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International Valuation Standards Council
4 Lombard Street, LONDON, EC3V 9AA
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Comments on the "IVSC Financial Instruments Invitation to Comment"

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Valuation Standards Council on this project, and welcomes the opportunity to comment on the "IVSC Financial Instruments Invitation to Comment" (ITC).
Please find below our comments to the question items raised in the ITC.

Question 1: To what extent is the scope of revisions to IVS 500 as outlined above appropriate?

Comment:
Firstly, we suggest the IVSC Financial Instruments Board (the 'FI Board') should clarify the type of entities to which the Financial Instruments standard IVS 500 is applicable.
We believe there are two types of entities with different expertise and different purpose of using valuations: one type is entities that provide financial instruments valuation services to third parties (e.g. valuation professionals, financial institutions, securities companies); and the other type is entities that utilise valuation services provided by valuation professionals in evaluating financial instruments held on their own. We believe the type of internal controls and the required level of controls are different between the two types of entities.
We recommend the revised IVS 500 should focus on entities that provide financial instruments valuation services to third parties. In this way, IVS 500 would be able to specify requirements for such entities, including (1) what kind of governance system is needed to calculate valuations, and (2) how to select data for the valuations. Instead, if requiring all types of entities to comply with IVS 500, including those that utilise valuation services provided by valuation professionals in evaluating financial instruments held on their own, IVS 500 should set out different requirements within the

standard for relevant internal controls or the required level of controls between entities providing valuation services to third parties and those utilising such services.

Secondly, we would like to comment on the eight prioritised agendas proposed on page 10 of the ITC, as it is unclear as to how the FI Board is pursuing to relate those agendas to the revised IVS 500. Especially, the IBOR replacement seems to be irrelevant to IVS 500. That said, we recommend the FI Board should clarify how the eight prioritised agendas will be included in the future editions of the IVS and provide time tables for each agenda in a timely manner.

Question 2:
Should IVS 500 keep the current definition of a financial instrument? If not, should the definition be removed or revised? If revised, what should the definition be?

Comment:
The current definition of a financial instrument under IVS 500 makes it difficult to determine whether the Business Valuation standard or the Financial Instrument standard should be applied to certain assets, such as unlisted equities. Thus, we suggest clarification should be made within IVS 500 regarding this matter. If the definition is to be revised in IVS 500, we recommend to consider referring to IFRS for the definition of financial instruments to avoid confusion caused by setting up multiple definitions among different standards.

Question 3:
When considering guidance on governance as it applies to financial instruments, to what extent should detail be provided on the areas outlined in the previous section: management and others roles and responsibilities, segregation of duties, and valuation risk and escalations through the chain of command?

Comment:
As related to our comment at Question 1, if IVS 500 is intended to focus on entities that provide financial instruments valuation services to third parties, we recommend a detailed guidance, including the level of internal controls generally required for valuation service providers, be provided that is consistent with guidance or requirements issued by the Basel Committee on Banking Supervision and national regulatory authorities.
If, however, IVS 500 is applicable to all types and sizes of entities, including entities utilising valuation services, we recommend to be cautious with setting a detailed application guidance, as such guidance might require excessive burdens for entities just utilising valuation services.

Question 4:
When considering guidance on data as it applies to financial instruments, to what extent should

IVS standards address measuring the quality of data, exercising judgement in the use of data, and producing valuations when insufficient data are available?

Comment:

See our comment to Question 3.

Question 5:

When considering guidance on methods and models as it applies to financial instruments, to what extent should details be provided regarding how methods and models are selected, validated and risk managed? To what degree should the evolving market practices, such as XVAs, be addressed?

Comment:

See our comment to Question 3.

Question 6:

When considering guidance on controls as it applies to financial instruments, to what extent should the IVS detail controls needed for the end-to-end valuation process?

Comment:

See our comment to Question 3.

Question 7:

Are there additional gaps in the standards that need to be addressed? If so, what are they?

Comment:

No comment on this matter.

Question 8:

Do you use IVS 500 today? If so, how is it used?

Comment:

We are currently not in a position to use IVS, as we are not a member of valuation professional organisations.

Question 9:

Would your organisation like to contribute to this process? If so, who would you nominate to be considered?

Comment:

We would like to continue contributing to this process by issuing comments on the upcoming exposure drafts and invitation to comments.

Other

The four focus areas provided on page 11 of this ITC seems to be too simple, making it difficult for us to understand what the FI Board is trying to achieve through applying the areas. Given that the questions throughout the ITC seem to be vague and not detailed enough, we suggest more careful deliberations should be made within the FI Board before soliciting feedback from stakeholders. Further, we believe the comment period of less than two months is too short to respond to such non-specified questions. If the FI Board is seeking deliberate comments from a wide range of stakeholders, including those whose native language is not English, we believe the comment period should be at least four months.