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From Opinion to Evidence: Strengthening Valuation Reports under the IBBI Framework

Valuation under the Insolvency and Bankruptcy Code, 2016 (IBC) is a cornerstone of the corporate insolvency resolution and liquidation framework in India. Recognizing inconsistencies and quality gaps in Valuation practices, the Insolvency and Bankruptcy Board of India (IBBI) has proposed comprehensive Guidelines for Conducting Valuation, prescribing minimum reporting content and documentation standards. This paper presents a structured academic analysis of the IBBI Valuation framework, examines the theoretical and regulatory foundations of good Valuation reporting, and demonstrates through real-life–style case illustrations the consequences of non-compliance or inadequate reporting. The study aims to bridge regulatory prescriptions with professional practice and to contribute to improved consistency, transparency, and defensibility of Valuation reports prepared by Registered Valuers (RVs).

Introduction:

Valuation plays a determinative role in the insolvency ecosystem under the Insolvency and Bankruptcy Code, 2016. The estimates of Fair Value and Liquidation Value directly influence decisions of the Committee of Creditors (CoC), the feasibility assessment of resolution plans, and recoveries available to stakeholders. Unlike conventional Valuation assignments, insolvency Valuations are performed in an environment characterised by financial distress, information asymmetry, legal constraints, and heightened regulatory scrutiny.

Judicial pronouncements and regulatory observations have repeatedly emphasised that Valuation under IBC is not a mere technical computation but a quasi-public function involving fiduciary responsibility. In response, the Insolvency and Bankruptcy Board of India (IBBI) has proposed detailed Guidelines for Conducting Valuation, aiming to standardise Valuation reports and strengthen documentation discipline among Registered Valuers.

Regulatory and Conceptual Framework

1 Statutory Framework

Valuation under IBC is governed by a multi-layered regulatory framework, including:

- Insolvency and Bankruptcy Code, 2016
- IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016
- Companies (Registered Valuers and Valuation) Rules, 2017
- IBBI Guidelines for Conducting Valuation (Draft, 2025)
- IBBI Guidelines on Use of Caveats, Limitations, and Disclaimers in Valuation Reports, 2020

2 Valuation as a Professional and Fiduciary Function

From a theoretical perspective, Valuation is an opinion of value grounded in evidence, assumptions, and professional judgment. Under IBC, this opinion acquires heightened significance because it affects third-party rights and public interest. Consequently, transparency, consistency, and reasoned justification are essential attributes of a Valuation report.

3. Documentation as the Pillar of Valuation Credibility

3.1 Regulatory Expectation

The Registered Valuer is required to maintain documentation that:

- clearly explains the Valuation process;
- records alternative approaches considered and rejected;
- identifies Valuation risks and biases; and
- demonstrates application of professional judgment.

Practical Illustration: - A Valuer adopts the Market Approach for valuing an industrial land parcel but does not document why the Income Approach was rejected. During CoC discussions, stakeholders question the absence of rental analysis. In the absence of documented reasoning, the Valuation is perceived as incomplete, leading to re-valuation and delays in the CIRP.

4. Minimum Content of Valuation Reports: An Analytical Discussion

4.1 Purpose, Scope, and Intended Use

A Valuation report must clearly articulate its statutory purpose and scope. Academic Valuation literature emphasises that ambiguity in purpose leads to misuse of Valuation outcomes.

Practice Example: "The purpose of this Valuation is to estimate the Fair Value and Liquidation Value of the assets of the Corporate Debtor in accordance with Regulation 35 of the IBBI (CIRP) Regulations, 2016, solely for use within the insolvency resolution process."

Failure to clearly define intended use may result in the report being relied upon for purposes beyond its design, exposing the valuer to professional risk.

4.2 Disclosure of Interest and Independence

Academic governance literature identifies disclosure as a key mechanism for preserving trust in expert opinions.

Consequence of Non-Disclosure: If a valuer fails to disclose prior professional engagement with the Corporate Debtor, and such relationship is later revealed, the valuation may be disregarded entirely, irrespective of its technical soundness.

5. Asset Description and Information Symmetry

5.1 Importance of Detailed Asset Description

In Insolvency, Valuation users (CoC members, adjudicating authorities) may not have direct familiarity with the asset. Therefore, asset description serves an informational equalization function.

A Valuation report that lacks clarity on ownership, encumbrances, zoning, or usage restrictions undermines the reliability of the value conclusion.

6. Basis and Premise of Value: Theoretical and Regulatory Alignment

6.1 Basis of Value under IBC

The IBC framework recognises two specific bases of value:

- Fair Value, and
- Liquidation Value.

From a Valuation theory standpoint, these represent different hypothetical market conditions and participant motivations. Conflating the two or failing to explain their distinction reflects conceptual weakness in reporting.

6.2 Premise of Value and Insolvency Context

The premise of value defines the assumed manner of asset realization. Academic research emphasizes that inappropriate premises lead to systematic valuation bias.

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7. Valuation Approaches, Methods, and Professional Judgment

7.1 Analytical Requirement

IBBI guidelines require discussion of all three approaches—Market, Income, and Cost—and justification for the selected method(s). This aligns with international valuation standards and academic best practices.

7.2 Consequences of Inadequate Methodology Disclosure

Real-Life–Style Example: A Valuation report merely states that the Cost Approach was adopted without explaining depreciation assumptions or obsolescence factors. During liquidation, actual recoveries are significantly lower, prompting allegations of overvaluation and professional negligence.

8. Discounts, Premiums, and Adjustments: Need for Rationalization

Discounts and premiums reflect market realities but also introduce subjectivity. Academic literature stresses that undocumented adjustments erode valuation reliability.

Example: Applying a blanket 30% distress discount for liquidation value without market evidence may render the valuation arbitrary and legally indefensible.

9. Valuation of Receivables: Risk-Based Assessment

IBBI explicitly identifies parameters for receivables valuation, including ageing, legal enforceability, and debtor creditworthiness.

Case: Receivables outstanding for over five years from a related party are valued at book value without recovery analysis. Subsequent non-realization leads to questioning of the valuer's professional diligence.

10. Assumptions, Caveats, and Professional Accountability

The IBBI (2020) Guidelines caution against excessive disclaimers. Academic

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ethics literature similarly warns that overuse of disclaimers weakens expert accountability.

Valuers must ensure that assumptions are:

- specific,
- reasonable, and
- clearly linked to valuation outcomes.

11. Consequences of Non-Compliance with IBBI Guidelines

Failure to adhere to IBBI-prescribed reporting standards may result in:

- rejection or replacement of valuation reports;
- delays in CIRP or liquidation timelines;
- regulatory action against the Registered Valuer;
- adverse observations in judicial proceedings; and
- erosion of professional credibility.

These consequences highlight that compliance is not procedural formality but substantive risk management.

By adhering to structured reporting formats and maintaining robust documentation, Registered Valuers can enhance the reliability of insolvency valuations and contribute meaningfully to the objectives of the Insolvency and Bankruptcy Code, 2016.