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International Valuation Standards Council
20 St Dunstan's Hill, LONDON, EC3R 8HL
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Comments on the Exposure Draft “IVS 500 *Financial Instruments*”

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 Exposure Draft of International Valuation Standard (IVS) 500 *Financial Instruments* (the “Exposure Draft”).

Please find below our comments to the question items raised in the Exposure Draft.

Objective

As outlined in this introduction, the objective of IVS 500 *Financial Instruments* is to establish principles that will enable entities to derive fit-for-purpose valuations of financial instruments in all market conditions and circumstances, and for whatever purpose it is required, including for financial, tax and regulatory reporting.

Question 1: Do you agree with the proposed objective? Why or why not? If you agree with only parts of the proposed objectives, please specify what you agree and disagree with. If you disagree with the proposal, please explain what you propose instead and why.

Question 2: The Exposure Draft is focused on the requirements that have to be met for two elements, Governance, and Data, of the proposed standard in order for an entity to arrive at a fit-for-purpose valuation of financial instruments. Do you agree that the requirements are clear, complete and provide adequate guidance to ensure compliance? Why or why not? If you agree with only parts of the requirements, please specify what you agree and disagree with. If you

disagree with the requirements, please explain what you propose instead and why. If you think the requirements are incomplete, please explain what you propose should be included and why.

Comment on Question 1 and Question 2:

We agree with them.

Scope

Para 20.1 outlines the scope of application of IVS 500 *Financial Instruments*. In arriving at the proposed scope the FI Board focused on limiting the application of IVS 500 to only those instruments intended by the Board and on ensuring, as far as possible, that all definitions are clear to avoid ambiguity in practice.

In addition, in order to avoid overlaps with extant IVS requirements and the inclusion of instruments that could potentially meet the definition of a financial instrument but are not valued as such within the scope of IVS 500, the FI Board has proposed a number of exceptions to the scope requirements in IVS 500 as outlined in para 20.1 of this Exposure Draft.

Question 3: Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Comment:

We agree with it.

Definitions

Paras 30.1 to 30.5 provide definitions for the purpose of applying IVS 500 *Financial Instruments*. More specifically they define:

- fit-for-purpose valuations
- financial assets
- financial liabilities; and
- equity instruments

Question 4: Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

In paras 30.6 to 30.8, valuation uncertainty and valuation risk are defined for the purposes of IVS 500 *Financial Instruments*. This Exposure Draft uses valuation risk to set proportionality parameters (para 30.9) that determine the level of effort and the nature and extent of processes and controls needed in order to arrive at a fit-for-purpose valuation of a financial instrument. The

objective of the FI Board in outlining the above concept is to enable constituents to evaluate in a consistent manner the extent and rigour of the processes necessary to ensure a fit-for-purpose valuation of financial instruments given the requirement for which it is needed, market conditions and other circumstances prevailing at the valuation date.

Question 5: Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Comment on Question 4:

We agree with it.

Comment on Question 5:

We suggest that subjectivity of judgement should be added to the factors contributing to valuation risk provided in paragraph 30.6.

(Reason)

As the components for the valuation of financial instruments in paragraph 50.3.2 include “judgemental component,” subjectivity of judgement should also be referred to in paragraph 30.6. Such addition is desirable also from the viewpoint of ensuring consistency with International Standard on Auditing (ISA) 540 *Auditing Accounting Estimates and Related Disclosures*, in which subjectivity is referred to as one of the factors to be considered.

Governance

The Exposure Draft provides guidance on the processes that entities should follow to ensure proper governance around financial instrument valuations. The guidance requires that a valuation process should be:

- systematic
- consistently applied
- economically sound; and
- controlled

In order for the valuation process to meet the above objectives it should require:

- ownership
- accountability
- transparency
- consistency
- review and challenge
- diversity; and

- documentation

Question 6: Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Comment:

Paragraph 50.2 states that the entity should ensure “diversity” in the valuation of financial instruments. While the definition of “diversity” includes “the procedure is free of bias”, it should be recognized separately as “subjectivity”.

(Reason)

That the procedure is free of bias and that the valuation is based on diverse information are factors to be considered separately, and therefore related governance and controls are also exercised separately.

Data

For the purposes of this Exposure Draft, data is considered to be any input to a process undertaken to arrive at a fit-for-purpose valuation. Firstly, the section on data outlines the principles for creating a data taxonomy or dictionary to categorise, assess and control all data that is used in valuations. Secondly, the specific requirements that need to be met for the following data types are outlined:

- internally sourced data
- market data
- transaction data
- model-based/indicative market data
- judgement-based data;
- historical data; and
- performance data

The section further describes the controls necessary for aggregating and managing data in an organisation and how the concept of proportionality applies in determining the requirements concerning the use of data.

Question 7: Do you agree with the principles outlined in paras 60.5.1 to 60.5.3 regarding the development of a data taxonomy? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Question 8: Paras 60.6.2 to 60.6.8 outline the specific requirements for the data-types listed above. Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Question 9: Paragraphs 60.7.1 to 60.7.6 outline the principles for controlling and aggregating data across an organisation. Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Comment on Question 7 and Question 8:

We agree with them.

Comment on Question 9

We suggest that observability should be added to the characteristics that policies and processes concerning the use of data should have provided in paragraph 60.7.4.

(Reason)

While paragraph 60.7.5.2 includes a reference related to observability of data, it is advisable that observability should be added as a separate characteristic because it is a concept that cannot be captured in the context of “accuracy and integrity.”