Registered Valuers and Valuation) Rules, 2017, the valuer is advised that while explaining the **background information** of the asset being valued, the information **supportive of the valuation** being performed should also be included. Further, it would be a good practice to include the CIN and sector details of the company/entity being valued in the "background information" section of the report for a more transparent and readily acceptable report.

		▶ **Express mention of the appointing authority:** 2 of the 168 reviewed reports do not contain an express mention of the Appointing Authority which is a requirement under Rule 8(3)(b) of the Companies (Registered Valuers and Valuation) Rules, 2017. Failure to include the Appointing Authority in the valuation report signifies non-compliance with the stipulated rules. It is advised that the valuer ensures that all requirements outlined in Rule 8 of the Companies (Registered Valuers and Valuation) Rules, 2017 are duly incorporated into the valuation report.
3.	ICAI RVO	▶ **Identity of the Valuer and Any Other Experts Involved in the Valuation**: There were instances where the valuer mentioned relying on other valuation reports but did not detail the respective valuers which is a requirement stipulated R- 8(3)(c) of the Companies (Registered Valuers and Valuation) Rules, 2017. It is accordingly advised that the details of the other RVs or experts relied upon in the valuation report are duly mentioned in the valuation report. ▶ **Disclosure for Conflict of Interest:** Based on the review, the valuers are advised to include a statement regarding any potential conflict of interest in the report, as required under R-8(3)(d) of the Companies (Registered Valuers and Valuation) Rules, 2017. This ensures transparency and compliance with regulatory standards. ▶ **Express Mention of Appointment/Engagement date in the report:** Some of the valuation report lacks mention of the engagement date, which is a requirement under Rule 8(3)(e) of the Companies (Registered Valuers and Valuation) Rules, 2017. Failure to include the appointment date in the valuation report signifies non-compliance with the stipulated rules. Accordingly, the RV is recommended to ensure that the report expressly mentions the date of appointment.
4.	ICAI RVO	▶ **Mandatory Disclosure of Inspections and Investigations in Valuation Reports**: The valuer is advised to expressly mention any inspections and/or investigations undertaken while carrying out the valuation as required under R- 8(3)(f) of the Companies (Registered Valuers and Valuation) Rules, 2017. Compliance with this ▶ rule helps ensure transparency and adherence to regulatory standards. ▶ **Disclosure of the nature and source of information used or relied:** 4% of the reports reviewed did not contain this information which is mandated R- 8(3)(g) of the Companies (Registered Valuers and Valuation) Rules, 2017. To ensure full compliance with the rules, it is recommended that the valuers contain the details of the nature and sources of information used or relied upon for the valuation conducted. This not only ensure compliances but also adds credibility to the results obtained. ▶ **Procedures Adopted in Carrying Out the Valuation Standards Followed**: 13% did not of the reports did not describe the procedures adopted in carrying out the valuation standards followed which is a requirement stipulated U/R- 8(3)(h) of the Companies (Registered Valuers and Valuation) Rules, 2017 . This indicates a strong adherence, but there is still a notable percentage of reports that need to improve in detailing their procedures and it is therefore recommended to have a complete mention of the procedures adopted within the report.
5.	ICAI RVO	▶ **Express mention of restriction on the use of reports-** this is a requirement stipulated U/R-8(3)(i) of the Companies (Registered Valuers and Valuation) Rules, 2017 which was found missing in 13% of the reviewed reports. It is thereby recommended to have an express inclusion of the restriction on the use clause within the valuation report to ensure compliance. ▶ **Mentioning major Factors that were taken into account during the valuation:** Some of the reports did not contain the details of the major factors that were considered for arriving at the valuation results which is a requirement stipulated U/R-8(3)(j) of the Companies (Registered Valuers and Valuation) Rules, 2017. It is accordingly advised to have a clear inclusion of the major factors considered for arriving at the valuation results within the report.

		▶ **Conclusions reached:** 4 of the reviewed reports did not have a conclusion paragraph as required U/R-8(3)(k) of the Companies (Registered Valuers and Valuation) Rules, 2017 and it is accordingly advised to have a conclusion section at the end of the report.
6.	ICAI RVO	▶ **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:** This is a requirement stipulated U/R-8(3)(j) of the Companies (Registered Valuers and Valuation) Rules, 2017, further elaborated by IBBI's circular on use of Caveats, Limitations and Disclosure and few of the reports were found short of meeting this compliance in its intent. It is strongly advised that the CLDS are included in the report within the guidelines prescribed in the IBBI's circular and that these do not have the effect of limiting the responsibility of the RV for the valuation report. ▶ **Disclosure of assumptions and special assumptions in the valuation report:** 14% and 30% of the reviewed reports did not contain the details of the assumptions and special assumptions respectively. This shows a significant area for improvement, as many reports lack transparency regarding assumptions/ special assumptions that could impact the valuation. It is accordingly advised that the valuer include a dedicated section within the report containing assumptions/special assumptions.
7.	ICAI RVO	▶ The **base of value used** in the report as communicated to the intended user, though amply clear by interpretation, should ideally be **explicitly stated.** ▶ **Mentioning significant uncertainty that directly affects the valuation**: 26% of the reports had no disclosure, showing considerable room for better disclosure of uncertainties and therefore it is recommended that for better transparency the valuer should have a dedicated space in the report mentioning if there is or there is not any significant uncertainty that directly affects the valuation. ▶ Similarly, any **limitation conditions that directly affect the valuation** should also be clearly mentioned within the valuation report to render increased transparency. ▶ It is also advised to include an **Abbreviated Summary Report** within the valuation report as a best practice.
8.	ICAI RVO	▶ **Compliance as to including Valuer's identity in the Valuation Report:** In one of the reports, the cover page of the valuation report states that it is prepared by another professional without having any reference to the Registered Valuer. It does not reference the Registered Valuer's registration number issued by ICAI RVO (Parent RVO) and IBBI (the Authority for RVs). Furthermore, the report is signed by the valuer in a different professional capacity than an RV. The signature also omits the RV registration number issued by ICAI RVO and IBBI. Nowhere in the cover letter or within the report is it indicated that the report has been prepared by a Registered Valuer, which is a requirement for this assignment. ▶ It is imperative to remind the RV that, as a professional recognized and registered by the Insolvency and Bankruptcy Board of India (IBBI) under the Companies (Registered Valuers and Valuation) Rules, 2017, valuation reports must be prepared and signed in the capacity of a Registered Valuer. Accordingly, it is advised that the report as well as the signatures must include the registration number granted by the parent RVO and IBBI.
9.	ICAI RVO	▶ **Typographical errors:** In one report the valuer has been appointed to determine the Fair Value of the Equity Shares of the Investee Company as of 31.03.2023, as well as its enterprise value as of the same date. However, despite providing calculations to ascertain these values, the report states the fair value and enterprise value as of 31.03.2022 on both the cover page and within the report. This appears to be a typographical error. The Registered Valuers are advised to ensure that such errors, particularly concerning the valuation date, are avoided, as the valuation date is a crucial element of the valuation report. ▶ **Ensure Consistency in Appointment and Report Date:** To maintain the credibility and accuracy of valuation reports, it is imperative that the Registered Valuer (RV) implements stringent checks to ensure the dates mentioned in the report are correct and logically consistent. Specifically, the date of the report can not precede the date of

		appointment, as reported in one of the reports. The appointment date and the date of the report are critical elements of a valuation report, as specified in R-8(3)(e) of the Valuation Rules. Ensuring the accuracy of these dates is essential for the integrity and credibility of the valuation report. The RVs are advised to pay special attention to avoiding such factual errors.
10.	ICAI RVO	▶ **Explicit Mention of Applicable Statutory Provisions:** In one of the reports it is noted that while the cover page states that the valuation has been conducted using the DCF methodology for issuing a specific number of equity shares in compliance with Internal Revenue Code ("IRC") 409A and its regulations, the valuer has not elaborated on these regulations. Consequently, it is unclear from the report whether the valuation is mandated by a statutory requirement or if it is undertaken at the discretion of the management of the Investee Company. It is recommended that the valuers include within the report any statutory provisions that necessitate the valuation, if applicable, to ensure a clear delineation of the scope and enhance the credibility of the report by eliminating ambiguity. ▶ The report must at least **include the DCF computations as well as the assumptions** and computations underlying them (such as WACC and discounts applied) as part of the report and where it is confidential, the base data (such as financials and projections) and actual computations may not be provided in the report.
	ICAI RVO	▶ **Recommendations for Future Reports on Calculating Cost of Equity (Ke):** When applying any company-specific or industry-specific premium, the company must provide the basis for the percentage calculation in the Cost of Equity (Ke). Additionally, for the Company-Specific Premium in the Cost of Equity (Ke) calculation, a reference should ideally be provided based on the industry in which the company operates. Alternatively, the company-specific premium should be determined based on the trends in certain financial ratios of the company compared to industry trends. In some reports it was observed that they could have been better drafted to deliver a clearer, more comprehensive, cohesive, and lucid narrative. Accordingly, it is recommended that RVs **engage** proactively in **CPE sessions**, with a particular **emphasis on enhancing proficiency in report writing** techniques and strict adherence to the prescribed Valuation Standards outlined by ICAI RVO.
16.	CEV IAF RVO	Recommendations/Suggestions: 1. The justification for using a particular method should be provided. 2. A proper declaration regarding compliance with the Valuation Standards (VS) followed in valuation is required to be stated. 3. Identity of the Valuer with his/her registration number along with identity of other experts involved in the valuation should be provided. GEV 4. While mentioning the purpose of valuation, Valuers should mention the sections and related provisions. 5. The Valuer must state the source of information, extent of examination of the relevant data and verification made in respect of the information on which his valuation is based. 6. In case any outsource data is used in the valuation, the source must be clearly stated in the report along with extent of examination performed by the valuer. 7. An executive summary to understand the valuation report shall be provided, it shall include the methodology used, the value, which is arrived, important dałes, valuation standard followed and purpose of valuation etc. 8. The CLD must be clearly stated 9. A standard valuation format may be designed to cater all the essentials of Valuation 10. A standard format for Peer Review for a particular asset class may be designed. 11. Efforts should be expediate to draft and implement common Valuation standards 12. Efforts may be expediated to enact Valuer's bill

	AaRVF	* Disclosure of Valuer Interest or Conflict: Ensure complete disclosure of any potential conflicts of interest in the valuation reports to comply with the guidelines issued by the IBBI on Caveats, Limitations, and Disclaimers (CLD). * Compliance with Guidelines on Caveats, Limitations, and Disclaimers (CLD): Update valuation reports to comply with the guidelines issued by the IBBI on Caveats, Limitations, and Disclaimers (CLD), as some of the requirements were not fully met. * Premise of Valuation: Provide a clear definition of the premise of valuation in line with the International Valuation Standards (IVS). * Use of Multiple Approaches: Utilise multiple approaches to valuation wherever possible to improve the reliability and accuracy of conclusions. * Consistency in Discount Rate: Provide more clarity on why a high unsystematic risk rate was used and ensure consistency in the use of discount rates. * Comprehensive Reporting: Enhance the clarity and communicability of findings in valuation reports. * Verification of Information: Verify the accuracy and completeness of the information used in valuation reports, especially in relation to the historical performance of the assets. * Provisional Figures: Use audited financials instead of provisional figures wherever possible to improve the reliability of valuations

20. 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.