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The International Valuation Standards Council  
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### **Comments on the IVS Exposure Draft**

We at the Japanese Institute of Certified Public Accountants express our respect to the International Valuation Standards Council (“IVSC”) for making continuous efforts and welcome the opportunity to comment on the IVS Exposure Draft.

The following are our answers to those of the questions contained in the exposure draft which we thought we should comment on, other than those which we have no particular comments on.

#### **General Standards**

##### Question 3

The definition of valuation risk has been revised within the IVS Glossary to provide additional clarity. Do you agree with the revised definition of valuation risk? If not, please provide your proposed revision to the definition of valuation risk contained within the Glossary.

(Our comments)

Compared to previous definitions, the risk factors have been broken down into more specific categories, resulting in a more precise definition; I agree with this revision.

##### Question 4

IVS 101 Scope of work has been revised to include mandatory requirements, where applicable, in relation to:

- The use of a range,
- the proposed significant use of artificial intelligence or other technology-based tools and resources,
- service organisations,
- sustainability considerations, and
- the IVS asset standards to be considered within the valuation.

Do you agree with the inclusion of these additional mandatory requirements? If not, why not, and what specific changes would you make?

(Our comments)

We agree. We believe that explicitly including matters related to the premises of the valuation and associated risks—such as the valuation range, significant reliance on artificial intelligence or other technology-based tools and resources, the service organization, sustainability, and applicable asset-specific standards—within the scope of IVS 101 services is useful for aligning the expectations of clients and users with those of the valuer and for sharing valuation risks.

Question 5

IVS 104 Data and Inputs now include mandatory requirements in relation to the significant use of artificial intelligence or other technology-based tools. Do you agree with the inclusion of these additional mandatory requirements? If not, why not, and what specific changes would you make?

(Our comments)

We generally agree. Data and inputs generated or processed by artificial intelligence or other technology-based tools tend to have opaque logic and can become a source of new valuation risks. Therefore, we believe it is appropriate to impose mandatory requirements to verify and document, with regard to “material use” of such tools, what data and inputs were generated, under what mechanisms and assumptions, and what quality control measures were implemented. On the other hand, since the boundaries of what constitutes “artificial intelligence or other technology-based tools” may be unclear in practice, I believe that providing simple examples of typical cases (such as price estimation using machine learning models) and non-applicable cases (such as simple arithmetic operations or basic Excel functions alone) would make it easier to make such determinations.

Question 6

IVS 104 Data and Inputs: Appendix has been revised to include sustainability considerations in addition to the consideration of ESG factors. Do you agree with the inclusion of sustainability considerations within the IVS 104 Data and Inputs Appendix? If not, why not, and what specific changes would you make?

(Our comments)

We agree. Factors related to sustainability and ESG are highly likely to affect the value of businesses, real estate, infrastructure, and other assets—particularly those involving long-term cash flows—and we believe it is appropriate to treat them as factors that should be explicitly considered when selecting data inputs.

Question 7

IVS 105 Valuation Approaches now includes mandatory requirements in relation to the significant use of artificial intelligence or other technology-based tools. Do you agree with the inclusion of these additional mandatory requirements? If not, why not, and what specific changes would you make?

(Our comments)

We agree. While evaluation models that utilize artificial intelligence or other technology-based tools are useful in terms of computational power and automation, they also carry risks such as the “black-box” nature of model structures and data bias. Therefore, we believe it is appropriate to establish mandatory requirements for such models that call for careful verification and quality control—just as with other evaluation models, and in some cases even more so.

Question 8

IVS 106 Documentation and Reporting now includes mandatory documentation requirements in relation to the significant use of artificial intelligence or other technology-based tools. Do you agree with the inclusion of these additional mandatory requirements? If not, why not, and what specific changes would you make?

(Our comments)

We agree. From the perspective of transparency and reproducibility in the valuation process, we believe it is important to appropriately document in the report and working papers what artificial intelligence or other technology-based tools were used, where they were used, and to what extent they could have influenced the valuation results when such tools are utilized in a significant manner. In cases where external tools are used, it is anticipated that it may be difficult to fully understand their mechanisms; therefore, we believe it is useful from the perspective of explaining the process to users to clearly state

the purpose of use, the nature of inputs and outputs, and the degree of reliance placed on them.

Question 9

The reporting section within IVS 106 Documentation and Reporting has been revised to include mandatory requirements, where applicable, in relation to;

- reporting requirements, where applicable, in relation to the use of a range
- the proposed significant use of artificial intelligence or other technology-based tools and resources,
- service organisations,
- sustainability considerations, and
- the IVS asset standards considered within the valuation.

Do you agree with the inclusion of these additional mandatory requirements? If not, why not, and what specific changes would you make?

(Our comments)

We agree. The report serves as a means of communicating the basis, process, and risks of the valuation to users. We believe that explicitly stating factors such as the use of valuation ranges, significant reliance on artificial intelligence or other technology-based tools, the involvement of service organizations, sustainability considerations, and the asset-specific standards referenced contributes to the understanding of the valuation results and the assessment of valuation risks.

Question 10

The section on "*Allocation of Value*" previously contained within IVS 102 Bases of Value has been moved to IVS 106 Documentation and Reporting. Do you agree that this section should now be contained within IVS 106 Documentation and Reporting? If not, why not, and where would you place this section?

(Our comments)

We consider this appropriate. The allocation of value is a specific judgment and procedure carried out as part of the valuation process, and the valuer should explain the assumptions and logic underlying the allocation, as well as whether alternative options were considered.

Question 11

Do you agree that quality controls should be mandatory within IVS? Do you agree with the level of standards as proposed, or are they too weak or too stringent? If you do not

agree that quality controls should be mandatory within IVS, why not, and please provide your reasoning?

(Our comments)

We agree that quality control should be a mandatory requirement under the IVS. We believe that systematizing numerical and logic checks, model and input validation, and review and challenge processes is essential for reducing assessment risks and ensuring user confidence. We understand that the current proposal is designed to accommodate large-scale institutions, and while we support this direction, we believe it would be easier to implement if specific examples of quality control tailored to individuals and small-scale practitioners were provided.

Question 12

Do you have any other comments or observations in relation to IVS 107 Quality Controls? Please provide your reasoning for any additional comments or observations.

(Our comments)

We believe that including examples in the guidance of how a combination of self-assessments and, where necessary, external or peer reviews constitutes one approach consistent with the intent of IVS 107 would make it easier for small-scale and individual evaluators to apply.

Question 13

Do you have any other comments or observations on topics not covered by the questions above?

(Our comments)

- While the independence of appraisers is considered a key aspect of quality control, the lack of specific details makes it difficult to apply the standards; adding case examples would make implementation easier.

- IVS 107 establishes quality control requirements in its general standards. Furthermore, in the asset-specific standards for IVS 500 Financial Instruments, quality control is specified in relatively detailed and concrete terms in sections 140 through 180. In contrast, other asset-specific standards, such as IVS 200, do not include such provisions regarding quality control. Therefore, we should consider which items from the quality control provisions in IVS 500 Financial Instruments should be referenced as general standards. For example, this could include the reasonableness of valuation methods and models (such as whether they are widely used or take into account the characteristics of complex valuation targets), the accuracy and completeness of input data, and the

reasonableness of assumptions (such as the accuracy and completeness of the data used to derive the assumptions, and the reasonableness of those judgments). Furthermore, it is desirable to consider the necessity of establishing asset-specific quality control provisions in standards other than IVS 500 for the valuation of financial instruments.

## **Asset Standards**

### ***Business Valuation Standards***

#### Question 14

The Exposure Draft proposes introducing additional sections aiming to provide for better alignment of the Business Valuation asset standards with the General Standards. These sections also seek to improve comparability between Business Valuation asset standards and other Asset Standards, most notably with IVS 300 and IVS 400. These sections include Valuation Framework (Section 30), Scope of Work (Section 40), Data and Inputs (Section 100), Valuation models (Section 110), and Documentation and Reporting (section 120). The introduction of those sections has resulted in the reallocation of some text to those new sections.

- a. Do you find that these additional sections improve the structure and intelligibility of the Standards?
- b. If you disagree, please explain your reasoning.
- c. Where relevant, please provide specific suggestions for changes that you believe would enhance these standards.

(Our comments)

We believe that the addition of those new sections has improved the structure and intelligibility of the Standards.

#### Question 15

Across the Business Valuation Standards (IVS 200, IVS 210, IVS 220, and IVS 230), the text was streamlined.

- a. Do you find that the proposed Exposure Draft includes an appropriate level of detail for valuation professionals?
- b. Do you find that the rephrasing of the Standards to include more direct sentences that emphasise what the valuer “must” or “should” implement to abide by the principles of the IVS is appropriate?
- c. If you disagree, please explain your reasoning.
- d. Where relevant, please provide specific suggestions for changes that you believe would enhance these standards.

(Our comments)

We believe those are appropriate.

Question 16

In IVS 200 Businesses and Business Interests, several paragraphs (?) on “Scenario Based Methods (SBM)” replaces the current text on “Probability-Weighted Expected Return Method (PWERM)” found in 130.23 to 130.27.

- a. Do you agree that this change is appropriate?
- b. If you disagree, please explain your reasoning.
- c. Where relevant, please provide specific suggestions for changes that you believe would enhance these standards.

(Our comments)

We agree. We believe the explanation provided clarifies the definitions and other details regarding the specific provisions being replaced by this revision (the change from PWERM to SBM).

Question 17

IVS 200 Businesses and Business Interests introduces a new section on *Calibration*, which is a technique widely used in the valuation of certain assets for specific bases of values, for example, when the intended use of the valuation is financial reporting.

- a. Do you agree that the introduction of this section is appropriate?
- b. If you disagree, please explain your reasoning.
- c. Where relevant, please provide specific suggestions for changes that you believe would enhance these Standards.

(Our comments)

We believe this is appropriate. In particular, in the valuation of private equity and PE/VC investments, *Calibration*, the process of aligning implied metrics derived from initial reference transactions with the subsequent outputs of valuation models, is already widely used in practice. We believe that explicitly including a dedicated section for this within IVS 200, rather than limiting it to the valuation of IVS 500 Financial Instruments, will be useful in enhancing the transparency and consistency of valuations. This is because it will make it easier for valuers to systematically explain “which transactions were used as initial references,” “what metrics were extracted,” and “how changes in the market and business were reflected.”

Yours faithfully,

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Executive Board Member — Business Accounting Standards and Practice/Corporate  
Disclosure

The Japanese Institute of Certified Public Accountants