



ESG Priorities for the IVSC

*Integrating ESG to the
Business Valuation Process*





International Valuation Standards Council's Mission

The IVSC is a not-for-profit organization.

It acts as the global standard setter for the valuation profession, serving the public interest.

Our mission is to raise standards of valuation practice by:

- Developing high-quality International Valuation Standards (IVS) which ensure consistency, transparency and comparability.
- Encouraging the adoption of the International Valuation Standards (IVS) by preparers, regulators and users.
- Advancing valuation quality and professionalism amongst practitioners.





ESG is a Major area of focus for the IVSC

1. Launched a yearly survey on “ESG and Valuation” for three separate constituencies.
2. IVSC is active in the debate around the impact of ESG factors on Valuations
3. IVS will include ESG factors into new International Standards in 2024.



IVSC's ESG Survey

- Launched a yearly survey on “ESG and Valuation” for three separate constituencies:
 1. **Users:** firms that commissions and/or use valuations.
 2. **Providers:** valuers/valuation service providers
 3. **Investors:** firms that use valuations as part of the investment process.



Key IVSC ESG Survey Results - Firms

Firms Survey: Which of your stakeholders, in order of importance, are most influential in shaping your ESG policies?

Name	Percentage
Customers	30%
Investors	23%
Regulators	21%
Creditors	11%
Suppliers	6%
Competitors	4%
None	4%
Total	100%

Are you able to quantitatively estimate the financial impacts of any ESG factors as part of your business' budgeting/forecasting?

Name	Percentage
At least some fully estimated	4%
At least some partially estimated	42%
Not at all	54%
Total	100%

1. Customers and Investors are influential in shaping ESG policies
2. Quantification of ESG factors is difficult to do.

Key IVSC ESG Survey Results – Valuation Providers

To what extent is the current state of information in public company general purpose financial statements in your jurisdiction sufficient for you to adequately address the impacts of ESG factors on valuation conclusions, with 1 being “Completely insufficient” and 5 being “Completely sufficient”?

Name	Percentage
1 - Completely insufficient	36%
2 - Somewhat insufficient	28%
3 - Neutral	28%
4 - Somewhat sufficient	3%
5 - Completely sufficient	5%
Total	100%

What is your view on how the International Valuation Standards currently deal with a valuer’s responsibilities to consider ESG’s within the valuation process?

Name	Percentage
Adequately address ESG considerations implicitly	36%
Somewhat address ESG considerations, but could do with further clarity	28%
Need to be more explicit standards around ESG considerations	28%
Total	100%

1. Current general purpose financial statements are not enough for ESG
2. Valuation providers expect IVS to become more explicit on ESG

Key IVSC ESG Survey Results – Investors

Regulatory bodies in some jurisdictions have begun to mandate ESG disclosures. Which jurisdictions do you see as requiring the most useful ESG information?

Name	Percentage
Europe	58%
Americas	17%
Asia	8%
Middle East & Africa	8%
Oceania	8%
Total	100%

1. Narrowest set of respondents to IVSC survey, for now.
2. Europe is seen as being advanced for ESG disclosures: opportunity for Asia

IVSC is active in the debate about the impact of ESG factors on Valuations

Recent actions around ESG:

1. List of ESG factors for consideration
2. Perspective Paper on ESG and Real Estate valuation



ESG Factors for Consideration in Business Valuation

Environmental	Social	Governance
Air and water pollution	Community relations	Audit committee structure
Biodiversity	Conflict	Board diversity and structure
Climate change and carbon emissions	Customer satisfaction	Bribery and corruption
Deforestation	Data protection and privacy	Corporate governance
Resource efficiency (ie, energy and CO2)	Development of human capital	Executive remuneration
Waste management	Employee engagement	Institutional strength
Water scarcity	Gender and diversity	Donations and political lobbying
	Health & safety	Rule of law
	Human rights	Transparency
	Working Conditions	Whistle-blower schemes

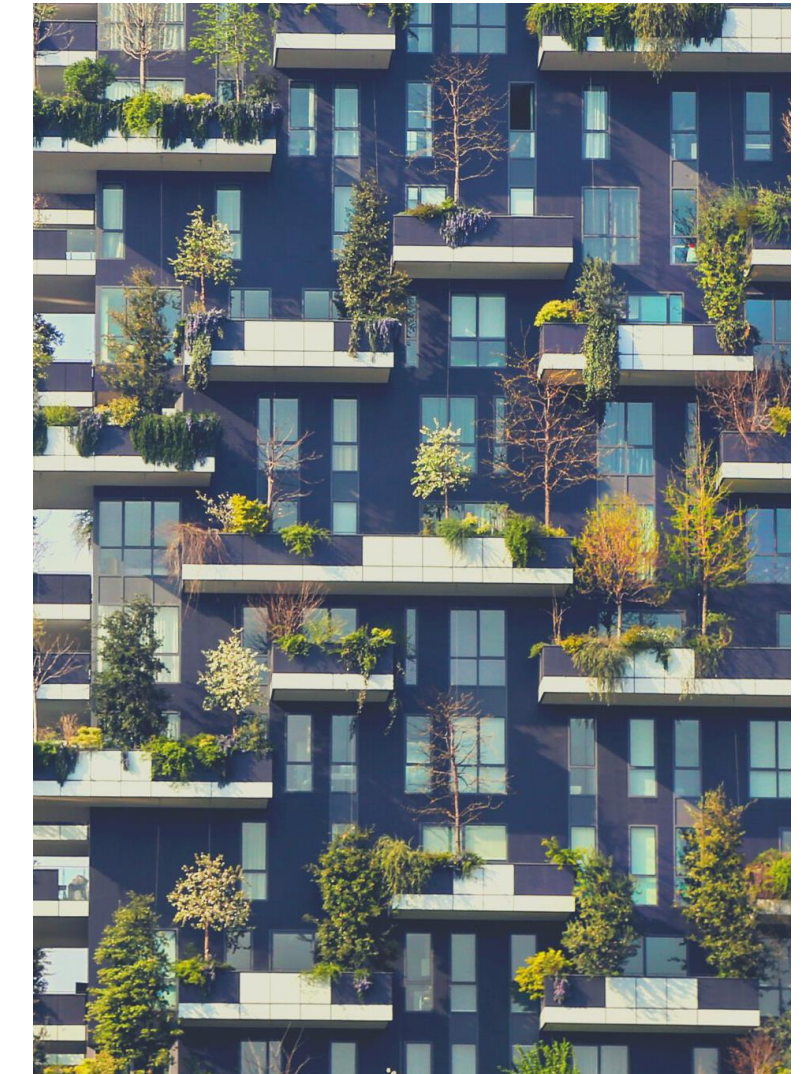
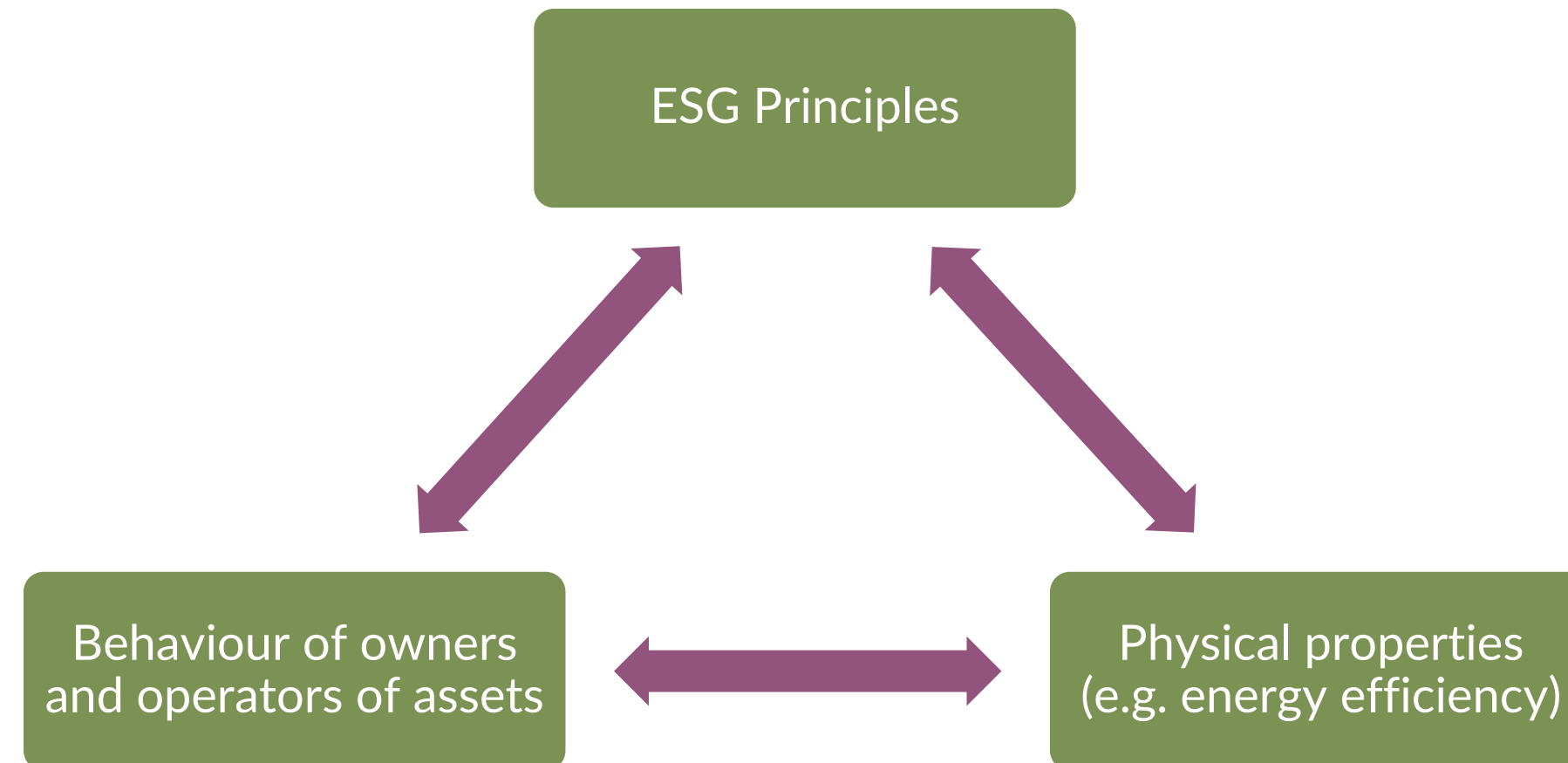
Note: Non-exhaustive list

ESG and Real Estate Valuation (1)

Environmental, Social, and Governance (ESG) criteria are increasingly used to assess the impact of practices of companies on:

- operations,
- financial performance and
- attractiveness to investors

ESG criteria are assessed and measured from a company's perspective and considered from a tangible asset's perspective.



ESG and Real Estate Valuation (2)

Cost Approach

Cost Approach could be used for part of the valuation:

- Calculate retrofitting costs to make buildings more ESG compliant

Not recommended as main approach for quantifying ESG considerations within a valuation.

Income Approach

DCF can explicitly reflect specific assumptions which relate to:

- income,
- expense,
- capital expenditures,
- exit yields, and
- vacancies.

Allows transparent projection of:

- expected trends and
- changes in income and expenses.

IVS will include ESG factors into new International Standards in 2024.

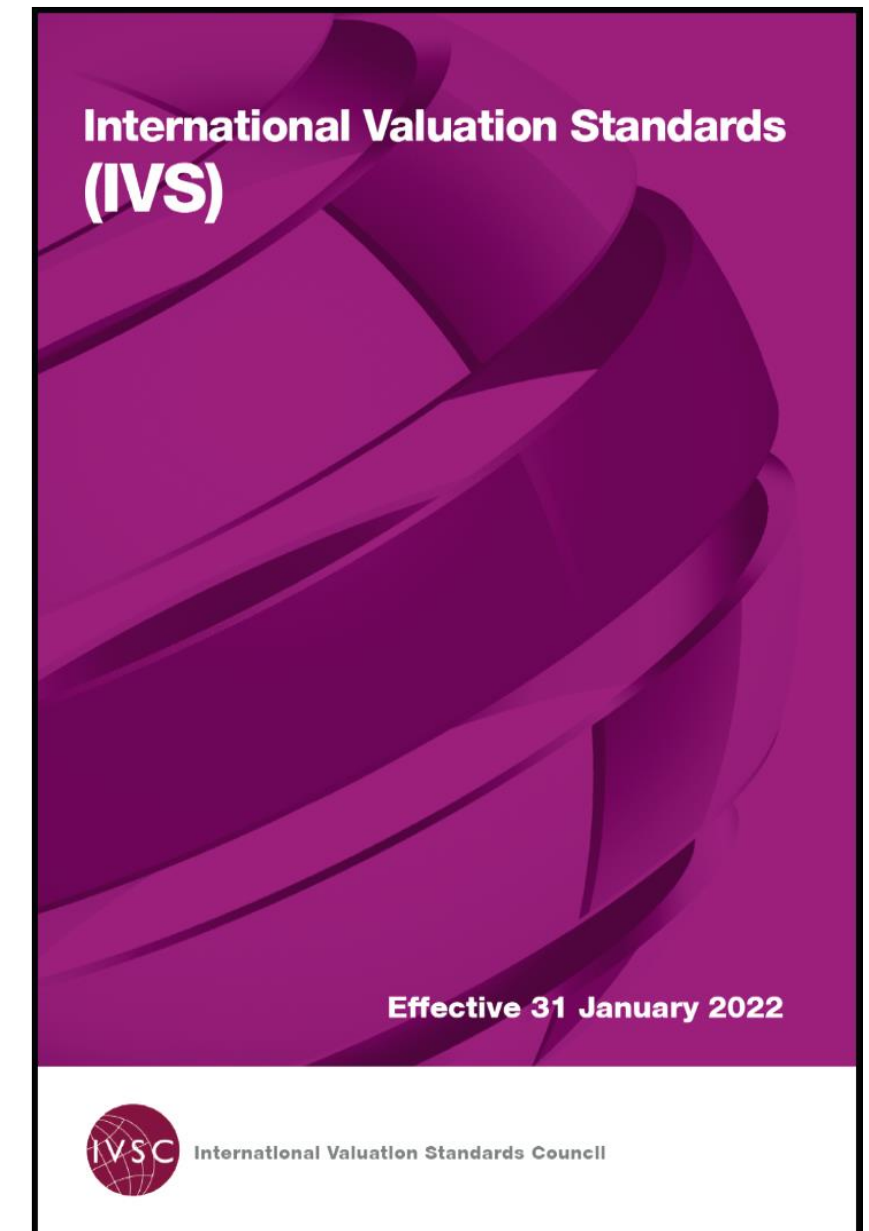
Deliberate Evolution of IVS:

1. Current Standards: Implicit reference to ESG in General Standards
2. Future Standards:
 - Explicit in 2024
 - General and
 - Asset Standards (Tangible, Business Valuation, Financial Instr.)



ESG and the IVS

1. In IVS Effective 31 January 2022, the obligation to consider ESG within the valuation process is implicit in IVS.
2. More specifically, under IVS 101 (Scope of Work) 20.1:
 - “All valuation advice and the work undertaken in its preparation must be appropriate for the intended purpose.”
3. Further referenced in IVS 102 20.1 (Investigations and Compliance):
 - “Investigations made during the course of a valuation assignment must be appropriate for the purpose of the valuation assignment and the basis(es) of value”.
4. Moreover, within IVS 105 (Valuation Approaches and Methods 50.36 through 50.4):
 - the adjustments for additional risks within the cash flow projection require detailed consideration and this will include ESG elements



Target date for new IVS January 2024 - Effective 31 July 2024



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Why Valuations Are Important

- Valuations are conducted for many reasons: financial reporting, M&A activity, financing, insurance, taxation, mortgage lending, asset sales, capital adequacy of financial institutions, etc.
- Reliable and trustworthy valuations foster:
 - Inward Investment
 - better capital allocation,
 - financial stability, and
 - sustainable economic growth

