



Valuation – Beginning of a new era
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Introduction

Various accounting and regulatory pronouncements prescribe multiple methodologies of valuation. Precisely the reasons, why valuation is considered as an art and not a science. Due to this multiplicity in approach, valuation models are becoming increasingly ambiguous and highly subjective. The Companies Act, 2013 (“the Act”), intends to regulate the practice of valuation in India. The concept of “Registered Valuers” is introduced to regulate the practice of valuation in India and to harmonise the valuation in line with International standards. The Ministry of Corporate Affairs (“MCA”) has now issued the Companies (Registered Valuers and Valuation) Rules, 2017 (“the Rules”) on 18th October, 2017. Simultaneously, Section 247 of the Act has now come into force w.e.f. 18th October 2017.

Role of Registered Valuer

As per the requirement of Section 247 of the Companies Act, a Registered Valuer would carry out valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities and that the valuer shall have such qualifications and experience. The Registered Valuer shall be appointed by the Audit Committee or in its absence by the Board of Director of the Company.

Eligibility Criteria

Certain key eligibility criteria to be Registered Valuer are as follows:

- Member of Registered Valuers Organisation possessing educational qualifications and requisite experience.
- Person recommended by the Registered Valuers Organisation
- Person who has passed valuation examination within 3 years preceding the date of application for registration.

Among other conditions, specific criteria are also prescribed for Partnership Firm and Companies

Qualification Criteria for Registration

- a) Having post-graduate degree or post-graduate diploma, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least three years of experience in the specified discipline thereafter; or
- b) Having a Bachelors degree or equivalent, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least five years of experience in the specified discipline thereafter; or
- c) Having membership of a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession with at least three years experience after such membership and having qualification mentioned at clause (a) or (b).

Compliance of Valuation Standards

The registered valuer is required to comply with the valuation standards as notified/ modified under Rule 18. Currently no such valuation standards are notified/modified by the Central Government and therefore, valuations shall be carried out as per

- internationally accepted valuation standards;
- valuation standards adopted by any registered valuers organisation.

Transitional Provision

Any person rendering valuation services, under the Act, on the date of commencement of the rules, may continue to render valuation services without a certificate of registration up to 31st March, 2018. However, if a company has appointed a person for valuation, and the valuation or any part has not been completed before 31st March, 2018, an additional time period of three months has been provided.

Contents of Valuation Report

- Background information of the asset being valued
- Purpose of Valuation and Appointing authority
- Identity of Valuer and any other experts involved in valuation
- Disclosure of Valuer interest/conflict, if any
- Date of appointment, valuation date and date of report
- Inspections and/or investigations undertaken;
- Nature and sources of the information used or relied upon;
- Procedures adopted in carrying out the valuation and the valuation standards followed
- Restrictions on use of the report, if any;
- Major factors that were taken into account during the valuation
- Conclusion and
- Caveats, Limitations and Disclaimers to the extent they explain or elucidate the limitations faced by valuer, which shall not be for the purpose of limiting his responsibility for the valuation report.

Conclusion

The notified rules is aimed at bringing higher transparency and standardisation of the valuation principles in India. This in turn boosts investor confidence. The appointment mechanism by the Audit Committee or the Board of Directors adds value to a better corporate governance function. The Central government may soon constitute a committee to advise and recommend the formulation of the Indian Valuation Standards. This authoritative pronouncement may further strengthen this valuation principles.

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