The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN
Phone: +81-3-3515-1130 Fax: +81-3-5226-3355
e-mail: kigyokaikei@jicpa.or.jp
http://www.hp.jicpa.or.jp/english/

January 29, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the *Request for input on application in emerging and transition economies*

To the Board Members:

The Japanese Institute of Certified Public Accountants appreciates the continued efforts of the International Accounting Standards Board (IASB) on the financial crisis and welcomes the opportunity to comment on the *Request for input on application in emerging and transition economies.*

We believe that the development of guidance on the practical application of fair value measurement, including those regarding standards that have already been announced, is of extreme importance, given that difficulties in the practical application of principles exist not only in emerging economies, but in all economies around the world.

A conceivable problem regarding practical application in Japan is the relatively limited access to market data compared to countries with developed markets (e.g., small number of companies for which there are readily available market values of CDS and individual stock options. However, since these problems are due to relative differences in data availability, we believe that the issues should not be discussed in terms of emerging economies versus advanced economies.

Under these circumstances, the absence of clear criteria as to the extent of accessible data, that would otherwise result in reliable fair value measurement, is likely to cause confusion in practice, and raise verifiability concerns in the audit process. We believe that there is a need to indicate these criteria in the form of guidance, to be developed by the standard setting body.

Following are comments on matters that we believe require particular consideration from the perspective of practical application.

1. Fair Value Measurement of Equity Instruments (unlisted stocks) without Quoted Price

IFRS 9 “Financial Instruments” does not provide adequate guidance on the fair value measurement of equity instruments without quoted price. In general, fair value measurement of such financial instruments allows for the most part for the arbitrary establishment and adjustment of variables and input values. Furthermore, we believe that when the equity held by investors represents a minority position, obtaining sufficient information from an investee, for fair value measurement, would usually be difficult for the investors. Criteria for judgements in implementation, as well as guidance and approaches that may be applied in practice, should be clearly provided in the guidance.

In the past, The JICPA issued *Guidelines on Corporate Value Assessment*, which were, released to assist in the practical assessment of value of an enterprise, providing specific calculation formulas, considerations and examples of valuation methods listed in the appendix. These methods outlined in the Appendix of this letter, are currently used in Japan for such purposes as the sale of unlisted stock.

As regards measurement of corporate value, the Guidelines assist in the selection of an appropriate valuation method from those listed, subject to a sufficient consideration of the specific characteristics of the unlisted stock under consideration.

While it is our understanding that these approaches are established corporate value assessment techniques in Japan, specific indications in the guidance are requested as to the suitability of the approaches, as fair value assessment techniques, from the perspective of IFRS. Since in practice these techniques are sometimes used in combination it is further requested that an indication be made in the guidance as to whether such combinations are appropriate for accounting purposes. Please note that we remain concerned regarding practical feasibility of application, in view of the required adequate investigation time and cost in the selection and application of these assessment techniques.

Additionally, some valuation results will be highly subjective, such as in a case where a company subject to investment is in the mining business. The fair value measurement will be highly dependent on estimated recoverable reserves. However, we believe that reliable measurement of recoverable reserves, that can be audited is already difficult under normal circumstances, even with the involvement of valuation specialists. Therefore, we believe that the preparation of specific guidance will be necessary, if fair value measurement is to be required for the stocks of such companies.

2. Fair Value Measurement of Non-monetary Assets

As with the case described in 1 above, fair value measurement of tangible PPE and intangible assets, in general, allow for the arbitrary establishment and adjustment of variables and input values for fair value measurement. Criteria for judgements in implementation, as well as guidance and approaches that may be applied in practice, should be clearly provided for in the guidance.

As regards “Fair Value Measurement of Assets Premised on Highest and Best Use”, as proposed in the exposure draft on fair value measurement, gathering information and input values forming the basis of fair value measurement is difficult in practice when the highest and best use differs from the current use. We believe that in such cases reliable measurement on a verifiable level is difficult in practice not only in emerging, but in all economies.

Yours faithfully,

Kiyoshi Ichimura
Executive Board Member－Accounting Standards
The Japanese Institute of Certified Public Accountants

(Appendix)

Examples of valuation methods of corporate value, excerpts from *Guidelines on Corporate Value Assessment, JICPA*

(1) Income Approach

1. Free cash flow method

   Calculation of the total current value by discounting the expected free operating cash flows using the weighted average cost of capital.

2. Adjusted present value method

   Calculation of business value by adding the present value of tax shields attributable to financing (tax reduction due to interest payment) to the business value, based on the assumption that it is fully equity financed (debt-free business value). Debt-free business value is the total present value obtained by discounting free operating cash flows at the shareholders' equity, assuming that there are no liabilities. On the other hand, the present value of the tax shields attributable to financing is the total present value obtained by discounting future tax shields at a rate that reflects the risks thereof.

3. Net Operating Profit After Taxes method

   Calculation of the business value by adding the expected present value of future Net Operating Profit After Taxes (NOPAT) to the book value of the total assets used for operating activities as of the time of valuation.

4. Other

   (a) Dividend discount method

   Appraising value of investment based on cash dividends from an investee.

   (b) Present value of future profits

   Calculation of value of investment by discounting future net profits.

(2) Market Approach

1. Market price method

   Based on the market value of shares of companies listed on securities exchanges or traded in the over-the-counter market.

2. Comparable listed company method (Multiples method, multiplier method)

   Valuation of shares of unlisted companies by utilizing comparison with the market prices of shares of listed companies.

3. Comparable transaction method

   Calculation based on the transaction prices of comparable business transactions, and other information of the company subject to valuation.

4. Transaction case method (transaction value method)

   It Shares are valued based on past transactions of the shares of the company subject to valuation.

(3) Net Asset Approach

1. Net asset book value method

   Calculation of the value of shares based on net assets as stated in the financial statements.

2. Net asset market value method (Adjusted net asset book value method)

   Net assets are determined by adjusting the assets and liabilities on the balance sheet to the respective fair values, with the resulting market value of net assets per share deemed to be the shareholder value per share. It is sometimes referred to as the adjusted net asset book value method, since it reflects the fair value of only the unrealized profits and losses on principal assets, such as land and securities. Given the difficulties in practice in determining the market value of all assets and liabilities.