



DRAFTING REPORTS AND PROPOSAL

Ushma Shah
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BASIC DOCUMENTS INVOLVED IN VALUATION PROCESS

Proposal Letter

Management Representation

Valuation Report



PROPOSAL LETTER

Drafting

MEANING

A **proposal letter** defines the legal relationship (or **engagement**) between a professional firm and its client(s).

CONTENTS OF A PROPOSAL

- Description of the transaction
- Scope of services
- Governing laws and regulations
- Timeframe for the assignment
- Composition of the team
- Fees for professional services
- Confidentiality
- Information required for valuation
- Indemnity Clause



MANAGEMENT REPRESENTATION

Drafting

MEANING

A **Management Representation** is

➤ a written document given by the client on its letter head to the valuer as an evidence that the procedures and assumptions adopted are

- materially accurate
- complete
- fair

in the manner of its portrayal and therefore forms a reliable basis for the valuation.

ESSENTIALS OF MANAGEMENT REPRESENTATION

- ▶ To be taken from the client, issued by the person duly authorised or by way of a board resolution
- ▶ Should confirm the essential conditions specified in the Proposal
- ▶ The management to also represent that it is not aware about any material misstatement of any fact that would substantially affect the valuation exercise

AREAS REQUIRING MANAGEMENT REPRESENTATION

- Projections
- Surplus assets
- Contingent Liability
- Long-term Borrowings
- Capital Structure
- Competitive position in the market, etc.



VALUATION REPORTS

Drafting

BASIC OUTLINE

➤ Introduction and Brief History

- Brief Profile of the entity
- Structural background of the entity

➤ Terms of Reference

- Purpose of Valuation and Users of the Report

➤ Data obtained

- Financial Statements for the past 3 years and Business Plan for the Projected Period
- Detailed description of and Industry trends in the areas of operation of the entity

BASIC OUTLINE

➤ Approach to Valuation

- Selection of approaches based on their relevance to the operations of the entity
- Steps undertaken to obtain the value or range of values based on the approaches selected

➤ Observations and Conclusion

- The conclusion arrived at based on the valuation methodology adopted

➤ Limitations and Disclaimers

- To ensure that the risk of the valuer is mitigated

LIMITATIONS AND DISCLAIMERS

- Responsibility for information provided by the management.
- Not an audit, review or examination.
- Not an outcome of any due diligence procedures. A change in the actual financial position could have a material bearing on the report.
- Report to be only used for the purpose specified.
- Prohibition on copying the report or reproducing the same.
- Based on the market conditions prevailing at such time.
- Events occurring after the valuation date.
- Whether physical verification of assets and liabilities carried out

SPECIFIC ASPECTS CONSIDERED IN VALUATION

- ▶ Control Premium
- ▶ Liquidity discounts
- ▶ Growth factor considered in case of DCF
- ▶ Number of past years considered (in some cases the past performance of the company is not considered due to various turbulence during the past)
- ▶ Treatments to specific items of financial statements e.g. discontinued operations, surplus assets, etc.

TYPES OF REPORTS

- ▶ Swap Ratio
- ▶ Purchase Price Allocation
- ▶ Reports required by statutes
- ▶ Fairness Opinion
- ▶ Valuation of Financial Instruments under Ind AS
- ▶ SEBI Takeover Code
- ▶ Family Settlement
- ▶ Internal Evaluation
- ▶ Start-up Valuations
- ▶ ESOP Valuation
- ▶ Opinion on certain parameters used for DCF

DRAFT RULES FOR REGISTERED VALUERS UNDER THE COMPANIES ACT, 2013

- The report of valuation by a registered valuer shall be as near to and shall contain information as set out in Form 17.3.
- The contents of Form 17.3 are as follows:
 - Details of the valuer
 - Description of valuation engagement
 - Description of Business/Asset/Liability being valued
 - Description of the information underlying the valuation
 - Description of specific valuation of assets
 - Confirmation that valuation has been undertaken in accordance with these Rules



DISCLOSURES UNDER IND AS 113

DISCLOSURES IN RELATION TO FAIR VALUATION UNDER IND AS

Fair Value Hierarchy

Level 1 Input

Quoted price in active markets for identical assets or liabilities (unadjusted)

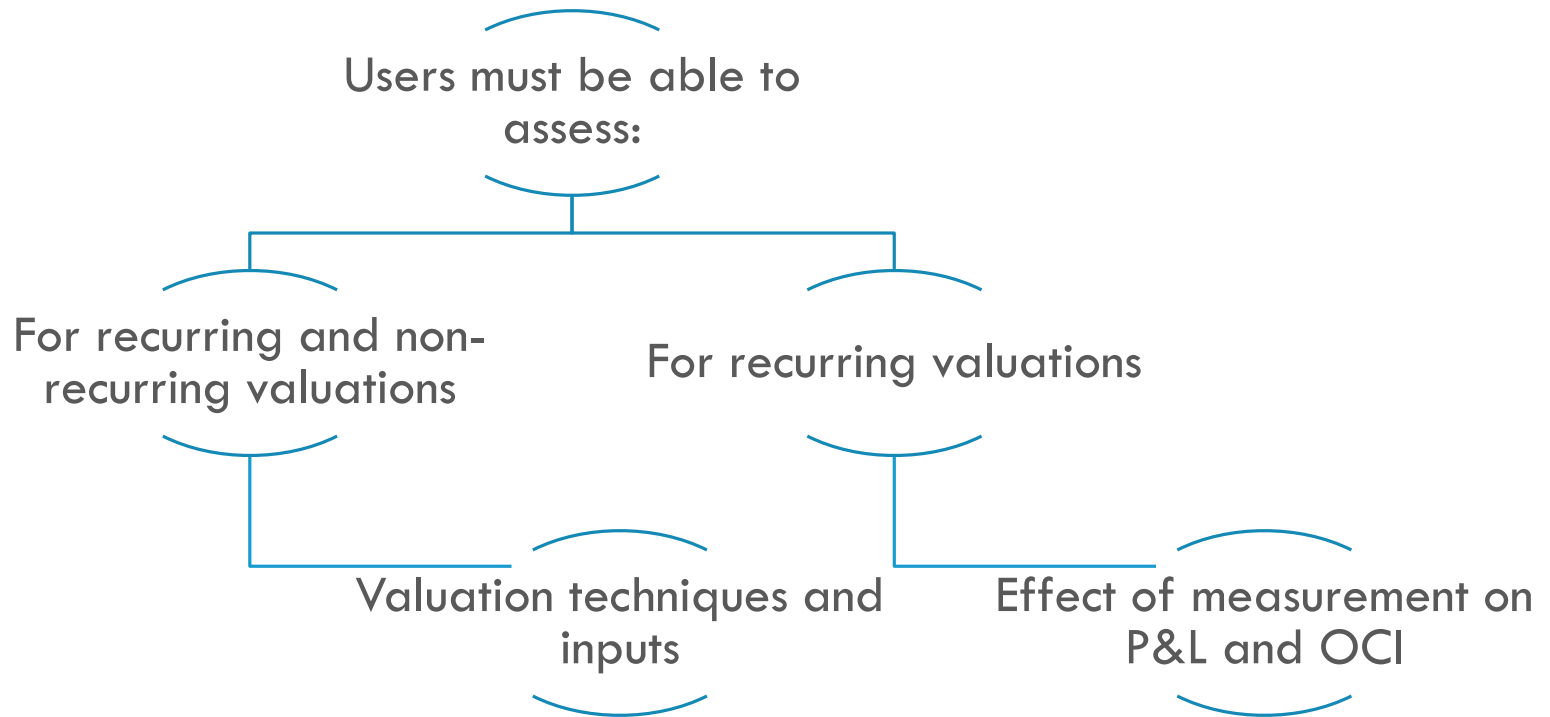
Level 2 Input

1. Quoted prices for similar assets or liabilities in active markets
2. Quoted prices for identical or similar assets or liabilities in markets that are not active.
3. Inputs other than quoted prices that are observable for the asset or liability
4. Market-corroborated inputs.

Level 3 Input

1. Unobservable inputs for the asset or liability only if, relevant observable inputs are not available

IND AS 113 DISCLOSURES



Disclosure

For Recurring and Non-Recurring Valuations

1. Valuation techniques and inputs
2. Fair Value measurement at the end of each reporting period (and reason for measurement if non-recurring)
3. If the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use
4. Level of the fair value hierarchy
5. For measurements classified under Level 2 and 3 - description of technique, reason for change in valuation technique if any

For Recurring Valuations

1. Amounts and reason of any transfers between Level 1 and Level 2 of the fair value hierarchy
2. Measurements classified under Level 3 – Reconciliation between opening and closing balance

Disclosure

For Recurring and Non-Recurring Valuations

6. For measurements classified under Level 3 - quantitative information about the significant unobservable inputs
7. For measurements classified under Level 3 - description of the valuation processes, sensitivity of the fair value measurement to changes in unobservable inputs, interrelationships between inputs and how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement

For Recurring Valuations

1. Amounts and reason of any transfers between Level 1 and Level 2 of the fair value hierarchy
2. Measurements classified under Level 3 – Reconciliation between opening and closing balance

DISCLOSURE

Entity to consider the following when making disclosure:

- ▶ Level of detail necessary to satisfy the disclosure requirements
- ▶ Emphasis to be placed on each of the various requirements
- ▶ Aggregation or disaggregation to be undertaken
- ▶ Additional information needed by users to evaluate the quantitative information disclosed

DISCLOSURE

- ▶ If an entity makes an accounting policy decision to use the exception to this standard when valuing group of assets and liabilities together, it shall disclose that fact
- ▶ For each class of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, an entity shall disclose:
 - level of fair value hierarchy
 - description of valuation technique
 - inputs used in fair valuation
 - quantitative information about unobservable inputs
 - if the highest and best use of a non-financial asset differs from its current use, reason for the same

DISCLOSURE

- ▶ For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability
- ▶ An entity shall present the quantitative disclosures required by this Ind AS in a tabular format unless another format is more appropriate
- ▶ An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred

SOME ADDITIONAL ASPECTS

- ▶ Making versions of files
- ▶ Saving Mail correspondences
- ▶ Saving scanned copies
- ▶ System Notes for recurring valuations and certain specific treatments
- ▶ Regular back-up of database
- ▶ Proper documentation of source of information

Thank You

