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April 1, 2019

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Comments on the Exposure Draft “IVS 220 Non-Financial Liabilities”

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the Exposure Draft “IVS 220 Non-financial Liabilities” (Exposure Draft).

The JICPA finds the Exposure Draft to be meaningful to clarify the handling of evaluation practices of non-financial liabilities. That having been said, the JICPA, hereby, expresses its opinion on the Exposure Draft as follows.

1. Paragraph 20.3 of the Exposure Draft states, “Certain non-financial liabilities do, at least in some instances, require cash fulfilment” and as examples of such non-financial liabilities lists, “lease obligations, certain contingent consideration obligations, certain indemnifications and guarantees.”

Among these examples, lease obligations might pose some confusion as to whether it is a financial liability or a non-financial liability.

2. Paragraph 20.5 of the Exposure Draft states, “The *valuer must* understand and follow the regulation, case law, and other interpretive guidance related to those bases of value as of the valuation date.”

Financial liabilities may be more strongly impacted by a country’s “regional characteristics” or “commercial practices.” Therefore, we believe that a statement to the effect of “differences in commercial practices depending on the country,” for example, should be included, which is consistent with business valuations.

3. Paragraph 110.2 of the Exposure Draft states, “a *valuer should* consider an entity’s ability to transfer such non-financial liabilities and whether adjustments to reflect the restrictions *should* be included.” and Paragraph 110.3 states, “When relying on an

income approach in which the non-financial liability value is estimated through a fulfilment principal, the *valuer should* determine if an investor would require an additional risk margin to account for the limitations on transfer.”

With regards to these statements, we believe that in order to deepen the user’s understanding of these standards, it would prove useful to indicate specifically how each should be considered by including specific examples in case of the income approach, calculation examples of additional risk margin or Basis of Conclusions.