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Comments on the IVS Agenda Consultation 2020

The Japanese Institute of Certified Public Accountants (JICPA) extends its appreciation to the continuous effort by the International Valuation Standards Council (IVSC) and welcomes the opportunity to comment on the IVS Agenda Consultation 2020 Invitation to Comment.

The following are the JICPA's comments on the questions included in the IVS Agenda Consultation.

I IVS Gap Analysis

Question 1.1: Do you agree with the current categorisation and timings of the topics contained in the IVS Gap Analysis and if not why?

(Our comment)

We agree with them. Furthermore, there are so many topics contained in the IVS Gap Analysis, so we think they should be prioritized in a clearer manner.

In addition, ESG, Long-Term Value and Social Value in particular are among the subjects that have drawn public attention, and some of them have already been brought up for discussion at other organizations. We think we should take account of them.

Question 1.2: Are there any other topics which you believe should be included or deleted from the IVS Gap Analysis and if so why? (Please state the relevant specialism, categorisation and timing for any proposed additional topics.)

(Our comment)

For instance, the valuation of financial institutions needs to address different topics from those for the valuation of general businesses. We believe the Technical Boards should consider including these topics in the IVS Gap Analysis.

II Automated Valuation Models (AVMs)

Question 2.1: Do you consider AVMs to be a growing area and therefore something IVS needs to address? Please provide your reasoning for your answer as this will help the Technical Boards with their deliberations.

(Our comment)

We think IVS should address AVMs for the following reasons:

- With the rapid progress of computer technology and a widening scope of valuation (covering data assets, including pledged and financial assets, etc.), AVMs will become increasingly important going forward.
- As with current valuation processes, AVMs must ensure the appropriateness of input and computing processes. We believe the Technical Boards need to discuss what should be kept in mind.

Question 2.2: Should AVMs be included/addressed within IVS? If you think AVMs should be outside IVS how should they be considered and what clarity will valuers require?

(Our comment)

We have answered this question in 2.1.

Question 2.3: Do you agree with the definition of AVM shown above. If no, please provide a suggested alternative definition together with a source for this definition.

(Our comment)

Due to lack of specific examples of AVMs, we cannot say whether we agree or disagree with the definition. We hope more specific examples of AVMs will be presented together with its definition.

Question 2.4: Do you agree with the definition of Model shown above. If no, please provide a suggested alternative definition together with a source for this definition.

(Our comment)

We agree with it.

Question 2.5: Should IVS consider Hybrid Valuations as illustrated in the diagram Key Categories of Valuation Methods. Please provide your reasoning together with any examples of Hybrid Valuations currently used in your market.

(Our comment)

If the Hybrid Valuation defined in the section means taking account of both manual and statistic

valuations, we believe the IVSC should consider Hybrid Valuations.

III Environmental, Social and Governance (ESG)

Question 3.1: What role do you see IVS having in measuring the value of ESG? Please provide details and reasoning with your response.

(Our comment)

With regard to ESG, we think the role of IVS is to clarify the following points in relevant guidelines:

- (1) What are the ESG factors that can be identified and objectively quantified?
- (2) How to identify and quantify ESG factors in practical terms?
- (3) How to reflect the identified ESG factors in valuations?

Question 3.2: How do you consider ESG within your valuation process? Please provide details of your country, specialism and as detailed an example as possible together with any data sources used, if applicable.

(Our comment)

In Japan, we may consider material ESG-related problems that may be found in the process of due diligence in business valuation, if any.

Question 3.3: What definitions and/or framework do you currently use when considering ESG in your valuation work? Please provide the definition, framework and source.

(Our comment)

The research report on corporate valuation published by the JICPA in 2013 doesn't have a clear definition of ESG. The report classifies ESG factors which have a positive impact on corporate value as "corporate value creation factors," and ESG factors which have a negative impact on corporate value as "operational risk."

Question 3.4: What are the demands from valuation stakeholders when considering ESG? Please provide details.

(Our comment)

We have received no clear practical demands from stakeholders in Japan.

Question 3.5: As outlined above ESG can be subdivided into a number of issues. Can you separately account for any of these issues within the valuation process and if so please provide further details?

(Our comment)

It is difficult to give a separate account from a practical viewpoint.

IV Long-Term Value

Question 4.1: Have you faced pressure from banks or other institutions to provide a prudential valuation? If so, in which market and in which specialism do you operate?

(Our comment)

As far as we know, we have faced no such request in Japan.

Question 4.2: Do you agree that Market Value already incorporates the concept of a prudential valuation within its definition? If not, please provide your reasons.

(Our comment)

As described above, we don't have much knowledge about a prudential valuation, so we are not in the position to answer.

Question 4.3: Do you feel that the research in relation to a European Long-Term Value Index would be helpful or not? Please provide the reasoning for our response.

(Our comment)

We do not have much knowledge about the research in relation to the European Long-Term Value Index, so we refrain from providing an answer.

Question 4.4: Should Long-Term Value be a separate basis of value or a concept to be included in a basis of value?

(Our comment)

We do not have much knowledge about Long-Term Value, so we refrain from providing an answer.

Question 4.5: The current research for a Long-Term Value Index is currently restricted to European Markets. Do you feel that this research should be extended to your market, and if so, in which market do you operate?

(Our comment)

We do not have much knowledge about the research in relation to the European Long-Term Value Index, so we refrain from providing an answer.

V Social Value

Question 5.1: Do you agree with the proposed definition for Social Value outlined on the previous page? If not please provide your reasoning and proposed revisions to the above

definition or an alternative definition, together with the source, if applicable.

(Our comment)

We agree with it.

Question 5.2: Are you currently required to address Social Value within your valuations, and if so, what is your specialism and in which country are you located?

(Our comment)

If we face the need to address Social Value more frequently, we believe it should be included in IVS. In Japan, however, we have very little opportunity to perform such valuation work.

Question 5.3: How do you address Social Value within your valuation process? Please provide as detailed an example as possible together with any data sources used, if applicable.

(Our comment)

As we described in 5.2, we have very little opportunity to perform valuation work concerning Social Value in Japan.

VI Uncertainty and Risk

Question 6.1: Do you feel that IVS should include a section on Uncertainty and Risk? Please provide the reasoning for your response.

(Our comment)

We agree that IVS should include a section on Uncertainty and Risk, because we think a clear guideline would be necessary to clearly differentiate uncertainty and risk in general terms from uncertainty which may arise from events nobody would have expected, such as COVID-19, and to reflect the findings in valuations and report on them.

Question 6.2: Do you feel that it would be possible to provide an overarching section on Uncertainty and Risk which applies to all specialisms? If not, please indicate where you think it does not apply and provide your rationale.

(Our comment)

We believe it is possible.

Question 6.3: Do you feel that the text provided above in relation to the difference between valuation Uncertainty and Risk is sufficiently detailed for inclusion within IVS? If not, please provide details of the other elements you would like to be included and your rationale for including these elements.

(Our comment)

We think it would be more useful to provide further details on the difference between valuation Uncertainty and Risk.

VII Data Management

Question 7.1: Do you feel that IVS should include an overarching standard in relation to data management within IVS 105 Valuation Approaches and Methods? If no, please provide your reasoning.

(Our comment)

If it is an overarching standard in relation to data management, we believe it should be included in IVS 105 Valuation Approaches and Methods.

Question 7.2: How detailed should IVS be in relation to data management, and are there any elements that you feel should be included or excluded from this standard?

(Our comment)

We think IVS should include a general standard for determining the accuracy, relevance and reliability of data to be used. In addition, we should keep it in mind that some sources of data used may not be indicated for confidentiality reasons.

Question 7.3: How should market uncertainty and risk impact the exercise of professional judgement when market data is not observable?

(Our comment)

We believe they have a material impact on certain hypotheses used to perform valuations.