



3rd WORKSHOP on “Findings Of The Peer Review of Valuation Reports For The Year 2022-23”

CONDUCTED BY

IOV REGISTERED VALUERS FOUNDATION

IN ASSOCIATION WITH

INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (“IBBI”)



What is “REVIEW” and “PEER REVIEW”

- ✓ *Review is an opinion on quality of someone’s Work*
- ✓ *Peer Review is the evaluation of the work by one or more Registered Valuer (RV) member with similar competencies as of the Valuer under review.*

"SCOPE AND PURPOSE" OF PEER REVIEW

- ✓ It is conducted for all asset classes i.e. Land and Building, Plant and Machinery and Securities or Financial Asset Class
- ✓ It is conducted by all RVOs from their respective RVs and RVEs
- ✓ Focus on quality, 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.

ROLE OF PEER REVIEWER



To opine on the quality of contents of Report based on certain defined criterion like:

- *To review compliance with Rule 8 of the Companies (Registered Valuers and Valuation) Rules, 2017;*
- *To review compliance with specific Rules, Regulations and Guidelines issued by concerned Regulators and Authorities;*
- *Not to give any opinion on the Conclusion of Value;*
- *Review techniques*



To maintain confidentiality: Not to accept any such review assignment where reviewer has any interest with the valuer and valuation report to be reviewed.



Identifying the Strength(s) & Weakness(s) of works under review with ability to discern major and minor errors



Must give an unbiased, objective and independent opinion about quality of work under Review;

PEER REVIEW PARAMETERS

GENERAL REVIEW: *It includes general information about the assignments like Background information of asset being valued; Identity of client; about RV; disclosure of valuer interest or conflict, if any; whether, IBBI guideline w.r.t. caveats, Limitations and Disclaimers are followed; if there is mismatch in the purpose mentioned in the appointment letter and valuation report issued; Stamp affixed on the report shall bear the IBBI registration no. of valuer etc.*

NATURE AND SOURCE OF INFORMATION: *whether Scope of work is identified, If there is agreement in writing regarding scope of work prior to beginning of work, purpose of valuation, basis of valuation, identification of client, identity of intended user of report, Significant assumptions, Departures etc.*

PEER REVIEW PARAMETERS

🔍 INVESTIGATION AND COMPLIANCE: *If investigations are made for the purpose; if valuation is properly supported; if limitations on investigations are so substantial then if valuer have said the report, Non IVS compliant; statement that the report is IVS compliant; has the site/asset been inspected personally by the valuer, Valuation Approach and Method.*

🔍 REPORTING: *Is the report communicative, Is it comprehensive narrative or Abbreviated Summery report, if the format of report agreed upon by the parties, if valuation has certain assumptions, date of report (it may be differ from valuation date), Did valuer enclosed the photographs of the property/asset valued, whether caveats, limitation and disclaimers stated as per IBBI guidelines.*

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none">• Whether, background information of the asset being valued;	<ol style="list-style-type: none">1) Some reports contain either incomplete information or the background information has been captured incorrectly.2) Some reports does not have separate heading for the same
<ul style="list-style-type: none">• Whether, identity of the valuer and any other experts involved in the valuation is disclosed;	Identity of the Valuer were disclosed, however, none of the valuers have disclosed about the identity of the expert, whose services are obtained, if any.
<ul style="list-style-type: none">• Disclosure of valuer's interest or Conflict, if any;	Not explicitly stated in most of the reports.
<ul style="list-style-type: none">• Restrictions on use of the report, if any;	Some reports have capture, however, no separate heading is given for such disclosure.
<ul style="list-style-type: none">• Mention IBBI registration No. (Sealed and Signed)	Not fully compliant

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none"> Letterhead and signature shall be of registered valuer only; 	Compliant
<ul style="list-style-type: none"> Whether, IBBI guideline w.r.t. Caveats, Limitations and Disclaimers are followed; 	<ol style="list-style-type: none"> Some RVs still not mentioning about the same; Not disclosed through proper heading; Some reports contain disclaimers that limit the valuer's responsibility for the valuation report, e.g. "<i>In preparing this valuation report ("the Report"), we have relied upon information, documented or oral, provided by the company without independent verification. We have by no means carried out any audit or due diligence exercise to verify the financial data pertaining to the company in terms of both past and current balance sheets and statements of profit and loss provided to us. At this point, we offer no comments on the accuracy and completeness of information.</i>" (ICAI RVO)

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
	4) The Valuer might have wanted to mention misrepresentation but has used misunderstandings, which is grossly incorrect, e.g. " <i>We shall not have any liability for any misunderstanding (express or implied) contained in, or from any omission from, this document or any other written or oral communication transmitted to us for the purpose of this assignment.</i> " (ICAI RVO)
<ul style="list-style-type: none"> • Past history of the company should be disclosed in the report to substantiate the professional judgement, especially when the company is listed and/or Multinational company 	Missing in some of the reports, specially in the cases where the company is in operations for over a decade
<ul style="list-style-type: none"> • In case the company is Wholly Owned Subsidiary (WOS), Valuation Report should mention the layers of share holding 	Generally Not Complied

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none"> • Whether Figures are computed based on audited financials 	In some of the reports, provisional financials were used, however, It is recommended to use audited financials or certified Provisionals.
<ul style="list-style-type: none"> • Scope of Work is identified 	<ol style="list-style-type: none"> 1) Separate heading was missing; 2) Not elaborately captured in valuation reports and in some cases, it has been captured incorrectly. 3) Vague or undetailed Scope of Work
<ul style="list-style-type: none"> • If there is Agreement in Writing regarding scope of work prior to beginning of work 	Not mention in the Report.
<ul style="list-style-type: none"> • Is there any Change in Scope of Work later on 	<ol style="list-style-type: none"> 1) Not found in any case 2) Changes in Scope of Work can be captured in case of VRN issued by the IOV RVF

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
• Identification of Client/Appointing Authority/Intended user	RVs are failing in clearly disclosing the appointing authority. RVs are mentioning about client and other parties like liquidator, etc. without specifically mentioning the appointing authority. In absence of such disclosure, the user of report cannot determine the reliability of report as independence of valuer is difficult to establish due to lack of transparency.
• Identification of Asset being valued	Complied
• Purpose of valuation	No Separate heading
• Basis of Valuation	Not being commented by RVOs

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none"> Date of appointment/Inspection /valuation/Report/ 	<ol style="list-style-type: none"> 1) In few cases Date of appointment was not mentioned and must have been mentioned in the engagement acceptance letter and valuation Report; 2) Date of inspection mostly captured; 3) In one report date of the report seems to be the valuation date. No reference given to engagement letter. (JCAI RVO)
<ul style="list-style-type: none"> Nature and Sources of information 	<ol style="list-style-type: none"> 1) Valuers need to corroborate various information and data which include statutory related documents apart from the title related documents. The valuers face challenges in IBC related assignments as the IRP may not have all the documents or may not be aware of the same. The valuers have done their best to obtain documents from various public domains apart from obtaining from the CD. Wherever inspite of their best efforts the relevant documents haven't been received, they have considered as Assumptions. This is seen in most of the reports. (CVSRTA)

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none"><li data-bbox="142 602 604 690">• Nature and Sources of information	<p data-bbox="611 602 1963 795">2) In a particular report, the basis for determining the current market price, the source and basis for determining the risk-free rate, dividend yield, volatility, and also how time to maturity has been considered in comparison to the exercise period as per the terms of the ESOP Scheme is not explained.</p> <p data-bbox="611 844 1963 1031">In a report, against the item of Audited Financial Statements, the words "if any" are mentioned, which leads to misleading information on whether the same has been used/relied upon. Moreover, it is very loosely mentioned i.e., without the periods for which they are referred. (ICAI RVO)</p> <p data-bbox="611 1079 1963 1269">Conclusion: The details of sources of information relied upon must be clearly mentioned in the 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.</p>

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none">• Significant Assumptions	<p>1) Assumptions are disclosed. However, the basis for determining the assumptions have not been explained. (CVSRTA)</p> <p>2) It should be under separate head and should be justified and pertinent to the valuation in hand.</p> <p>In the valuation related to IBC, where there is a possibility or likely hood of the approvals/permits and licences being expired or the information in relation to same is not provided then there is a stronger reason to consider it as a Special Assumption (CVSRTA)</p> <p>3) In most of the cases assumption taken based on the data supplied by the management only (ESMA)</p> <p>For instance: in one report, there is no explanation as to why CCM approach is used while there is an explanation for using DM approach. (ICAI RVO)</p>

PEER REVIEW FINDINGS OF ALL RVOs

Check Points	Observations
<ul style="list-style-type: none"> If investigations are made for the purpose 	<p>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.</p> <p>This can create significant problems for stakeholders who rely on the report for decision making, as they cannot ascertain the reliability of input data-</p>
<ul style="list-style-type: none"> Conclusion 	<p>A separate section where a Valuer ' values estimated using one or more approaches to finally arrive at a single value opinion is found lagging in some of the reports (PVAI VPO)</p>
<ul style="list-style-type: none"> Limiting Conditions 	<p>There were less observations made regarding mention of any limiting conditions. (PVAI VPO)</p>
<ul style="list-style-type: none"> Lack of Comparable data/ Inadequate representation 	<p>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 (PVAI VPO)</p>

RECOMMENDATIONS

Requirements for LOA (Letter of Assignment)	Appointment Date
	Brief about the Client
	Purpose of engagement
	Provisions under which valuation is required to be carried out
	In case of iBC assignments, Order no. and date passed by NCLT <i>(this will help the valuer to identify the Cut off Date of Valuation)</i>
	Scope of work
	Engagement Fees and Billing Clause
	Payment Terms

RECOMMENDATIONS

Requirements for LOA (Letter of Assignment)	Non- disclosure of Confidential information
	Timeline for Completion of assignment
	Conflict of Interest
	Limitation of Liability
	Legal Action Limitation
	Governing Law
	Assignment terms
	Restrictions regardzng use and confidentiality of the report

RECOMMENDATIONS

Requirements for LOA (Letter of Assignment)	Assignment duration including meetings and timeline for receiving and addressing client comments
	Clause for meeting and timeline for receiving and addressing client comments
	Acknowledgement of Terms of engagement by both the parties
	Clause for timeline in case of changes in agreement or cancellation?
	Applicable jurisdiction?
	Acknowledgement by both the parties

RECOMMENDATIONS

Requirements for LOA (Letter of Assignment)

“Disclosure of relationship as per IBBI Circular No. IP/005/2018

IBBI Circular No. IP/005/2018 dated 16th January 2018 requires the disclosure of relationship with following parties:-

- a) Insolvency professional
- b) Corporate Debtor
- c) Financial Creditor
- d) Interim Finance Provider(s)
- e) Prospective Resolution Applicant

As per the Circular the following relationship needs to be disclosed with all of the above mentioned parties :-

- a) Where the Insolvency Professional or the Other Professional, as the case may be, has derived 5% or more of his / its gross revenue in a year from professional services to the related party.
- b) Where the Insolvency Professional or the Other Professional, as the case may be, is a Shareholder, Director, Key Managerial Personnel or Partner of the related party.
- c) Where a relative (Spouse, Parents, Parents of Spouse, Sibling of Self and Spouse, and Children) of the Insolvency Professional or the Other Professional, as the case may be, has a relationship of kind A or B with the related party.
- d) Where the Insolvency Professional or the Other Professional, as the case may be, is a partner or director of a company, firm or LLP, such as, an Insolvency Professional Entity or Registered Valuers, the relationship of kind A, B or C of every partner or director of such company, firm or LLP with the related party

RECOMMENDATIONS

Requirements for (Valuation Report)

- A IDENTITY AND STATUS OF VALUER
- B IDENTITY OF THE CLIENT
- C APPLICABLE REGULATION UNDER WHICH VALUATION IS REQUIRED
- D INTENDED USE AND IDENTITY OF THE OTHER INTENDED USER
- E IDENTITY OF ASSET BEING VALUED
- F BACKGROUND OF THE ASSET VALUED
- G THE VALUATION CURRENCY
- H PURPOSE OF THE VALUATION
- I BASIS/BASES OF VALUE
- J IMPORATNT DATES IN VALUATION
- K ANY LIMITATIONS
- L THE NATURE AND SOURCES OF INFORMATION UPON WHICH THE VALUER RELIES
- M SIGNIFICANT AND/OR SPECIAL ASSUMPTIONS, IF ANY
- N RESTRICTIONS REGARDING USE AND CONFIDENTIALITY OF THE REPORT
- O CAVEATS, LIMITATIONS AND DISCLAIMERS
- P CONCLUSION

Thank you

