

Peer Review of Registered Valuers

Ensuring Quality and Integrity in Valuation

A. WHAT IS PEER REVIEW?

Definition: An evaluation of work by one or more Registered Valuers with similar competencies.

Purpose: To maintain standards, improve performance, and provide credibility.

B. IMPORTANCE OF PEER REVIEW FOR VALUERS

Quality Assurance: Ensures accuracy and reliability of valuations.

Professional Development: Provides feedback and promotes continuous learning.

Regulatory Compliance: Meets regulatory requirements and industry standards.

C. REGULATORY FRAMEWORK

Governing Bodies:

- Insolvency and Bankruptcy Board of India;
- Registered Valuers Organisations

Standards and Guidelines:

- The Companies (Registered Valuers and Valuation) Rules, 2017;
- International Valuation Standards;
- Rule 8 of the Companies (Registered Valuers and Valuation) Rules, 2017;
- Guidelines on Use of Caveats, Limitations and Disclaimers by the Registered Valuers in Valuation Reports

D. PEER REVIEW PROCESS

Selection of Peer Reviewers: Criteria for selecting qualified reviewers. (Volunteer or on recommendation)

Review Methodology:

- Steps involved in conducting a peer review.
- Use of checklists and guidelines.
- Use of new age digital tool for doing i.e. **Valuers Data Interface ("VDI")**

E. KEY COMPONENTS OF A PEER REVIEW

Scope of Review:

- Areas typically assessed (e.g., methodology, compliance with Rules, compliance with standards and guidelines).

Documentation:

- Importance of thorough documentation for transparency and accountability.

Feedback Mechanism:

- How feedback is provided and addressed

F. BENEFITS OF PEER REVIEW

For Reviewer:

- Enhanced credibility and trust.
- Professional growth and recognition.

For Reviewee:

- Increased confidence in valuation reports.
- Better decision-making based on reliable valuations

G. MAJOR FINDINGS OF THE PEER REVIEW OF VALUATION REPORT ADDRESSED IN THE WORKSHOP CONDUCTED BY IBBI FROM F.Y. 2021 TO 2024

Check Points	Observations
<ul style="list-style-type: none"> Whether, background information of the asset being valued; 	<ol style="list-style-type: none"> Some reports contain either incomplete information or the background information has been captured incorrectly. Some reports do 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
<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> 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>

<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
<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
<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Identification of Asset being valued 	Complied
<ul style="list-style-type: none"> • 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

<ul style="list-style-type: none"> • Basis/Bases of Valuation 	<p>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.</p>
<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.
<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 in spite of their best efforts the relevant documents haven't been received, they have considered as Assumptions. This is seen in most of the reports. 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>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.</p> <p>Conclusion: There is a room of improvement in how this information is presented, which are presented below:</p> <ul style="list-style-type: none"> • Primary Data Collection i.e. Site Inspection, Interviews and Discussions;

	<ul style="list-style-type: none"> • Secondary Data and Documentation i.e. Financial Statements:, Business Plans and Projections: , Legal Documents: • Market Research and Analysis i.e. Market Comparables, Industry Reports • Third-Party Reports and Appraisals i.e. Independent Expert Opinions, Technical Reports • Historical Performance Data • Regulatory and Compliance Documents <p>It is imperative that future reports meticulously incorporate these details to ensure accuracy, transparency, and compliance with the mandated guidelines.</p>
<ul style="list-style-type: none"> • Significant Assumptions 	<ol style="list-style-type: none"> 1) Assumptions are disclosed. However, the basis for determining the assumptions have not been explained. 2) It should be under separate head and should be justified and pertinent to the valuation in hand. 3) 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. 4) In most of the cases assumption taken based on the data supplied by the management only. 5) For instance: <ul style="list-style-type: none"> • in one report, there is no explanation as to why CCM approach is used while there is an explanation for using DM approach. • 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.
<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.</p> <p>In Rule 8 it has been asked for disclosure about "Conclusion" and not about "Valuation Conclusion". Most of the reports covers only valuation conclusion, however, it is recommended to disclose the following while writing "Conclusion" part.</p> <ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Limiting Conditions 	<p>There were less observations made regarding mention of any limiting conditions.</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.</p>
<ul style="list-style-type: none"> • Mention of unique reference number in valuation report 	<p>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.</p>
<ul style="list-style-type: none"> • Disclosure of capital employed or contribution by the director/partner: 	<p>No proof of the entity's disclosure to the capital employed or contribution by the director/partner in the entity to the client company.</p>
<ul style="list-style-type: none"> • Premise of Valuation 	<ol style="list-style-type: none"> 1) 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. 2) (HABU, Current use/existing use, orderly liquidation, forced sale.) not mentioned in few of the reports.
<ul style="list-style-type: none"> • Responsibility of RV 	<p>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</p>

	responsibilities and liabilities of the RV. This helps both the RV and the client has 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.
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H. Conclusion

The peer review process serves as a cornerstone for ensuring the quality, reliability, and credibility of valuation reports, playing a pivotal role in upholding the standards set by the regulatory framework.

The reviews conducted from FY 2021 to 2024 have highlighted both the strengths and areas for improvement in the work of registered valuers.

Key Observations:

1. **Quality and Compliance Gaps:** Several valuation reports demonstrated inconsistencies in the presentation of information, particularly in areas like the background of the asset, the identity of experts involved, and the clear disclosure of conflicts of interest. These gaps undermine the transparency and reliability of the reports.
2. **Documentation and Headings:** Many reports lacked proper headings for critical sections such as scope of work, premises of valuation, and limiting conditions. This oversight can lead to confusion and diminish the clarity of the valuation report.
3. **Assumptions and Methodologies:** While assumptions were often disclosed, the basis for these assumptions was not always explained or justified. Furthermore, the rationale for selecting specific valuation methodologies was sometimes unclear, which could affect the perceived accuracy and relevance of the valuation.
4. **Regulatory Compliance:** Compliance with regulatory guidelines, particularly those outlined in Rule 8 of the Companies (Registered Valuers and Valuation) Rules, 2017, was found to be inconsistent. Valuers need to ensure that their reports are fully aligned with these standards to avoid regulatory discrepancies.

Recommendations:

To enhance the overall integrity of valuation reports, it is recommended that registered valuers:

- **Thoroughly Document:** Ensure all relevant details, such as primary data collection methods, sources of secondary data, and the basis for assumptions, are clearly documented and appropriately categorized under distinct headings.
- **Improve Transparency:** Explicitly disclose conflicts of interest, the identity of all experts involved, and the methodologies used to reach the final valuation conclusion.
- **Align with Guidelines:** Future reports should closely follow the mandated guidelines to ensure full compliance, which will, in turn, enhance the accuracy, transparency, and credibility of the valuation process.

By addressing these areas, registered valuers can significantly improve the quality of their reports, thereby bolstering the confidence of stakeholders and meeting the high standards expected by the regulatory bodies.