

Sustainability Reporting Board

MEETING PACK

for

SRB Meeting 008 (PUBLIC PAPERS)

Tuesday, 26 August 2025

9:00 am (NZST)

Held at:

Virtual

Virtual

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AGENDA

SRB MEETING 008 (PUBLIC PAPERS)

Name:	Sustainability Reporting Board
Date:	Tuesday, 26 August 2025
Time:	9:00 am to 5:00 pm (NZST)
Location:	Virtual, Virtual
Committee Members:	Becky Lloyd (Committee Chair), Alec Tang, Alison Howard, Carolyn Mortland, Jackie Cheyne, Joe Hanita, Mathew Nelson
Attendees:	Dr Amelia Sharman, Geoff Connor, Jack Bisset, Jeremie Madamour, Judy Ryan, Lisa Kelsey, Nicola van Rooijen, Rikki Owen, Wendy Venter

1. Welcome and Karakia

1.1 Private Agenda Item 9:00 am (3 min)

2. Private Section

2.1 Private Agenda Item 9:03 am (15 min)

3. Private Section

3.1 Private Agenda Item 9:18 am (1 min)

3.2 Private Agenda Item 9:19 am (1 min)

3.3 Private Agenda Item 9:20 am (1 min)

3.4 Private Agenda Item 9:21 am (5 min)

3.5 Approval of minutes 9:26 am (2 min)

Becky Lloyd

For Decision

Supporting Documents:

3.5.a Minutes : SRB Meeting 007 (PUBLIC PAPERS) - 2 Jul 2025	6
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4. Private Section

4.1 Private Agenda Item 9:28 am (3 min)

4.2 Private Agenda Item 9:31 am (1 min)

- 4.3 Private Agenda Item** 9:32 am (1 min)
- 4.4 Private Agenda Item** 9:33 am (1 min)
- 4.5 Private Agenda Item** 9:34 am (1 min)

5. Updates (public)

5.1 Chair update 9:35 am (15 min)

Becky Lloyd

For Noting

5.2 Documents open for comment 9:50 am (20 min)

Judy Ryan

For Decision

SASB and EFRAG

Supporting Documents:

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5.3 International monitoring 10:10 am (10 min)

Lisa Kelsey

For Noting

Supporting Documents:

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6. Specific Updates (public)

6.1 Work of the International Valuations Standards Council (IVSC) 10:20 am (15 min)

Dr Amelia Sharman

For Noting

Supporting Documents:

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6.1.b IVSC PP (2020) Defining and estimating Social Value.docx.pdf	24
6.1.c IVSC PP (2021) ESG+in+Business+Valuation.pdf	37
6.1.d IVSC PP (2021) A+Framework+to+Assess+ESG+Value+Creation.pdf	49
6.1.e IVSC PP (2022) Human-Capital-Introspective-Part-2.pdf	62
6.1.f IVSC PP (2022) Defining and estimating Social-Value-Part 2.pdf	74
6.1.g IVSC PP (2024) ESG-and-Real-Asset-Valuation-September-2024.pdf	87
6.1.h IVSC PP (2025) 2024 ESG survey.pdf	111

6.2 Guidance update 10:35 am (20 min)

Jeremie Madamour, Judy Ryan

For Noting

Supporting Documents:

6.2.a Update on guidance.pptx 127

6.3 MORNING TEA BREAK 10:55 am (15 min)

7. Private Section

7.1 Private Agenda Item 11:10 am (30 min)

8. Private Section

8.1 Private Agenda Item 11:40 am (70 min)

8.2 Lunch break 12:50 pm (45 min)

9. Private Section

9.1 Private Agenda Item 1:35 pm (30 min)

10. Private Section

10.1 Private Agenda Item 2:05 pm (10 min)

10.2 Private Agenda Item 2:15 pm (30 min)

10.3 AFTERNOON TEA BREAK 2:45 pm (15 min)

10.4 Private Agenda Item 3:00 pm (70 min)

11. Private Section

11.1 Private Agenda Item 4:10 pm (30 min)

12. Close and Karakia

12.1 Close & karakia 4:40 pm (5 min)

12.2 Next meeting

Next meeting: SRB Meeting #009 - 15 Oct 2025, 9:00 am

MINUTES (in Review)

SRB MEETING 007 (PUBLIC PAPERS)

Name:	Sustainability Reporting Board
Date:	Wednesday, 2 July 2025
Time:	9:15 am to 5:00 pm (NZST)
Location:	The Icehouse, Level 4, San Francisco Room, 125 Saint Georges Bay Road, Parnell, Auckland 1052
Committee Members:	Becky Lloyd (Committee Chair), Alison Howard, Carolyn Mortland, Jackie Cheyne, Joe Hanita, Mathew Nelson
Attendees:	Dr Amelia Sharman, Geoff Connor, Jack Bisset, Jeremie Madamour, Judy Ryan, Lisa Kelsey, Wendy Venter, Rikki Owen, Nicola van Rooijen
Apologies:	Alec Tang

1. Welcome and Karakia

1.1 Private Agenda Item

1.2 Private Agenda Item

1.3 Private Agenda Item

1.4 Private Agenda Item

1.5 Private Agenda Item

1.6 Approval of minutes

SRB Meeting 006 (PUBLIC PAPERS) 8 Apr 2025, the minutes were confirmed as presented.

2. Private Section

2.1 Private Agenda Item

2.2 Private Agenda Item

2.3 Private Agenda Item

2.4 Private Agenda Item

3. Updates (public)

3.1 Chair update

The Board NOTED an update from Becky Lloyd, Chair. Becky discussed the following topics:

- The recent submission on IFRS S2 ED on GHG emissions (available here)
- Presentation and attendance at the AIRA conference in Sydney
- AASB meeting with Sue Lloyd (ISSB) on proportionality mechanisms
- Attendance at Mindful Money conference.

3.2 Documents open for comment

The Board AGREED with the staff recommendation not to provide a formal submission on the Department of Conservation's discussion document – Action for nature: implementing New Zealand's biodiversity strategy 2025-2030.

The Board NOTED two forthcoming exposure drafts (EDs) from the International Sustainability Standards Board (ISSB):

- Exposure Draft *Proposed Amendments to the SASB Standards*
- Exposure Draft *Proposed Amendments to the Industry-based Guidance on Implementing IFRS S2*.

The Board NOTED the 150-day comment period and NOTED that staff will provide a recommendation at the next meeting regarding whether the Board should comment on the EDs.

3.3 International monitoring

The Board NOTED the update on international and jurisdictional monitoring. The Board discussed the MOU between the TNFD and ISSB, the future expectations of the IPSASB's work programme regarding CRD, and the recently published GRI 102 standard.

ACTION: GRI 102: Climate Change 2025 vs Aotearoa New Zealand Climate Standards.

The Board asked staff to prepare a paper comparing GRI 102: Climate Change 2025 with Aotearoa New Zealand Climate Standards for a future meeting.

3.4 Category 15 GHG emissions

The Board RECEIVED a presentation from staff on – Understanding scope 3 financed emissions.

ACTION: Financed emissions of managers of a registered scheme.

The Board asked staff to prepare a presentation with a focus on financed emissions of managers of a registered scheme for a future meeting.

ACTION: Disclosure of financed emissions.

The Board asked staff to share any good examples to date of the disclosure of financed emissions by a registered bank and a manager of a registered scheme.

3.5 MORNING TEA BREAK

4. RFI on international alignment: Submissions received (public)

4.1 Responses to RFI on international alignment

The Board NOTED the analysis of feedback received on the request for information — *The international alignment of climate reporting*. The Board noted the observations from staff regarding the value of organising feedback sessions with industry bodies and how the use of the term ‘mutual recognition’ was used as a shorthand to include other options including unilateral recognition and the use of exemption powers.

5. Private Section

5.1 Private Agenda Item

5.2 Lunch break

6. Private Section

6.1 Private Agenda Item

6.2 Private Agenda Item

7. Private Section

7.1 Private Agenda Item

7.2 AFTERNOON TEA BREAK

7.3 Private Agenda Item

7.4 Private Agenda Item

8. Private Section

8.1 Private Agenda Item

9. Close and Karakia

9.1 Close & karakia

9.2 Next meeting

Next meeting: SRB Meeting #008 - 26 Aug 2025, 9:00 am

Signature: _____

Date: _____

Date: 14 August 2025

To: SRB Members

From: Judy Ryan

Subject: Documents open for comment

Purpose and introduction¹

1. The purpose of this paper is to:
 - (a) INFORM the Board about documents currently open (or forthcoming) for comment; and
 - (b) CONFIRM which documents the Board will comment on and, where relevant, provides feedback on our proposed approach for developing submissions.

Recommendations

2. That the Board:
 - (a) AGREES not to submit on the European Sustainability Reporting Standards (ESRS) exposure drafts;
 - (b) NOTES the intention to bring a recommendation to the SRB October meeting on responding to the SASB Exposure drafts; and
 - (c) NOTES the update on forthcoming exposure drafts to SASB Standards by the ISSB.

Domestic

3. There are no domestic consultations to bring to the attention of the SRB.

International

4. Table 1 identifies relevant documents issued by international standard-setting bodies that are currently open (or forthcoming) for comment.

Table 1: International documents open for comment

Document	Organisation	International due date	Comments on SRB response
Amended ESRS	EFRAG	29 Sep 2025	Staff recommend that the SRB does not submit on the ESRS exposure drafts. See paragraph 5 to 6.
<i>Exposure draft of enhancements to 9 sector standards and targeted amendments to 41 other standards</i>	ISSB	30 Nov 2025	Staff will bring a recommendation to the SRB at its October meeting on whether the SRB should submit on this ED. See paragraphs 7 to 9.

¹ This memo refers to the work of the International Accounting Standards Board (IASB), International Sustainability Standards Board (ISSB), International Public Sector Accounting Standards Board (IPSASB) and uses registered trademarks, for example, IFRS® Sustainability Disclosure Standards, ISSB® papers and IPSASB SRS™.

Document	Organisation	International due date	Comments on SRB response
Sector standard for textiles and apparel	GRI	28 Sep 2025	Staff recommend that the SRG does not submit on the GRI exposure draft. See paragraph 10 to 11.
Labour Standards	GRI	15 Sep 2025	Staff recommend that the SRG does not submit on the GRI exposure draft. See paragraph 12 to 13.
<i>Exposure draft for Agricultural Products, Meat & Dairy, and Electric Utilities & Power Generators SASB Standards</i>	IFRS	Q4 2025	These exposure drafts are expected to be issued in the fourth quarter of 2025. These sectors are likely to be very relevant in the New Zealand context.
<i>Scope 2 Guidance</i>	GHG Protocol	Q4 2025	The revised guidance is expected to be published in the fall (?October?), with comments open for 60 days.

EFrag Exposure drafts on amended ESRS

5. On 31 July EFRAG published the revised and simplified Exposure Drafts (EDs) of the ESRS. Please refer to the update on international and jurisdictional monitoring agenda item for more information on the EDs.
6. Staff recommend not submitting a response to the ESRS EDs. The XRB is unlikely to have significant influence over the final outcome, and there are other pressing domestic priorities that warrant greater focus. Additionally, the consultation is expected to attract a high volume of responses, and we do not anticipate having a unique perspective that would add to the discussion.

ISSB Exposure Draft on amendments to 9 SASB sector standards and targeted amendments to 41 other standards

7. As part of its 2024–2026 work plan, the International Sustainability Standards Board (ISSB) is enhancing the SASB Standards to provide timely support to entities in applying IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2).
8. The proposed amendments in this consultation relate to:
 - (a) Enhancements to SASB standards in extractive sectors (coal operations, construction materials, iron & steel production, metals & mining, oil & gas – exploration & production, oil & gas – midstream, oil & gas – refining & marketing, oil & gas – services) and processed foods.
 - (b) Targeted amendments to 41 other standards. These include metrics on GHG emissions, energy management, water management, labour practices and workforce health and safety. The proposed targeted amendments result from the proposed amendments to the nine priority industries that affect metrics frequently occurring in other SASB Standards.
9. Staff intend to bring a recommendation to the October SRB meeting on whether the XRB should respond to this ED. While the extractive sectors are not highly relevant in the New Zealand context, it is somewhat precedent setting due to the consequential amendments to

the 41 other standards. Staff have not yet had time to analyse these impacts and whether they are material in the New Zealand context.

GRI Sector Standard Project for Textiles and Apparel

10. The purpose of the Textiles and Apparel Sector Standard is to enhance the quality and comparability of sustainability information, by setting the global best practice for organisations operating in textile production, apparel and footwear manufacturing as well as retail.
11. Staff recommend not to submit a response to the GRI Sector Standard for Textiles and Apparel, as the sector is not a significant focus within the New Zealand context. Given the relatively limited scale of textiles and apparel manufacturing and processing in New Zealand, the standard is unlikely to have material implications for local reporting entities. As such, XRB has prioritised efforts elsewhere.

GRI Labor Standards

12. The exposure drafts for 'Non-discrimination and Equal Opportunity' and 'Diversity and Inclusion' of the GRI Topic Standard Project for Labor are available for public comment between 01 July and 15 September 2025.
13. Staff recommend not to submit a response to the GRI standards, as staff attention is prioritised elsewhere at this time, and reporting on non-discrimination and diversity are optional in the New Zealand context.



Date: 13 August 2025
To: SRB Members
From: Sustainability Team
Subject: Update on international and jurisdictional monitoring

Purpose and introduction¹

1. The purpose of this paper is to provide the Board with an update of our international and jurisdictional monitoring.
2. This paper covers the period from 23 June 2025 to 13 August 2025.

Recommendations

3. The Board is asked to NOTE this update.

Structure of this memo

4. The remaining sections in this memo are:

[AASB](#)

[ASIC](#)

[ISSB](#)

[IPSASB](#)

[GHG ISB](#)

[ISO](#)

[PCAF](#)

[European Union](#)

[GRI's GSSB](#)

[Capitals Coalition](#)

[OECD](#)

[Basel Committee](#)

[Jurisdictional updates](#)

¹ This memo refers to the work of the International Sustainability Standards Board (ISSB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Sustainability Disclosure Standards, and ISSB® papers).

AASB

AASB meetings

5. At its meeting on 2 July 2025, the AASB received an update on the ISSB's forthcoming Exposure Draft on proposed amendments to the SASB Standards (SASB Exposure Draft) as part of their Enhancing the SASB Standards project. The AASB decided:
 - (a) not to issue a domestic wraparound of the SASB Exposure Draft;
 - (b) to support ISSB-led engagement with Australian stakeholders on the proposed technical amendments in the SASB Exposure Draft; and
 - (c) to engage in targeted outreach with Australian stakeholders to inform a comment letter to the ISSB on the strategic considerations in the SASB Exposure Draft.

This topic is expected to be considered further at the AASB's October 2025 meeting.

Submission to ISSB on proposed amendments to IFRS S2

6. The [AASB submitted](#) on ISSB/ED/2025/1 Amendments to Greenhouse Gas Emissions Disclosures. The AASB agreed in principle with the proposal to permit an entity to limit its measurement and disclosure of Scope 3 Category 15 GHG emissions to financed emissions (as defined in IFRS S2), thus allowing an entity to exclude emissions associated with: derivatives; and other financial activities (for example, facilitated emissions or insurance associated emissions).

Guidance issued

7. On 29 July the AASB issued [Comparison Document AASB S2 Climate-related Disclosures with the TCFD Recommendations](#). This is a rebrand by the AASB of the same document issued by the ISSB (originally issued in July 2023 and republished in [November 2024](#)). The AASB has had to make minor tweaks for their context – for example, explain that AASB S1 is voluntary in Australian, remove references to industry-based metrics and guidance, reference Corporations Act for scenarios and add references to appendix D of AASB S2.

AASB S2 Implementation Advisory Panel

8. The AASB S2 Implementation Advisory Panel (IAP) held its first meeting at the end of May. Here is a link to the [summary of that meeting](#). Australian CREs will be able to [go to this page](#) on the AASB website to submit implementation questions.
9. Questions submitted to the IAP should meet **all** the following three criteria:
 - (a) The question relates to:
 - (i) The implementation of an Australian-specific requirement in AASB S2; or
 - (ii) The Australian-specific implementation of a paragraph in AASB S2 that is aligned with IFRS S2; and
 - (b) The question indicates that AASB S2 can be applied in different ways, resulting in possible diversity in practice; and
 - (c) The question is expected to be pervasive (i.e. relevant to a range of stakeholders).

10. The AASB do note on the webpage that if an entity is unsure whether its implementation question relates to an Australian-specific issue, it is encouraged to submit its question. AASB staff can then help direct the question to the appropriate forum for consideration if it meets the relevant criteria.

ASIC

11. In a [media release](#) on the 18 September 2025, ASIC urged businesses to prepare for mandatory climate reporting. To assist reporting entities, ASIC has established a dedicated [sustainability reporting page](#) on the ASIC website to provide information about the new regime and how ASIC will administer it. We encourage reporting entities to refer to this page as an ongoing resource as it will be updated with further information and regulatory guidance.

ISSB

ISSB Meetings

12. The ISSB met on 23-24 July 2025. The agenda papers contain relevant developments.
- (a) [Agenda Paper AP3](#) outlines a project plan for phase 2 research project on Biodiversity, Ecosystems and Ecosystem services which will move from researching and synthesising nature-related information demand from investors, effects, standards, disclosure,² to synthesising the research findings and making recommendations. This includes recommendations for potential standard setting, additional guidance, educational material and/or further research. Of particular interest to the SRB includes:
- (i) Timing wise, the recommendations around potential standard setting are still expected 'in the coming months' (paragraph 24).
 - (ii) The emphasis on the '...the anchoring principle of 'S1 plus''. This principle was originally set out in paragraph 12(c) of Agenda Paper 2B Research design and approach (July 2024). Our view is that this principle indicates somewhat of a 'default bias' towards utilising the S1 standard in combination with the (evolving) SASB metrics, over new standard setting via an 'S3' type approach. We broadly expect this principle to favour of an approach that does not see an ISSB consultation on S3 (or S4 on human capital) any time in the near term.
 - (iii) In synthesising phase 1 findings and moving to make recommendations, the staff will analyse: (a) necessity and (b) feasibility.
 - (iv) Observed practice, which clarifies the universe of existing practice: 'As evidenced in our phase 1 research, for instance, some investors focus on entity risks and opportunities for discrete topics, such as water, pollution, waste, or deforestation, or focus on nature-related risks and opportunities that are specific for an entity's industry. A few investors attempt to assess an entity's risks and opportunities related to changes in the state of nature for the critical ecosystems that an entity operates in or obtains resources or ecosystem services from.'
 - (v) To summarise, the ISSB staff are seeing a mix of 'topic', 'industry' and 'ecosystem' approaches to nature risk and impact analysis and disclosure. Broadly speaking

² This included research on (a) evidence of investor interest; (b) evidence of effects on an entity's prospects; (c) assessment of other disclosure standards and frameworks; and (d) assessment of the current state of disclosure.

SASB and GRI have tended to be more topic and industry based, and TNFD has more of an industry and ecosystem focus rather than topic focus (compared with SASB/ESRS). This shift away from topics towards ecosystems is a more recent evolution in practice and still includes a lot of variation within it.

- (b) [Agenda paper AP3A](#) summarises the proposed SASB amendments that relate to nature. Of particular interest to the SRB includes:
 - (i) Footnote 3 notes that ISSB has considered TNFD recommendations and GRI standards but not ESRS given the Omnibus proposal to eliminate the ESRS sector standards.
 - (ii) The differences in investor interest for various nature-related risks and opportunities in different industries.
 - (iii) The proposed amendments are mostly technical in nature, aligning metrics, units and definitions with those used in GRI and TNFD documents, without changes to the industry-specific nature and focus on investors (aspects on which SASB differs from GRI and TNFD).
- (c) [Agenda paper AP4](#) related to the Human Capital research project. Of particular interest to the SRB includes:
 - (i) The research identified a need to standardise and organise key concepts to provide a common framework for human capital-related financial disclosures. An analogy is drawn with climate and its categorisation of risks between ‘physical’ and ‘transition’.
 - (ii) Key barriers mentioned are: Inconsistent understandings of human capital-related terms and concepts; the ambiguity of the scope of different aspects of human capital, and of the boundaries between them; a lack of clarity on the relationships between human capital-related concepts and risks, opportunities and effects on entities’ prospects.
 - (iii) Therefore, the project will focus on developing a ‘construct’ articulating these foundations before any substantive work can be started.
- (d) [Agenda paper 9](#) provides a summary of preliminary feedback on the on the Exposure Draft *Amendments to Greenhouse Gas Emissions Disclosures* that is informed by feedback gathered during outreach activities and a preliminary review of the comment letters and survey responses received; and the ISSB staff comments on redeliberations. This paper does not seek any decisions from the ISSB. At a future ISSB meeting, the ISSB staff will provide a more comprehensive feedback summary and further analysis informed by a detailed review of comment letters and survey responses.
 - (i) We note that the preliminary feedback shows broad support for the proposed relief to permit an entity to limit its measurement and disclosure of Scope 3 Category 15 GHG emissions to financed emissions (as defined in IFRS S2), thus allowing an entity to exclude emissions associated with: derivatives; and other financial activities (for example, facilitated emissions or insurance associated emissions).

Other ISSB activities

13. The ISSB has been busy issuing various pieces of guidance over this period. Notable ones are:
 - (a) [Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2](#)
 - (b) [Using ISSB Industry-based Guidance when applying ISSB Standards](#)

IPSASB

14. The IPSASB held an online check-in meeting on 24 July 2025. The IPSASB reviewed the draft *2025 Work Program Consultation* and will solicit feedback from attendees at the Public Sector Standard Setters Forum in September on specific projects for prioritisation. The IPSASB is expected to approve the consultation document in September 2025 for release in December 2025.
15. The IPSASB also decided to extend the transition timeline for reporting Scope 3 emissions from one year to three years following consultation feedback. Key reasons for the relief include the GHG Protocol undergoing revision, the complexity of the public sector context and data maturity. Members discussed that each jurisdiction will ultimately make its own decision on applying any additional transition relief.
16. A first draft of the final pronouncement of the [draft] IPSASB SRS 1 *Climate-related Disclosures* will be discussed at the September 2025 meeting with the aim of issuing a standard covering Own Operations by December 2025.

GHG ISB

17. On July 14, the Independent Standards Board (ISB) approved the proposed location-based and market-based method revisions for public consultation starting 'this fall' (possibly meaning October 2025). These revisions include new emission factor hierarchies and new regional and hourly matching criteria, but do not require hourly data in all cases and include important feasibility measures. These updates aim to improve the integrity and precision of accounting for corporate scope 2 emissions (also known as emissions from purchased and consumed electricity, steam, heat and cooling). The ISB vote is a key milestone as GHG Protocol prepares to solicit public feedback on the draft revisions via an online survey process, which will be open for 60 days beginning this fall. [More information >>](#)
18. Technical working groups continue to work through updates to the standards. The Corporate Standard Technical Working Group is updating accounting and reporting principles, base year and recalculations, consolidation approaches, scope 3 reporting and justifiable exclusions. The Scope 3 working group has put revisions to the ISB for consideration on 28 July. The outcome of this is not known. [More information >>](#)

ISO

19. The committee draft of ISO 14060 *Net Zero Aligned Organizations* is under consultation. Consultation closes on 16 September 2025.

PCAF

20. PCAF has launched an engagement group for Central Banks and Financial Regulators. This is designed to serve as a dedicated channel for ongoing communication between PCAF, central banks and regulators. [More information >>](#)

European Union

21. EFRAG released [exposure drafts](#) of the 12 European Sustainability Reporting Standards (ESRS) on 31 July 2025. Submissions close on 29 September 2025. Mandatory datapoints (to be reported if material) have been reduced by 57 per cent. The overall length of the standards has been reduced by more than 55 per cent, down to 166 pages.
22. Key changes to E1 – Climate Change include:
- (a) Removing disclosures on:
 - (i) Alignment with Paris-aligned benchmarks
 - (ii) GHG intensity on revenue
 - (iii) Concept of high climate impact sectors
 - (iv) Net-zero target disclosures
 - (v) Acute and chronic physical risk exposures
 - (vi) Several financial effect datapoints
 - (b) Simplified disclosures on:
 - (i) Transition plan, scenario analysis, resilience
 - (ii) Policies, actions, and targets (PATs)
 - (iii) CapEx/OpEx linkages, GHG emissions, carbon removals, carbon pricing.
 - (iv) No longer required: baseline normalisation (e.g., 3-year averages), subsidiary-level target reporting, or updates every 5 years after 2030
23. One of the top down levers of simplification was to enhance interoperability to bring the ESRS in line with the IFRS Sustainability Reporting Standards, including fair presentation and undue cost and effort, outlined in paragraphs 95 to 101 of the [Basis for conclusions](#).
24. GRI [claims](#) the amended ESRS 1 (General requirements) is even more closely aligned to the GRI principles based approach and the intended audience for 'general purpose sustainability statements' is all affected stakeholders.

GRI's GSSB

25. The Global Sustainability Standards Board (GSSB) held two virtual meetings—on 10 July and 17 July—focused on progressing key elements of its 2023–2025 Work Program. The July meetings advanced the Topic Standard Project for Economic Impacts, including the approval of an exposure draft for Economic Performance and a public comment questionnaire. These steps mark a significant milestone in the revision of GRI 201, 202, and 203, aiming to improve clarity and consistency in disclosures related to economic contributions, local procurement, and infrastructure investment.

26. The GSSB also discussed the evolution of the global corporate reporting system and GRI's role within it, reinforcing its commitment to interoperability with other frameworks such as the ISSB and EFRAG.
27. In parallel, the GSSB reviewed progress on the Sector Standard Project for Textiles and Apparel, approving an exposure draft and related consultation materials. This project is part of a broader effort to align sector-specific standards with revised Topic Standards and stakeholder expectations. The GSSB also received updates on the implementation schedule for 2025 and endorsed the final project proposal for the Impacts, Risks, and Opportunities (IRO) framework. These developments reflect the GSSB's strategic focus on enhancing the relevance, usability, and global uptake of the GRI Standards, while preparing for the next cycle of standard-setting under the 2026–2028 Work Program.

Climate-related and Other Uncertainties in the Financial Statements

28. On the 24 July 2025 the IFRS Foundation [published](#) near-final examples on reporting uncertainties in the financial statements using climate-related examples. It presents minor changes to the exposure draft, the most notable being that examples 1 and 2 have been combined into one example with two scenarios and example 5 (that related to deferred tax assets and was the only non-climate example) has been removed.

Capitals Coalition

29. Capitals Coalition has announced a merger with the International Foundation for Valuing Impacts ([IFVI](#)) in an effort to advance impact accounting for value creation. Since its inception, IFVI's aim has been to "make impact information as critical to decision-making as financial information".
30. Capitals Coalition are also involved in a pilot of the Natural Capital Accounting principles along with the TNFD and the International Sustainable Forestry Coalition, working together to provide consistent natural capital reports.

OECD Platform on Financing SMEs for Sustainability

31. On the 30 June 2025, the OECD under its platform on financing SMEs for Sustainability issued [OECD Guidance Note on fostering convergence in SME sustainability reporting](#).

Basel Committee

32. On 13 June the Basel Committee on Banking Supervision³ published a [voluntary framework](#) for disclosing climate-related financial risks. It includes both quantitative and qualitative information, with jurisdictions to consider whether to implement it domestically.

Jurisdictional updates

33. [Appendix A](#) includes a brief update on the jurisdictions we have prioritised as "Priority 3: Awareness". This update focuses on how these jurisdictions are adopting, applying or otherwise been informed by the ISSB Standards. The ISSB also provides a list of ongoing and

³ The Basel Committee is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.

completed jurisdictional consultations at national and supra-national level on sustainability-related disclosures.⁴

⁴ See [Jurisdictional sustainability consultations](#)

Appendix A: Jurisdictional updates

Jurisdiction	Update									
United Kingdom	<ul style="list-style-type: none">The UK government has decided to abandon its plans for a domestic green taxonomy due to a lack of public support and concerns over its effectiveness in driving sustainable investment.Ongoing consultation on SRS S2 exposure draft, ending on 17 September 2025.									
United States	<p>In California:</p> <ul style="list-style-type: none">The Climate Corporate Data Accountability Act (SB 253) will require entities with US\$1b+ annual revenue, doing business in California to disclose scope 1 and 2 GHG emissions starting in 2026, and scope 3 from 2027. Limited assurance will be required for scope 1 and 2 disclosures from 2026, changing to reasonable assurance from 2030. Limited assurance of scope 3 will be required from 2030, but the California Air Resources Board (CARB) is yet to decide whether to introduce this requirement earlier.The Climate-related Financial Risk Act (SB 261) will require entities with US\$500m+ annual revenue, doing business in California to prepare and publish their first reports on climate-related financial risks and mitigation and adaptation strategies by 1 January 2026, and biennially thereafter. There are no assurance requirements. <p>Companies will be able to report under SB 261 in accordance with the TCFD recommendations (TCFD 2017), IFRS S2 or any other framework deemed by CARB to be equivalent to TCFD 2017 or IFRS S2. CARB published FAQs about both laws on 9 July 2025. CARB is also planning to publish regulations or guidance in late 2025 that will finalise the minimum disclosure requirements under SB 261.</p> <table><tr><th colspan="3">KEY REPORTING DEADLINES</th></tr><tr><th>Jan 1, 2026</th><th>2026 (specific date to be announced)</th><th>2027</th></tr><tr><td>Initial SB 261 reports due</td><td>Initial SB 253 reports due</td><td>Disclosure of scope 3 emissions will be required based on 2026 numbers</td></tr></table>	KEY REPORTING DEADLINES			Jan 1, 2026	2026 (specific date to be announced)	2027	Initial SB 261 reports due	Initial SB 253 reports due	Disclosure of scope 3 emissions will be required based on 2026 numbers
KEY REPORTING DEADLINES										
Jan 1, 2026	2026 (specific date to be announced)	2027								
Initial SB 261 reports due	Initial SB 253 reports due	Disclosure of scope 3 emissions will be required based on 2026 numbers								
Canada	<p>Whilst the Canadian Securities Administrators (CSA) have paused work on a new mandatory climate-related disclosure rule, the Canadian Sustainability Standards board (CSSB) have released a new guide to support voluntary implementation <i>Guide on Adopting a Climate-first Approach in Sustainability Reporting</i>, i.e., focussing on climate risks and opportunities.</p> <p>The Competition Bureau has released new guidelines to support compliance with existing anti-greenwashing provisions in the amended Competition Act. It states that certain claims must be based on adequate and proper testing, or proper substantiation in accordance with an internationally recognised methodology.</p>									

Appendix B: Glossary

AASB	Australian Accounting Standards Board
AOSSG	Asian-Oceanian standard-setters group
ASIC	Australian Securities & Investments Commission
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EFRAG SRB	European Financial Reporting Advisory Group Sustainability Reporting Board
GHG ISB	GHG Protocol Independent Standards Board
GSSB	Global Sustainability Standards Board GRI Standards
IASB	International Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
ISO	International Organization for Standardization
ISSB	International Sustainability Standards Board
ISSB TIG	International Sustainability Standards Board Transition Implementation Group on IFRS S1 and IFRS S2
ITPN	The International Transition Plan Network
OECD	Organisation for Economic Co-operation and Development
PCAF	Partnership for Carbon Accounting Financials



Date: 12 August 2025

To: SRB Members

From: Amelia Sharman

Subject: International Valuation Standards Council (IVSC) papers

Purpose and introduction

- 1) The purpose of this paper is to share papers from the International Valuation Standards Council (IVSC) that may be of interest to the SRB as optional reading.

Recommendations

- 2) That the SRB NOTES the papers (if of interest, as optional reading).

About the IVSC

- 3) The IVSC is a non-profit organisation dedicated to establishing and promoting global valuation standards to serve the public interest. It is governed by a Board of Trustees and is headquartered in London. CA ANZ and the Property Institute of New Zealand are [members of the IVSC](#).

About the papers

- 4) The following papers are available. All papers are available in BoardPro [here](#).

Name	Date
The integration of ESG in valuation practices: IVSC Global Survey 2024	2025
ESG and real asset valuation	2024
Time to get tangible about intangible assets. Part 2: Human capital introspective	2022
Defining and estimating social value: Part II	2022
ESG and business valuation	2021
A framework to assess ESG value creation	2021
Defining and estimating 'social value'	2020

Perspectives Paper: *Defining and Estimating 'Social Value'*



International
Valuation
Standards
Council



November 2020



Perspectives Paper: Defining and Estimating 'Social Value'

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

By: IVSC Social Value Working Group¹, in consultation with the IVSC Standards Review Board and IVSC Technical Boards.

Introduction

The concept of 'Social Value' is an area of growing government, public and commercial interest. However, its meaning is often clouded in uncertainty, with many definitions, and the lack of an internationally recognised measurement framework and standards of practice.

In this perspectives paper we explore

some of the **concepts** surrounding Social Value and seek your comments to determine whether standards or guidance material are required.

Background

Whilst the concept of Social Value has relevance to both for-profit and not-for-profit entities, its growing importance is principally driven by investment or

¹ Alexander Aronsohn (Technical Director), Roy Farthing (SRB), Brendan Gallagher (TAB), Richard Hayler (SRB), Kim Hildebrandt (TAB), and Claire Magowan.

financial management decisions associated with entities with a not-for-profit focus including:

- i. Governments, NGOs and Charities desire or need to select, or assess the performance of, investments or projects.
- ii. Corporates seeking to justify investments, particularly where planning permission or licences are required, not solely on commercial merits but also on the **benefits to the wider community.**
- iii. Governments, NGOs and Charities seeking to administer valuations for financial reporting purposes to adhere to financial management standards and regulations.

The problems and challenges for valuers in the for-profit sector are, perhaps, better understood than they are in the not-for-profit sector. However, the lack of an internationally recognised valuation framework has the potential to result in jurisdictions and/or valuers developing their own **divergent** approaches and definitions. This has the potential to lead to reduced **consistency, transparency and comparability** across borders and asset classes, creating significant debate and reducing the credibility of such valuations

amongst stakeholder groups.

As was once the case for discounted cashflow methods, the concept of Social Value is in its infancy in many jurisdictions, and as such is prone to challenges as the practice develops. However, with an increased focus on **governance and transparency** we anticipate that in the longer term it has the potential to become a more prominent part of the standard reporting framework for investments and financial management decisions.

In the following sections we address the concept of Social Value and consider the implications for framework development.

Defining Social Value

During our research we identified several definitions of Social Value, however, while there were some **consistent themes** there was also a **lack of common language.** At times it would be possible to draw quite different conclusions by applying two different definitions of Social Value.

On further analysis it appeared that much of the difference in the definitions arises from the perspective applied, specifically from whose perspective Social Value was being considered.

In a commercial valuation, the perspective is accounted for upfront and forms part of the Basis or Standard of Value. This might consider the value from the perspective of a particular buyer or seller, a market participant or even a hypothetical market participant where no observable market exists.

In the case of Social Value, the breadth of perspectives is vast as an asset may have different value to different stakeholders. It is therefore imperative that the definition of Social Value i) does not constrain the valuer to considering only one particular element and that ii) the valuer is able to specify the group or groups from whose perspective it is being considered.

We believe that the following definition of the concept of Social Value best encapsulates each of the elements described above:

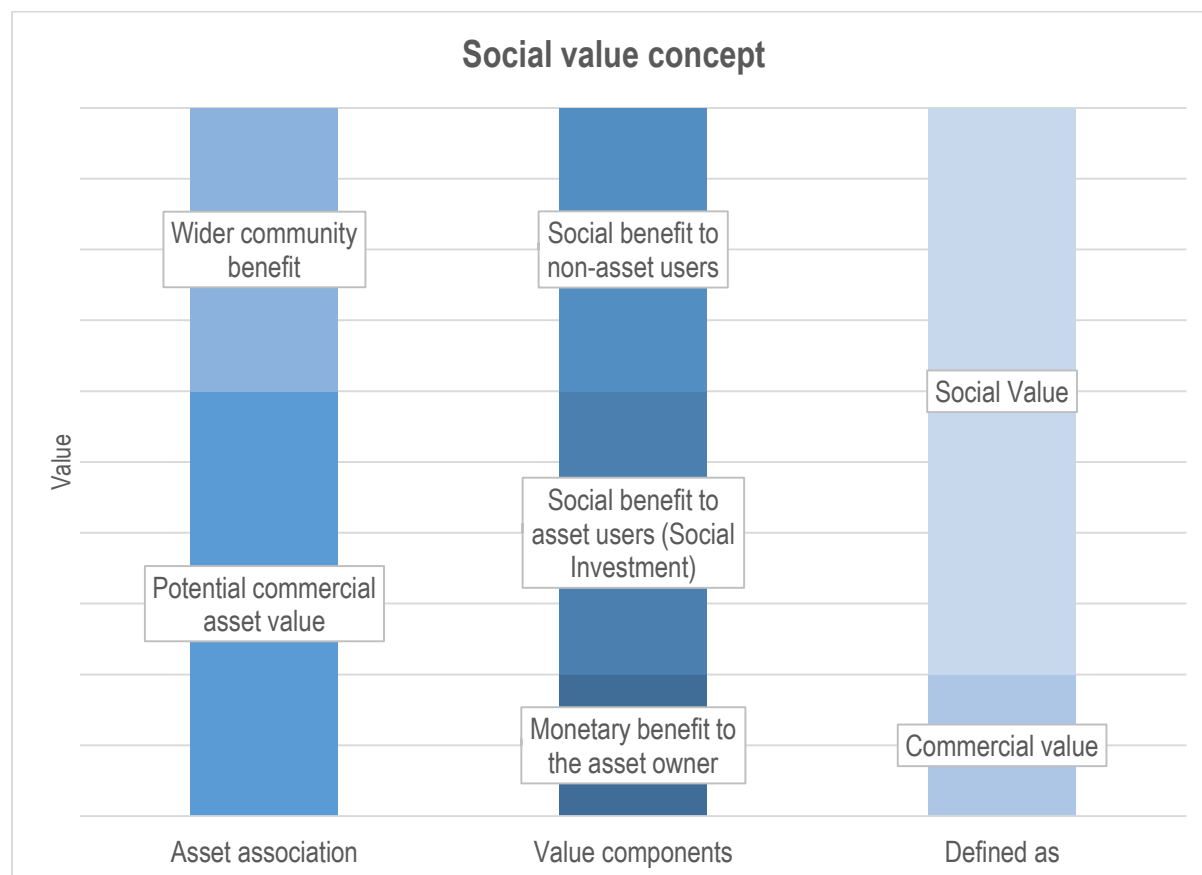
'Social Value' includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts

including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.

What do we mean by Social Value?

One approach to assist in visualising the concept of Social Value is to consider the following three elements:

1. **Monetary benefit to the asset owner:** the cash flows derived from the use of the asset that flow to the asset owner(s).
2. **Social benefit to asset users:** the benefits derived from the use of the asset that flow to the asset users.
3. **Social benefit to non-asset users:** the benefits derived from the asset that flow to the non-asset users including the wellbeing of individuals and communities, social capital and the environment.



There are well-defined bases of value and valuation approaches to measure the monetary benefit to the asset owner(s). However, the measurement of social benefits can be challenging.

With regard to the benefits that flow to the asset users, examples might include:

- Cash flows foregone by the asset owner, in the form of subsidised, reduced, or minimal access fees in relation to the assets employed.
- Value foregone by the asset

owner, in the form of sub-optimal (from a commercial perspective) uses of the assets employed.

For the purpose of this paper we have adopted the term “social investment” to encapsulate these benefits.

With regard to the wider social benefits that flow to non-asset users, these can include economic and non-economic components such as increased economic activity, as well as improved social and environmental outcomes.



In the case of for-profit entities (entities whose principal objective is to generate a commercial return), the monetary benefit to the asset owner, is likely to be the dominant element. That is not to say that social benefits to asset users and non-asset users cannot also exist, however, these are likely to be secondary rather than primary objectives.

However, in the case of not-for-profit entities (entities whose principal objective is not the generation of a commercial return but the **provision of a public service**), the social benefits to asset users and non-asset users are likely to be the dominant elements. That is not to say that there can be no monetary benefit to the asset owner, however this is likely to be a secondary, rather than a primary objective.

Where might we see these various elements of Social Value at play in the community?

The following examples are provided to help illustrate the concept of Social Value:

Example 1: Rail Line

A not-for-profit public sector entity builds a new rail line connecting an outlying township to a major city. To encourage

the community to use this new rail transportation infrastructure rather than travel by private vehicle, the government, as the asset owner, determines that fares will be recovered on a subsidised basis.



By the government foregoing a large portion of the potential monetary benefit, the asset users are receiving a social benefit in the form of reduced train fares. Furthermore, the social benefits to non-asset users, in the form of increased economic activity in the township and reduced air pollution, are also likely to be significant.

In this case the monetary benefit to the government as the asset owner is likely to be secondary and the social benefits to asset and non-asset users, are likely to be the primary objective.

Example 2: Residential Development

A for-profit entity is seeking planning

permission for a mixed-use residential development. The developer would maximise its return by maximising the footprint of the construction. However, the developer has determined that its chances of obtaining planning consent will be improved by the inclusion of additional social improvements (e.g. an element of low-cost social housing and green public space).

By foregoing some of the potential monetary benefit it might have obtained from the development, the developer is effectively transferring that benefit to the asset users, who will benefit in terms of wellbeing from the low cost social housing and green public space.



In this case the monetary benefit to the asset owner is likely to be the dominant element. The social benefit to asset users whilst important, is likely to be secondary. The social benefits to non-asset users, in the form of increased economic activity

and amenity, may also be significant, but are likely to be secondary to the monetary benefit to the asset-owner.

Example 3: Cemetery

A government not-for-profit public sector entity acquires a large parcel of rural farming land for the purpose of creating a new cemetery. The price paid to acquire the rural farming land reflects a market rate at this time.

The permitted use of the land is subsequently amended to the specific public use as a cemetery. On one interpretation of highest and best use principles, this has the effect of materially diminishing the value of the land (from a commercial perspective), because those alternative uses are no longer permissible.

The cemetery will only seek to recover costs associated with the operation of the cemetery and will not generate a return on the initial acquisition of the land; as such the net cash flow to the government as the asset owner is nil. By the government foregoing the entire monetary benefit associated with the asset, the asset users are receiving a benefit in the form of reduced burial fees. Furthermore, the social benefits to the broader community, in the form of having a place to pay respect to the deceased,

are also significant.

In this case the monetary benefit to the government as the asset owner (nil) is clearly secondary and the social benefits to asset users and non-asset users, are likely to represent the primary objective.



The concept of Social Value outlined above includes implicit assumptions that need to be tested during the valuation process. For example, it assumes that the decision to use the asset for a given activity was because value, inclusive of Social Value (to the wider community), is greater than or equal to its commercial highest and best use value (to the owners). However, it represents a helpful cross check for the assessment of value, particularly since existing valuation methods can be applied to determine the monetary benefit to the asset owner and an approximation of the social benefit to the asset users.

The fact that a not-for-profit entity is prepared to expend public funds on social investment is entirely consistent with acting with the objective of providing social benefit to the community rather than focussing on the monetary benefit to the asset owner. However traditional value measurement methods and principles may not recognise these benefits adequately, and as a result, tensions can arise as to the appropriate way to measure value, especially from a financial reporting perspective.

Further, identifying and quantifying the wider financial and non-financial impacts of assets that flow to non-users of the assets, including the wellbeing of individuals and communities, social capital and the environment, is important when considering the business case for, and effectiveness of, the deployment of public funds.

Setting the scene for why Social Assets exist

As can be seen from the foregoing, the decision to hold an asset with the primary objective of providing monetary benefit to the asset owner or of providing social benefits to asset users and non-asset users, can have a material impact on the relative significance of the elements of

Social Value. Where an asset is held with the primary objective of providing social benefits to asset users and non-asset users, the asset can be described as a Social Asset.

'Social Assets' are assets or projects that exist primarily for the social benefit they provide. The value of these assets rarely accrues solely to the providers of capital.

All assets, projects and organisations have to some degree, a social impact. The impact may range from being significantly negative to extremely positive, and the quantum will often depend on the stakeholder being considered.

For example, in addition to the wider health benefits delivered to the community, the development of a large private hospital will have a positive social impact extrinsic to the asset in the form of significant job creation. This can have further beneficial impacts on parties other than those employed by the hospital. For instance, the government may benefit from increased income taxes. Public hospitals in the area may also enjoy a reduced patient load resulting in shorter waiting lists. However, there may be others in the same community who are negatively impacted, for example public

hospitals in the area who must now compete for staff.

In this example, the primary objective of the private hospital is to generate a return on the capital it has invested, while its social impact is a function of how it operates. Notwithstanding that both public and private hospitals provide similar services, a public hospital run on a not-for-profit basis would have a reduced focus on generating a return on the capital it has invested (or monetary benefit). As such, the public hospital would be described as a Social Asset, whereas a private hospital run on a for-profit basis would not.

Entities that primarily create, hold, or operate Social Assets include governments, charitable, not-for-profit, non-profit and non-government organisations. Social Assets exist for a variety of reasons, but incorporate at least some, if not many, of the following characteristics:

- They are generally acquired, built, held, and managed by not-for-profit entities, acting as trustees in the public interest.
- They are often essential services, recreational or monopolistic assets in nature, but may also service a greater public interest from an

- environmental or social perspective.
- These assets often have planning overlays, covenants, regulatory regimes or the like attached to them that ensure that they are used in the manner in which they are intended.
- They are often acquired or built using capital generated in the form of public taxes or private, philanthropic or public contributions.
- In some cases, they may be acquired or built to facilitate a foreseeable use where the private sector cannot justify the investment on a risk-adjusted basis.
- In many cases, there are much wider benefits to the community that go beyond the asset itself, creating an ecosystem where further industry is created, or social benefits realised.
- Access fees are typically either free or discounted in some way.
- As a result of these low access fees, they will often have impaired profitability from a commercial economic perspective relative to the assets that they employ.

Social Assets are many and vary by jurisdiction, but may include the following:

Transport & utilities	Governance, Safety and Security	Social	Cultural, sports & recreational
Roads	Parliament buildings	Schools	Stadiums / Theatres
Railways	Law courts	Universities	Museums
Ports	Prisons	Hospitals	Arts centres
Electricity	Emergency services	Cemeteries	City parks & gardens
Gas	Armed forces	Care & social housing	Wilderness areas
Water/wastewater	Arbitration centres	Sanitation	Memorials
Airports	Communications	Libraries	Sporting precincts
Launch facilities	Mediation centres	Youth centres	Skate parks
Waste management		Health clinics	



Of course, many of the above assets may not meet the definition of a Social Asset, if held for the primary objective of generating a commercial return for the asset owner. A critical feature of Social Assets is that the value generated by the asset does not solely accrue to the owners, but rather to a much larger group of stakeholders. Consequently, traditional valuation models that assess the value accruing to the providers of capital are likely to understate the wider value of the Social Asset. In contrast, estimates of Social Value extrinsic to the asset seek to capture the benefit that accrues to non-owners.

What makes Social Value difficult to determine?

It is in this setting that Social Value can be confusing for a valuer because the traditional theories of value are challenged for the following reasons:

- The wider community benefits associated with the assets are often difficult to measure.
 - In some instances, the present owner may be the only buyer.
 - Where sales do take place, they may not represent an arm's-length sales process.
 - The assets often generate either nil or impaired cash flows.
- This requires the valuer to think deeply about the concept of Social Value, and importantly what the value of these assets and benefits are to both the owners and wider stakeholder groups (i.e. public).
- Social Assets or commercial assets with social attributes are often unique and are rarely, if ever, traded in the open market.
 - Transactions that do occur may only price in the value to a certain owner, not the wider community benefits.



Give us your feedback on the concept of Social Value

Much of the above has considered the qualitative areas of Social Value. Who might use it, what does it mean, why is it difficult to determine, in what settings is it used? As we begin to unpack the concept of Social Value, there will be various quantitative areas that we will seek to discover.

But before we do this, the IVSC would be interested to hear your thoughts on the concept of Social Value discussed in this paper. This is the first of a series of Social Value perspectives papers, where the second paper is intended, subject to feedback, to explore the quantification and other issues in relation to the measurement of Social Value.

Any feedback in relation to the following questions would be welcomed:

Social Value:

1. Do you agree with the three-component model of Social Value described above? If not, why not and what components would you propose?
2. What components of the Social

Value model described above do you value in your jurisdiction, and what valuation methods or applications do you apply in doing so?

3. Do you think there are appropriate standards and guidance in your jurisdiction relating to the concept of Social Value?
4. Do the International Valuation Standards provide a strong enough framework for valuers and users of valuations to consider the concept of Social Value?
5. Do you agree with the definition of Social Value provided above? If not, why not and what alternative or amendment would you propose?
6. How should the valuer think about highest and best use as it relates to Social Value?

Social Assets:

7. Do you think a definition of Social Asset is helpful? Do you agree with the definition of Social Asset proposed above? If not, what alternative or amendment would you propose?
8. Do you value Social Assets within your jurisdiction and if so, for what purpose and



- under what standards, guidance or legislation?
9. Do you think the valuation of Social Assets is important, or will become increasingly important, for Governments, NGOs and Charities as part of good governance processes as the public seek greater accountability from the trustees of these assets?
 10. For those that are actively involved in the valuation of Social Assets, what areas or concepts prove the most difficult that could benefit from improved clarity or guidance?
 11. What elements, if any, identified in the Social Value model, do you feel might provide useful information to users of financial statements?
 12. Are planning overlays, covenants or regulatory regimes that are often attached to Social Assets inhibitors to value or complementary to them achieving their highest and best use in the public interest?
 13. Are there additional highest and best use considerations that are important in the consideration of Social Asset valuation?

The IVSC will continue to consider the topics in this article, and feedback outside our formal consultations is always welcome. You can share your thoughts with the Board or contribute to the discussion through the IVSC LinkedIn group page.

You can contact the authors through the IVSC at: contact@ivsc.org



Perspectives Paper: *ESG and Business Valuation*

March 2021

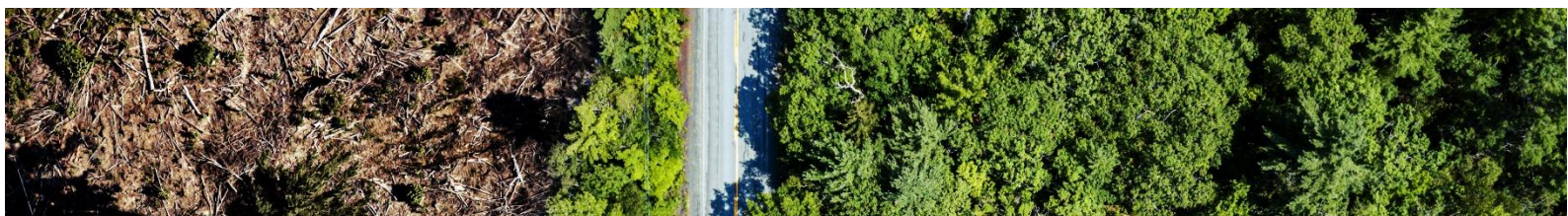
Perspectives Paper: ESG and Business Valuation

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

By: Kevin Prall, IVSC Business Valuation Technical Director with contributions from the Business Valuation Standards Board and the ESG Working Group

The IVSC has issued this Perspectives Paper to initiate discussion and debate on the topic of ESG in business valuation. Share your thoughts and perspectives with us [through LinkedIn](#)



The ESG Landscape

Environmental, Social, and Governance (ESG) factors have become central tenets in the capital allocation process for both the **providers of capital** (e.g., investors) and the users of capital (e.g., corporations).

Many institutional investors leverage ESG filters to guide their investment strategies and improve returns. A recent study by Morningstar discovered a majority of sustainable funds have outperformed their traditional peers over multiple time horizons. Over the 10-year period ending

in 2019, 59% of sustainable funds across the categories considered beat their traditional counterpart.¹

Additionally, C-Suite management has begun incorporating ESG considerations into their capital budgeting processes to gain a fuller understanding of their ability to drive sustainable financial performance. In fact, 9 out of 10 companies in the S&P 500 produced sustainability reports in 2019². For those that don't yet produce sustainability reports, political and investor pressures are only expected to mount.³

The events of 2020 have only acted to accelerate the broader adoption of ESG frameworks.

- **E** - Environmental disasters have become too prevalent and destructive to ignore.
- **S** - Social unrest has obligated enterprises to take a point of view on issues important to their workforce and broader stakeholders.
- **G** - The pandemic has challenged the governance structures of every industry and forced management to continuously pivot as they

guide a path to recovery.

Though fewer people today debate the importance of ESG and its impact on value creation, most struggle to make sense of the web of interconnected standards, disclosure requirements, and ESG ratings. The lack of uniformity results in wildly varying disclosures, and in effect, a hesitancy from the valuation profession to wholeheartedly embrace the value creation impact of ESG. Like other market participants, for valuers to successfully incorporate ESG into valuations they will need reliable ESG metric reporting that is consistent between companies, across geographies, and over time.

The IFRS Foundation has begun a project on ESG by seeking input on the need for a global set of internationally recognised ESG standards, and gauging support for its role in developing such standards, through the issuance of a recent Consultation Paper⁴. While some believe that the inclusion of ESG in financial reporting is untenable, Nick Anderson's 2019 article "IFRS Standards and climate-related disclosures" demonstrates the linkages between ESG and value creation.⁵ Specifically, Anderson notes

¹https://www.morningstar.com/content/dam/marketing/emea/shared/guides/ESG_Fund_Performance_2020.pdf

² [ESG: a trend we can't afford to ignore | Financial Times \(ft.com\)](https://www.ft.com/content/2019/11/27/esg-a-trend-we-cant-afford-to-ignore)

³ [Companies Could Face Pressure to Disclose More ESG Data - WSJ](https://www.wsj.com/articles/companies-could-face-pressure-to-disclose-more-esg-data-11601111111)

⁴ <https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>

⁵ <https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en>



the potential financial implications arising from climate-related and other emerging risks, all of which likely having **direct valuation implications**, may include, but are not limited to:

- **asset impairment**, including goodwill;
- changes in the **useful life of assets**;
- changes in the fair valuation of assets;
- effects on impairment calculations because of **increased costs or reduced demand**;
- changes in provisions for **onerous contracts** because of increased costs or reduced demand;
- changes in **provisions and contingent liabilities** arising from **fines and penalties**; and
- changes in expected **credit losses** for loans and other financial assets.

In addition to the IFRS foundation, there are other international organisations that have begun to drive convergence and standardisation. The CFA Institute has recently begun work to develop a voluntary, global industry standard to provide greater transparency and comparability for investors by enabling **asset managers** to clearly communicate the ESG-related features of their

investment products⁶. Similarly, the European Financial Reporting Advisory Group (EFRAG), has established a task force to proceed with the development of non-financial reporting standards to increase comparability, relevance and reliability of such non-financial information.⁷



Whether an ESG framework ultimately sits within the financial reporting framework, or separately, market participants are not waiting for a more universal framework when making investment decisions. Given that the role of valuers in the efficient capital allocation process is to reflect the considerations made by investors of capital, it's advisable for the valuation profession to do the same.

⁶ <https://www.cfainstitute.org/en/ethics-standards/codes/esg-standards>

⁷ <https://www.xbrl.org/news/efrag-appoints-esg-standards-task-force/>

This article, along with our recent panel discussion *Unlocking the Value of ESG*⁸ and our recent Agenda Consultation⁹, represent IVSC's first steps on the path toward a more systematic approach to the incorporation of ESG into business valuation practice and standards.¹⁰

Seeing ESG as 'Pre-Financial' and not 'Non-Financial' Information

There is a perception by some that because ESG disclosures are typically non-financial in nature that they therefore do not have a financial impact. This view fails to recognise that ESG represents a multitude of factors to assess the long-term financial viability and sustainability of an enterprise. When assessing lasting value, analysis must naturally move away from detailed price x quantity considerations and examine the structures that allow an enterprise to create value in the medium and long-term. ESG has become a framework for investors of capital to assess this fundamental question. Does the enterprise have a business model that faces threats from

climate change and regulation? Are its social practices and policies optimised to attract and retain customers and human capital? And finally, is its governance environment such that it can sustain unforeseen challenges that undoubtedly exist beyond near term line of sight? Although the answers to these questions may not impact the current period financial statements, they can be a leading indicator of financial performance.¹¹ In

this respect, ESG is better characterised as pre-financial information. Given the exceptional rate of technological change exacerbated by the pandemic, in many ways ESG factors resemble the considerations investors have long made around safe haven assets. This results in many equities now trading with more consideration towards the store of value qualities, rather than near term cash flow. Failure to thoroughly account for such in the valuation process fails to account for much of the market value. A recent study examining ESG's impact on the fundamentals of equity valuation, supports a relationship between ESG and financial performance. In *Foundations of ESG Investing: How ESG Affects Equity*

⁸ <https://www.ivsc.org/news/article/podcast-unlocking-the-value-of-esg>

⁹ <https://www.ivsc.org/standards/international-valuation-standards/consultation/ivs-agenda-consultation-2020#tab-summary>

¹⁰ The IVSC Social Value Working Group recently published the Perspectives Paper: *Defining and Estimating 'Social Value'*. As outlined on page 5 of that article, Social Value encompasses the broader externalities that accrue to stakeholders outside of just the asset owner. While in the context of this article, ESG factors specifically focus on the commercial value that accrues to the asset owner.

¹¹ [The Future of ESG Is ... Accounting? \(hbr.org\)](https://hbr.org/2020/04/the-future-of-esg-is-accounting/)

Valuation, Risk, and Performance, the authors conclude that companies' ESG information positively impacted their valuation and performance, both through the systematic risk inputs (e.g. a lower cost of capital and higher valuation multiples), and their unsystematic risk profile (e.g. higher profitability and lower exposures to tail risk).¹²

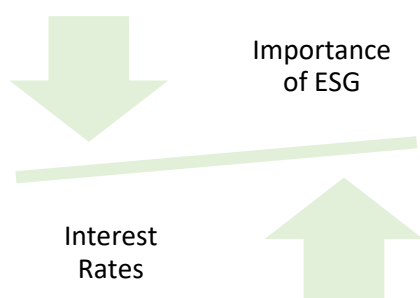


Occurring in tandem to the ESG debate, is one on how to better disclose and report on the value creation through investments in unrecorded intangible assets. Like ESG, value creation through investment in intangible assets is disproportionately focused on long-term prospects. In that light, consideration of unrecorded intangible assets in the ESG framework, may represent a more complete framework to uncover the true nature of an enterprises' financial sustainability.

The Decline of Interest Rates and The Rise of ESG

While the events of 2020 have placed additional emphasis on the importance of ESG, there is another factor that helps to explain the meteoric rise of ESG in the capital allocation process. As valuers well know, a decline in interest rates increases the present value of future benefits. The further in the future the benefit, the greater the relative increase in present value from any decrease in interest rates. Low short-term interest rates are nothing new, but the 2020 economic crisis has brought about an unprecedented expectation for a prolonged period of low interest rates. If one assumes the lower interest rates result in a lower cost of capital for businesses, the relative value of lasting cash flows has increased at the expense of those in the near term. Given that a greater percent of the present value of cash flows for organisations now resides in the distant future, it should come as no surprise that the ESG framework has taken on greater importance.

¹² <https://www.msci.com/documents/10199/03d6faef-2394-44e9-a119-4ca130909226>



While much of the ESG framework emphasises the creation of sustainable financial performance, it also focuses investors and organisations on the mitigation of future risks and liabilities. As the decline in cost of capital makes future cash inflows more valuable, it has the same effect on cash outflows (i.e. liabilities related to ESG considerations). ESG provides a structure to identify and quantify potential future liabilities through explicit forecast adjustments or scenario analysis, rather than assume such tail risks reside implicitly in the terminal assumptions.

The fundamental degradation in near term profits resulting from the pandemic has also placed additional value on the lasting prospects of an enterprise. Specifically, an analysis of 24 broad

industries shows that 21 of the industries are expected to experience a reduction in expected 2020 profits as compared to pre-COVID expectations.¹³ Furthermore, the expected recovery curve is relatively flat and prolonged, as 20 of the 24 industries are projected to still be below their pre-COVID expectations in the furthest forecasted out year (e.g. 2022 to 2024 depending on industry). This broad decline in discrete period expected cash flows, much like the decline in interest rates, also acts to shift focus toward the long-term prospects of enterprises. The combination of these phenomena has manifested in the equity markets as “falling earnings coincided with much higher valuations of future earnings, as lower interest rates and bond yields made stocks look more attractive.”¹⁴

A simplistic example shows the impact of these two changes. In the pre-COVID example, the discrete period represents 36% of the total value.

¹³ [ADV CFS VBA Forecast-Engine-Industry-Impact-Study_Issue-2_Web.pdf \(bdo.com\)](#)

¹⁴ [Thank the Fed for the Stock Market’s Run—and the Plodding Pace to Come - WSJ](#)



Pre-Covid Scenario	2020	2021	2022	2023	2024	Terminal
Free Cash Flow	\$ 10.0	\$ 10.5	\$ 11.0	\$ 11.6	\$ 12.2	\$ 12.4
Terminal Value						\$ 124.0
Discount Factor	0.94	0.84	0.75	0.67	0.60	0.60
Discounted Cash Flow	\$ 9.4	\$ 8.9	\$ 8.3	\$ 7.8	\$ 7.3	\$ 74.5
	\$'s	% of Total		Discount Rate		
Discrete Period Value	\$ 41.7	35.9%		12%		
Terminal Value	\$ 74.5	64.1%				
Total	\$ 116.0	100.0%				

However, a hypothetical decrease in the cost of capital of 200 bps¹⁵, combined with a decrease in discrete period cash flows consistent with the expected recovery curve for many industries,¹⁶ results in a

post-COVID scenario where approximately 13% of the aggregate value has shifted from the discrete period to the terminal period.

Post-Covid Scenario	2020	2021	2022	2023	2024	Terminal
Free Cash Flow	\$ 4.0	\$ 6.0	\$ 8.0	\$ 10.0	\$ 12.2	\$ 12.4
Terminal Value						\$ 155.0
Discount Factor	0.95	0.87	0.79	0.72	0.65	0.65
Discounted Cash Flow	\$ 3.8	\$ 5.2	\$ 6.3	\$ 7.2	\$ 7.9	\$ 100.9
	\$'s	% of Total		Discount Rate		
Discrete Period Value	\$ 30.4	23.1%		10%		
Terminal Value	\$ 100.9	76.9%				
Total	\$ 131.0	100.0%				

Given the ever-increasing adoption of ESG by market participants, as well the current market conditions that have placed additional weight on lasting value, valuers should begin incorporating ESG considerations into the business valuation framework.

Incorporation into the Business Valuation Framework

The novelty of the ESG framework may cause some to assume a fundamental change to valuation methods and procedures is necessary. However, consideration of ESG should be a matter of incorporation rather than assimilation.

¹⁵ [In 2020 the 10-year Treasury yield has fallen from 1.9% to 0.9% see *Thank the Fed for the Stock Market's Run—and the Plodding Pace to Come - WSJ*](#)

¹⁶ [ADV CFS VBA Forecast-Engine-Industry-Impact-Study Issue-2 Web.pdf \(bdo.com\)](#). For example purposes, we have not adjusted the long term growth rate.

The Market Approach - While ESG data and disclosures are becoming more standardised for public companies, most companies that are the subject of valuation exercises are private. As such, to account for ESG factors a valuer will be required to:

- 1) Identify and assess the relevant ESG criteria for the comparable companies and industry, then
- 2) Assess the performance of the subject company for such criteria, and
- 3) Calibrate the market inputs (e.g., EBITDA multiple, etc.) to the subject entity to take into account the relevant performance as compared to the comparable companies.

At first impression, this process appears daunting. However, such a process has direct parallels to existing procedures in which a valuer must:

- 1) Understand the size, risk, future **growth**, business comparability, etc. of the comparable companies, then
- 2) Assess the performance and characteristics for the subject company, and
- 3) Calibrate the market inputs to the subject entity to take into account the relevant performance as compared to the comparable companies.

By integrating ESG considerations into the current market approach procedures, the task becomes more manageable (see IVS Section 105, paragraphs 20 and 30).



The Income Approach – While the income approach requires similar calibrations to compare the performance and characteristics of the subject entity to that of the comparable companies, the greater reliance on future expectations and the explicit consideration in the forecast does add an additional layer of complexity.

The bifurcation of responsibility over forecast assumptions between management and the valuer is a complex and evolving area. As noted by the IVSC, practice has been trending toward additional onus on valuers to consider the risks inherent in the forecast (see IVS Section 105, paragraphs 50.36 through 50.40). However, management is typically still responsible for derivation of the



forecast. The ESG framework presents a new set of factors for valuers to consider, but also for management consideration. Additionally, management will be best equipped to identify, consider, and quantify many of the considerations noted in the framework. As such, incorporation of an ESG framework into business valuation procedures will require education of both management and valuers.

Fortunately, work is underway to develop best practices and frameworks for explicitly incorporating such risks into forecasts. For example, the Canadian Chapter of the A4S CFO Leadership Network has formed a Valuation & Climate Change Task Force which has developed a draft framework for climate change and valuation.

While the systematic and explicit consideration of ESG factors by valuers is in its infancy, many ESG factors are likely already incorporated into valuations implicitly. Due to the overlap and correlation between ESG factors and certain pre-financial characteristics already considered by valuers, care must be taken to not double count such characteristics as “new ESG risks”.



For example, it's common in practice to include a risk premium to the discount rate (or discount to the comparable company multiples) to account for the relatively smaller size of the subject company. These risk premiums are supported by historical analysis that shows a statistically higher rate of return for smaller companies as compared to larger. However, an examination of criteria often cited as the rationale for the existence and magnitude of size premiums used in the discount rate derivation, shows overlap with what many would consider to be “ESG” factors. As such, current practice may partially account implicitly for some of the risk calibration of ESG factors from large public companies, to that of the subject. This represents just one example of potential overlap, as multiple other aspects of the income approach will require specific consideration, including:

- **Beta** – Reliable output from the

CAPM requires the identification of sufficiently comparable public companies. As with the market approach, ESG characteristics may need to be added to the current framework for comparable company screening and identification.

- **Long-term Growth** – A core concept of ESG investing is to acknowledge that not all companies have the same structures in place to drive long-term sustainable growth. As such, a blanket reliance on standard long-term growth rates, with only minor consideration of industry and/or geographic growth rates, is likely to be insufficient. In fact, evidence suggests that ESG criteria is strongly correlated to long-term survivorship likelihoods, with a positive impact on the long-term growth rate. As displayed above, given the low interest rate environment, valuations have become extremely sensitive to the long-term growth rate assumption. Furthermore, for low-performing ESG companies, many may argue that a long-term rate of decline, rather than growth, may be more appropriate.

- **Alpha** – Adjustments for additional risk in the cash flow projections requires detailed consideration (see IVS Section 105, paragraphs 50.36 through 50.40). Understanding the ESG profile of the subject, comparison to the comparable public companies used to derive other inputs to the analysis (e.g., Beta), and interplay with projected cash flows, are all potential areas for investigation.

These considerations are highly technical and complex issues that likely requires additional deliberation for any ESG framework.

Next Steps

ESG solutions require collaboration between stakeholders throughout the capital markets. Currently there is no shortage of opinions when it comes to how, and even if,¹⁷ to proceed with the standardisation of ESG disclosures and reporting. However, regardless of the path taken by standard setters, including the IVSC, **ESG factors represent fundamental considerations to inform valuation analysis.** As such, these first

¹⁷ <https://www.ft.com/content/5430ff68-2a73-4e1b-bf40-8de6a76389a2>



steps to begin incorporating ESG considerations into valuation practice are critical for the relevance, and therefore the sustainability, of the profession.

The IVSC would be interested to hear your views on this paper and on ESG as it relates to valuation. Share your feedback through the [IVSC Group page on LinkedIn](#) or by emailing contact@ivsc.org

Perspectives Paper: *A Framework to Assess ESG Value Creation*



May 2021

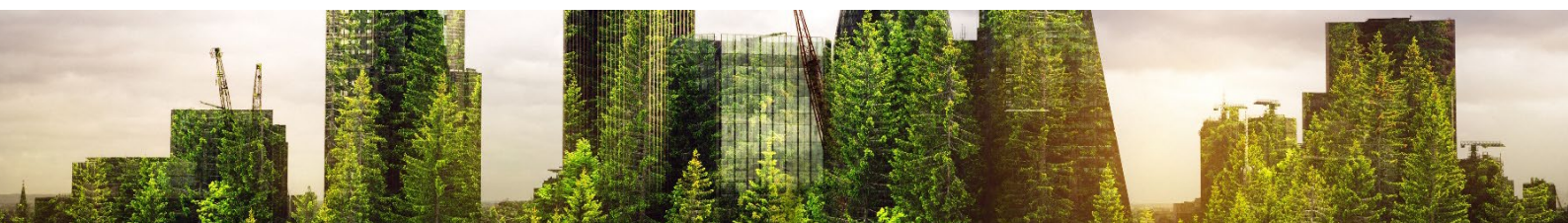
Perspectives Paper: A Framework to Assess ESG Value Creation

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

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By: [Kevin Prall](#), IVSC Business Valuation Technical Director with contributions from the Business Valuation Standards Board and the ESG Working Group

The IVSC has issued this Perspectives Paper to initiate discussion and debate on the topic of ESG in business valuation. Share your thoughts and perspectives with us [through LinkedIn](#).



Financial Discipline and ESG Investments

Environmental, Social, and Governance (ESG) factors have become a central tenet in many enterprises' corporate strategy. While companies track and measure how

certain investments impact their overall ESG ratings or performance, many often fail to effectively take the further step to estimate and then capture how such

investments translate to return on investment. Corporate finance principles to measure return on investment are most easily applied for discrete projects in which the output from such activities is financial information (e.g. profits, cash flows, capital formation, etc.) that can be identified, tracked, and quantified. Core finance principles used to measure ROI struggle to translate the non-financial outputs of ESG investments, to the impact on financial information. Initial rounds of ESG investment have largely been greeted with undiscerning praise by stockholders and stakeholders alike. However, to ensure appropriate financial discipline and the most efficient allocation of capital, a more analytical framework is necessary to articulate the value proposition of ESG investments and assess if and how such investments have resulted in value creation.

In our first article on ESG, [ESG and Business Valuation](#), we began to explore how ESG characteristics are, or can be, incorporated into the value measurement process. In this second article, we analyse the impact of ESG on value creation and explore how such a framework may be

incorporated into the capital allocation process and bring much needed financial discipline to ESG investments. In the below we:

- I. Discuss why earnings-based measures for ESG investments can be difficult to apply;
- II. Examine the close link between ESG investments and intangible asset value creation and/or maintenance, and the resulting implication that ESG returns may be better assessed by reference to intangible asset value creation; and
- III. Leverage such insights to develop an example framework to assess and measure ESG value creation opportunities at the enterprise level. We discuss a framework that refers to both direct and indirect intangible asset creation, including recognition that intangible value creation via ESG investments can be scalable due to the interconnection between assets.

I. Measuring ESG Returns: Expense vs. Investment

Expenses typically provide an identifiable and quantifiable link between the cost incurred and the benefit received. For investments on the other hand, the connection between cost incurred and the measurement of benefits received is often more ambiguous. As the world continues to be increasingly driven by intangible value, the inability of “earnings” to capture value creation via investments becomes more evident. For example, in *The End of Accounting and the Path Forward for Investors and Managers* the authors, Baruch Lev and Feng Gu, found that the explanatory power of reported earnings and book value for market value between 1950 and 2013 substantially declined. The R^2 dropped from approximately 90% to 50% over the period.¹ More recent evidence suggests that the global pandemic has accelerated this trend.²

Like other *investments*, the connection between ESG cost incurred and the measurement of benefits received (e.g., profits) can be difficult to identify, track, and measure. While significant progress has been made to incorporate discrete

climate related risks into valuation and forecasting processes (e.g., the recent A4S Essential Guide to Valuations and Climate Change³) many ESG investments share unique characteristics that challenge the ROI analyses, including:

- 1) ESG benefits often accrue to the enterprise as a whole and even outside the enterprise, rather than a specific product, business line, or geography. Additionally, for those benefits that accrue outside the enterprise (i.e., externalities), a warranted debate exists regarding if and how such benefits should be included in return considerations. The debate is separate from that of principal agent (stockholders versus stakeholders), but rather to how positive externalities may create a benefit for the enterprise (i.e., doing good is good for business).
- 2) ESG investments are often made over a number of years, and the benefits are often long-term. Such investments may even result in ongoing value

¹ [The End of Accounting and the Path Forward for Investors and Managers](#)

² [Recovery Curves Take Shape](#) and [The Path Ahead... Recovery Curves Take Shape](#), 21-22.

³ [Essential Guide to Valuations and Climate Change](#)

creation into perpetuity.

- 3) ESG benefits are often risk-reducing and may only maintain existing cash flows rather than generate incremental discrete cash flows. Risk reduction of ESG investments is often reflected in an enterprise's ability to recover from an adverse shock or adjust to changing dynamics (i.e. resiliency). An enterprise's ESG strategy and implementation may even determine the viability of the enterprise itself.

Given that ESG investments often generate non-financial (or pre-financial) information, a strategic financial framework should consider not only the impact on return metrics (e.g., profits, earnings, cash flows), but also value created. Such a framework should outline the value proposition of ESG investments, assess whether such investments have created value, and if possible, connect any value creation to the resulting financial information. **A focus on value creation can help provide the critical linkage between investments in ESG and return.**



II. The Link Between ESG and Intangible Assets

Our view is that potential ESG value creation would manifest in the formation and/or maintenance of intangible asset

value. Certain characteristics of intangible value creation can help us assess how ESG investments may create value.



First, value creation or degradation for intangible assets, and therefore ESG investments, is not linear. For instance, many ESG investments will likely show a small return in the initial years after investment as value is created, and then exponential growth thereafter. Additionally, if not maintained, the value will also likely decline in a rapid fashion. However, if ESG investment continues to support and enhance the value created, the asset value and resulting benefit may be maintained indefinitely.

Secondly, the ability to create intangible value, and thus the ESG value creation opportunities, varies by industry. To generate economic value from ESG investments, or any investment, an enterprise must generate returns above those required by the value of tangible assets and financial capital employed. ESG value creation opportunities should be higher for companies with a differentiated, value-added, and high-margin business model than for companies with a commoditized, tangible asset intensive, low-margin business model.

Finally, the business model and industry often also dictate which intangible assets will be created and which will offer the highest return. Similarly, the same is true

for ESG, but which of E, S, and G investments will generate which intangible assets? Answering this question is necessary for enterprises to articulate the value proposition of ESG investments.

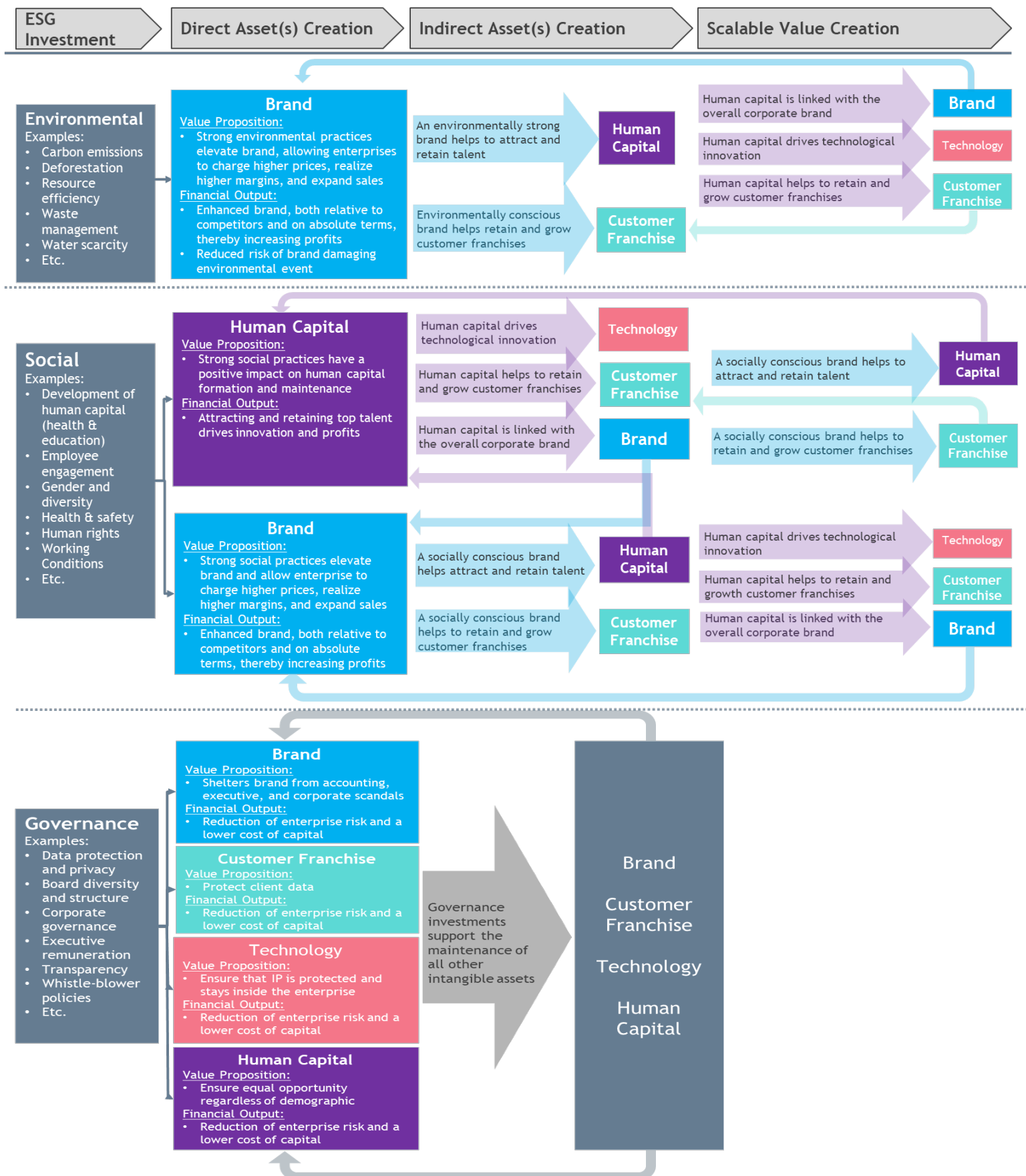
To answer this question, we postulate how E, S, and G investments may generate value (i.e. enhance cash flows) and/or maintain value (i.e. reduce risk) for specific groups of intangible assets, including Brands, Human Capital, Customer Franchises, and Technology. We examine the potential value creation lifecycle in the figure below through three separate stages:

- Direct Assets – Those intangible assets which may be directly impacted by the E, S, or G investment.
- Indirect Assets – Those intangible assets which could benefit from the value accretion of the direct intangible asset(s) which was targeted with the E, S, or G investment.
- Scalable Value Creation – The final phase of the lifecycle recognizes that intangible asset value creation via ESG investments can achieve scalable returns as a result of the interconnection with other intangible assets.

IVSC Perspectives Paper
**A Framework to Assess ESG
 Value Creation**



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Patterns of potential value creation begin to emerge from the analysis above. While G largely reduces risk and maintains asset value, S investments tend to drive asset creation and cash flow generation. E investments tend to fall in between, with

an expectation that the relative mix of risk reduction and asset creation will be highly dependent on the industry and related exposure to environmental risks.

III. A Framework to Assess ESG Value Creation Opportunities at the Enterprise Level

With a better understanding of how E, S, and G investments result in value creation via specific intangible assets, and given that intangible asset value drivers are well documented and understood⁴, we can identify certain characteristics to help assess expected relative value creation of ESG investments between enterprises. Here are the six characteristics identified, along with brief descriptions:

- Criteria 1 – Reliance on Brand/Brand Strength.
 - As noted in the prior section, the enhancement and maintenance of ones' brand and reputation appears central to the value proposition of E, S, and G investments. Brand power can

generate excess returns between identical products with no more than a name and reputation. As such, the ability to increase one's brand, or maintain an existing brand, is critical to ESG strategy. It would appear that, the greater the reliance on brand and reputation for an enterprise, the greater the ability to create or maintain value through ESG investments.

- Criteria 2 - Reliance on Human Capital and Workforce Skill Level.
 - As noted in the table above, Human Capital is central to intangible asset value creation. Much of the value, and the value generating capacity, in an

⁴ See International Valuation Standards (IVS), Effective 31 January 2020, Section 210



intangible-driven enterprise resides in its human capital. The cost of failing to attract talent, or losing existing talent and knowhow, are high. It would appear that, the greater the reliance on human capital for an enterprise, the greater the ability to create or maintain value through ESG investments.

- Criteria 3 - Premium to Book Value and Value-added Business Model.

- ESG investment value creation manifests in the formation and/or maintenance of intangible assets. The magnitude of ESG value creation as well as the optimal investment in ESG, are therefore dependent on an enterprise's ability to drive excess economic returns within its industry. It would appear that, the greater the enterprise valuation premium over tangible assets and capital, or the ability to generate enterprise valuation premium, the greater the ability to create or maintain value through ESG investments.

- Criteria 4 - Nature of Customer Relationships.

- Per the table above, E, S, and G investments all have an impact on the formation and maintenance of customer franchise assets. However, assessing how much of an impact requires studying an enterprise's customer base, along with the respective ESG expectations or requirements of those customers. Such analysis is critical to understanding how ESG investments may or may not drive value creation. For enterprises which operate in business to consumer industries, ESG investments provide the opportunity to create value through brand recognition and differentiation as well as through investments in human capital. Alternatively, for enterprises which operate in business to business industries, ESG investments may be a requirement imposed by customers as ESG mandates are pushed through their supply chains. An early example of such requirements is Apple's goal to become carbon neutral across its

entire value chain by 2030.⁵ It would appear that, the greater the connection to the end customer, the greater the ability to create or maintain value through ESG investments.

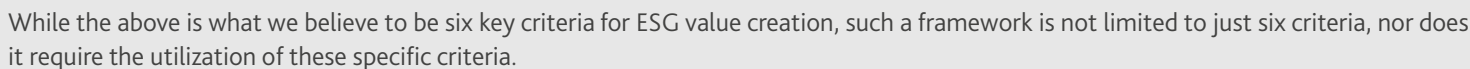
- Criteria 5 - Tangible Asset Intensity.
 - As noted above, tangible assets have a relatively capped rate of return. On the other hand, ESG investments largely drive additional returns through the formation and maintenance of intangible assets which are scalable. It would appear that, the more a business model relies on tangible assets, the less the potential to create value through ESG investments. However, while tangible assets have relatively fixed returns on the high end, there are significant ESG risks (especially environmental) which could reduce return and degrade value. As such, ESG's role in maintaining value should be considered for both tangible and intangible driven enterprises.

- Criteria 6 - Market Dominant Technology.
 - While there is a positive correlation between intangible asset intensity and ESG returns, there are exceptions. For example, proprietary technology, especially patented technology, can create consumer demand that is less elastic to the value of other intangible assets. As such, ESG investments may have a lower impact on value creation in these instances. Note that Human Capital is critical to developing technology, but this impact is addressed in Criteria 2. It would appear that, the more a business model relies on proprietary technology, the less the potential to create or maintain value through ESG investments.

The below interactive graph analyses these six criteria for five enterprises from different industries, on a scale from 1 to 5. The further away from the centre (e.g., 5), and greater area covered, the greater the expected value creation of ESG investments.

⁵ [Apple launches \\$200 million forestry fund it says will bring financial return for investors](#)

Click on each tab above to see select insights for each enterprise.



Next Steps

In the short term, a focus on intangible valuation creation can bring more financial discipline to ESG investments and bolster sustainability reports to go beyond lists of statistics and overtly qualitative narratives. Longer term, a focus on intangible value creation can facilitate a move toward a financial reporting system that captures intangible value creation. While the current accounting framework often lacks relevant information on value creation, there are examples in which it is also actively constraining efforts to fully implement value creating ESG priorities.

In a recent article, *Examining How Current Accounting Practice is Constraining the Net Zero Transition*, the authors analyse an oil company's commitment to become carbon neutral by 2050 in the context of ESG and the current accounting model for intangible assets and liabilities. They argue that the current accounting model unduly penalizes and demotivates companies as they attempt to make such investments.⁶ This need is no more succinctly articulated than in the author's analysis of both technology and brand intangibles, the latter of which is discussed below:

"A further clue is provided by the IASB Conceptual Framework which defines an 'Asset' as 'a resource controlled by the entity..... from which there is potential for future economic benefits.' We postulate that while an organization does not control the environment, its employees, or other stakeholders, it has control of its relationship with those entities, intertwined with its reputation, through the alignment of its decisions with social norms. It follows that the definition of an asset should be applied to an entity's reputation or its social license to operate, resulting in capitalization and fair valuation of these assets. This treatment balances the requirement to recognize social obligations as liabilities and reduces the punishing treatment of costs related to complying with social norms. Such costs could be viewed as investment in reputation and the potential benefit to the organization from such investment would be capitalized."

Such constraints within the current accounting model are not limited to brand and technology, but also exist for human capital. In *Two Sigma Impact: Finding Untapped Value in the Workforce*, the authors note how current accounting

⁶[Constrained by Accounting: Examining How Current Accounting Practice is Constraining the Net Zero Transition](#)



drives behaviour that limits the value creation opportunities for human capital. They state that *"private equity has tended to view labour as a line-item to be reduced rather than a place to invest, resulting in a large blind spot for the industry. What if there were another, more fruitful way of looking at workforce issues?"*.⁷

Such insights are not meant to argue that ESG is a fad that will soon go out of style. To the contrary, ESG is inextricably linked to ongoing efforts by accounting standard setters and investors to further explore opportunities to systematically address internally generated intangible assets. Additionally, the best ideas, concepts, and frameworks that emanate from ESG, will undoubtedly help inform the accounting process.

In our next article series, we plan to further explore opportunities for considering intangible value creation by 1) Reviewing the goals and opportunities for an enhanced framework, 2) Performing an analysis to map the types of costs that give rise to intangible assets in order to identify intangibles that could be subject to an enhanced intangible asset framework, and 3) Exploring whether an enhanced framework should be based on enhanced disclosures, capitalization, or

value creation concepts.

The IVSC would be interested to hear your views on this paper and on ESG as it relates to valuation. Share your feedback in [IVSC Group Page on LinkedIn](#) or by emailing contact@ivsc.org.

⁷ [Two Sigma Impact: Finding Untapped Value in the Workforce](#)



PERSPECTIVES PAPER

TIME TO GET TANGIBLE ABOUT INTANGIBLE ASSETS

PART 2: HUMAN CAPITAL INTROSPECTIVE

May 2022

Time to get Tangible about Intangible Assets

Part 2: Human Capital Introspective

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

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By: Kevin Prall and members of the IVSC's Business Valuation Board

The ideas and opinions set out in the IVSC's Perspectives Papers do not necessarily reflect the views of the firms represented amongst the author group.

“Our people are our most valuable asset” – Ubiquitous, but not understood...

In Part 1 of our series, we examined the Case for Realigning Reporting Standards with Modern Value Creation. While long acknowledged as a challenge of common accounting frameworks and related financial reporting regimes, a tipping point has seemingly been reached. The debate has shifted from why the problem should be addressed, to what should be done and how it can be implemented. Within this discussion, and those to follow, our goal is to encourage debate and help ensure that the what is value relevant and the how is operable across time, geography, and scale.

The matter as to whether such improvements ultimately reside within financial statements, or whether they are

central pillars of evolving sustainability standards, is outside our scope. As such, we'll leave the *who*, *when*, and *where* for others to comment.

Human Capital¹ Insights at a Glance:

- Human Capital is the foundation from which all intangible assets are created, yet our understanding of Human Capital value creation and rigor around value measurement is less evolved than other intangible assets.
- To assess Human Capital value creation, one must consider the synergistic effect amongst the workforce as well as the network effect with other assets, especially intangible assets.
- Evidence suggests that investors require more information on the impact Human Capital has on enterprise value.

- As the role of Human Capital in enterprise value creation evolves, the techniques to measure its value may need to change as well.

Introduction

As outlined in Part 1, in this paper and those to follow, we will examine four categories of internally developed intangible assets:

- Human Capital
- Brand and reputation
- Technology and data assets
- Customer and relationship assets

First, in this paper, for Human Capital we will:

- Examine how Human Capital generates value for organisations and the attributes of such value creation,
- Analyse how investors assess the enterprise value creation attributable to Human Capital via KPIs and investments; and
- Discuss the value measurement techniques used to estimate the value of Human Capital directly.

Human Capital and Value Creation

The phrase “our people are our most valuable asset” is ubiquitous within corporate communications. The idea is echoed by business leaders across geographies, sectors, and size. Recognising the importance of Human Capital is obvious but understanding and measuring its role in enterprise value creation is much more difficult. Even though all intangible assets emanate from an organisation’s Human Capital, our understanding of Human Capital value creation, and the rigor around value measurement of Human Capital, is in many ways less evolved than nearly all other intangible assets.ⁱⁱ

Multiple macro level trends add to the urgency for both enterprises and investors to grasp the nuances of Human Capital value creation. First, is the state of the current labor market. Given the difficulty, time, and expense of accumulating and retaining Human Capital, it’s now not uncommon to see asset and business acquisitions in which getting access to Human Capital is the driving force for consummating the transaction.

Also driving the increased emphasis on Human Capital is the continued momentum of ESG. A key aspect for the evaluation of social criteria is an organisation’s ability to grow, retain, and nourish human capital.



Most ESG reporting presumes a link between ESG and value. In the ISSB's recently issued first exposure draft, within the preamble articulating the need for sustainability standards, the ISSB specifically notes workforce as one of the key resources subject to the standards and critical to the assessment of an entity's enterprise value.ⁱⁱⁱ

The emphasis on Human Capital within ESG and sustainability initiatives have helped change the market's perception of its workforce. Most now see human capital as an asset to invest in, rather than an expense to be managed. In fact, certain private equity asset managers now tout differentiated strategies focused on identifying organisations which have underinvested in Human Capital, with the premise that additional investment in Human Capital will drive excess increases in enterprise value (excess return).^{iv}

This trend is not limited to the highly educated end of the workforce. A recent Piper Sandler research report on the restaurant and hospitality sectors noted that "Looking forward, we reiterate our thematic view that brands [branded restaurant chains] proactively investing in Human Capital (including, but well beyond any minimum wage threshold) remain best-positioned in the current environment."^v

As public mindset shifts from Human Capital as an expense to reduce and toward the mindset of an asset to invest

in, the shift results in stark differences in the nature and capacity for value creation, as well as techniques to measure its value.

Assessing Human Capital at the individual level (i.e., the collection of individuals' knowledge, skills, and experience) fails to recognise that the output from Human Capital is not merely a sum of their individual parts or efforts. Rather, individuals within a workforce are complementary assets to one another, thus creating a synergistic effect in which their output is not the sum of their individual outputs. Rather, it's reasonable to expect that Human Capital will exhibit value creation characteristics more similar to other intangible assets, such as non-linear value creation and a weaker relationship between cost and value. This synergistic effect continues to grow in importance as business models shift to a knowledge-based economy.



In addition to the synergistic effect that exists amongst the workforce, there exists a network effect with other assets such as technology, brand, and relationship assets. Put simply, the ability to create value from these assets is both a function of the assets' own characteristics, and the capacity of the Human Capital to deploy the assets.

This shift in mindset also results in stark differences in the assumed economic life. At the individual level, the life of the Human Capital would typically be viewed as short and a function of employee turnover. However, casual observation will note that Human Capital at many organisations is largely maintained and enhanced over time despite the regular turnover of individual employees. Most organisations implement procedures to pass on such knowledge or redundancies in skillset and knowledge to ensure the maintenance and continued growth of Human Capital.

The table below summarises the contrasting perspectives:

Attribute	Value Creation Perspective:	
	Sum of Parts	Human Capital
Market Perception	Focused on cost	Focused on value creation
Value Creation Characteristics	Cost is more likely to approximate value (i.e., 1-to-1 relationship)	Non-Linear with varying relationship between cost and value (value could be \leq / $>$ cost)
Complimentary Assets	Value is sum of individual components	Individual components are complementary assets which create synergies
Relationship with other Assets	Value is not a function of other assets employed	Human capital has a network effect when leveraged with other assets and will drive higher and lower returns for those assets based on the human capital deploying it.
Economic Life	Short life based on turnover	Very long life based on ability to transfer knowledge

In summary, the value of an enterprise's Human Capital is not simply the sum of individual employee values. This is largely due to 1) the synergies created amongst the workforce and 2) the network effect of the workforce when combined with other intangible assets. The impact of the synergistic and network effects is most relevant in the intangible-rich industries and less so in more (traditional) capital intensive industries.

Investor Insights on Human Capital

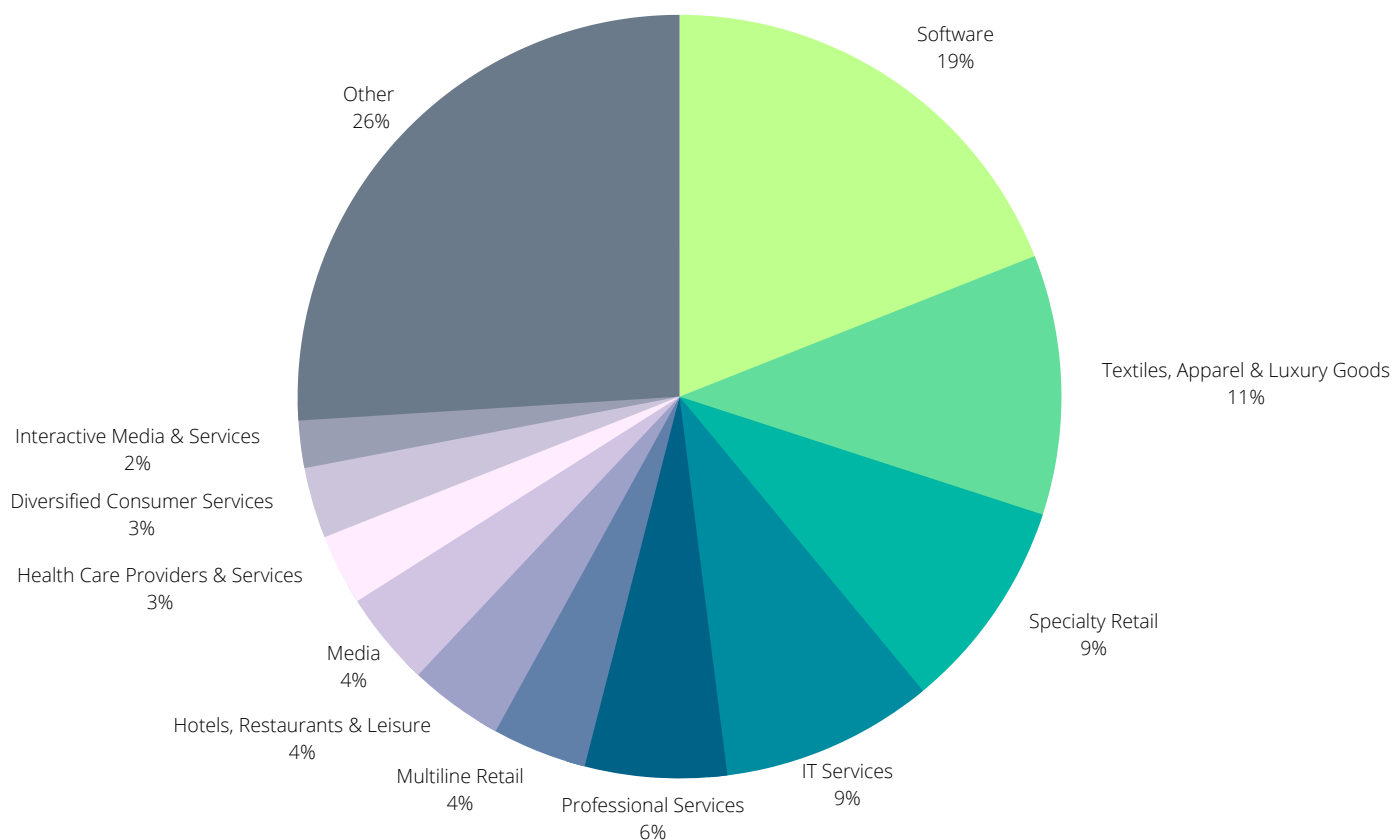
While the mindset around Human Capital value creation has started to shift, the information produced within the current reporting frameworks has not, leaving a gap between the information reported and the information desired by investors.

The current frameworks largely fail to provide sufficient detail on basic direct costs of Human Capital, let alone more value relevant KPIs such as employee satisfaction, investments in training and education, timing to fill open positions (i.e., relative labor scarcity), and voluntary turnover. While ESG reporting has begun to collect and synthesize these inputs, like all challenges with current ESG frameworks, there is a lack of standardisation, attestation, and harmonisation. More standardisation is needed.

The lack of relevant information has led investors to seek creative solutions to obtain relevant information on the investment in and value creation from Human Capital. For example, in January 2022 UBS began publishing Evidence Lab Quarterly CRO Glassdoor Employee

Review Monitor. The UBS process collects more than 6 million reviews from over 8,000 employers. UBS states that “Glassdoor reviews can be a useful indication of employee satisfaction within a company and help to identify changes in sentiment or explain underlying trends in turnover.” The UBS process determines an overall score for each company which is then utilised to assess absolute performance, relative performance to peers, and trends in both over time. UBS believes “hiring and retaining talent is a key focus in the people heavy [...] businesses, and we believe this has become increasingly important with industry M&A and the larger macro environment (wage / hiring pressures).”^{vi}

The use of Glassdoor for insights on Human Capital is pervasive across investment banks and industries. Our research identified over 600 analyst reports issued in the last year that reference Glassdoor for insights or analysis. The 600 different analyst reports represent an increase of almost 50% over the previous 12-month period. In addition to the sheer quantum of mentions, the below breakout by sector provides interesting observations. For example, the technology sectors represent a large share of the total mentions. These sectors reference strong competition to attract and retain top talent as a key enterprise value driver.



Going a step beyond the accumulation and analysis of Glassdoor data, we see multiple examples of investors utilising data from sources such as Glassdoor to estimate the value creation from the synergistic effect within the workforce and the value creation from the network effect with other intangible assets (e.g., technology). For example, a Credit Suisse banking sector analysis determines Dollar value created per Dollar of staff costs, effectively quantifying a company's relative success at deploying Human Capital compared to its peers. Similarly, another Credit Suisse report screens for improving return on staff costs as a potential way to identify companies which may reflect the roll-out of innovative products and services and/or the implementation of innovative processes.^{vii}

Another Credit Suisse report for the Engineering and Construction sector, examines how other productive assets are combined with Human Capital, and how much additional return is generated by the network effect. They utilise this approach in a peer benchmarking analysis to gauge scope for improvement in productivity and the potential for increases in enterprise value (i.e., excess returns).^{viii}

BNP Paribas also has examples of assessing Human Capital for peer group comparison. Within an analysis of the retail industry, BNP notes that they score companies on employee

wellbeing by looking at scores on third-party employee review websites (i.e. Glassdoor and Indeed), gender and ethnic diversity metrics, employee turnover and Human Capital scores from Factset. For the retail industry, only a handful of companies include a summary of results from employee satisfaction surveys within the annual ESG report. The report notes that Best Buy, Tractor Supply Company, AutoZone, and Home Depot provided some form of employee engagement scores, but otherwise had to rely on third party information such as Glassdoor for all other companies.^{ix}

Even though resources like Glassdoor and Indeed provide information which are not subject to verification or consistency, their use for both qualitative and quantitative insights by investors is common. Additionally, such resources only provide insights on a narrow portion of Human Capital KPIs. For instance, as discussed further below, the relative labor scarcity for a particular company or industry is critical to understanding required returns on both an absolute basis and relative to returns required by other scarce intangible assets. Such metrics may include the number of open positions to total FTEs, average time to fill open positions, average change in cost for newly filled positions, and more. Development and implementation of a consistent standardised approach is needed.

Value Measurement

While the analyst insights above help to show the importance of Human Capital in corporate value creation, the shift in mindset also adds to the complexity in the measurement of Human Capital value. As the understanding of how Human Capital creates value for an organisation has evolved, the methodology to measure its value has not.

Historical methodologies to value workforce are focused on costs to recreate the collection of employees. For example, although not separately identified, workforce is typically valued as part of a business acquisition as an input into the valuation of other intangible assets. In this context, best practices for valuing the workforce examine the costs avoided by the buyer associated with recruiting and training employees (e.g., the Replacement Cost Method of the Cost Approach). The key assumptions used in the Replacement Cost Method to value an assembled workforce are: the number of employees, their fully loaded direct cost, the estimated recruiting costs, and the costs associated with the estimated lost productivity for the ramp up period from the time an employee is hired to when the employee reaches full productivity.

The historical method is aligned with the viewpoint that the value of Human Capital is the sum of its parts. It fails to

account for the synergies created amongst the workforce and network effect with other assets. Recent market transactions support the premise that a method focused on cost likely undervalues Human Capital, as these market indications of value are significantly higher than cost-based valuation measurement models would suggest.

For instances in which Human Capital plays a more central role in the entity's value creation, a more appropriate method should consider the returns generated or required by the Human Capital rather than the cost incurred. However, determining the appropriate proportion of the enterprise cash flows to allocate to Human Capital versus other assets requires new considerations. For example, relative scarcity can provide key insights. In much of the current labor market, Human Capital is perhaps the most scarce intangible asset. As Human Capital becomes scarcer, its required return and related value increase relative to other assets deployed.

Relative scarcity can be incorporated into existing models. For example, in many of the transactions we see in which Human Capital is the primary asset, buyers often point to a critical time dependent opportunity which requires additional or new Human Capital. To account for such timing

considerations, valuers often utilise the With-and-Without Method to capture the potential lost opportunity. Unlike the Replacement Cost Method, the With-and-Without Method would allow the valuer to consider the relative scarcity of the desired human capital, the length of time to accumulate the Human Capital, and the lost profits that would result from not acquiring Human Capital at scale.

In instances in which the Human Capital is not a primary value driver for the entity, the Replacement Cost Method may still be appropriate, but additional considerations around inputs and assumptions are likely appropriate. Common assumptions within the application of the Replacement Cost Method take a narrow view of cost. The below are insights on those assumptions which could be explored to enhance the application of the Replacement Cost Method:

1. The Method implicitly assumes an infinite supply of commoditised labor is available to immediately source, interview, and procure to create the workforce. There is no consideration for time and related lost opportunities.
2. The Method is narrowly focused on direct compensation as the cost metric, and not on other investments that are made in Human Capital.
3. The Method assumes no turnover in the time needed to accumulate the Human Capital.
4. The Method assumes that every person hired achieves full productivity and does not leave the entity. This effectively assumes no hiring mistakes or issues in the onboarding process.
5. Within the lost productivity calculations, cost for the employee is utilised without any consideration of a return element. For workforce, the required return is often assumed to be equal to the overall cost of capital of the entity; however, that assumption likely requires additional considerations for the relative value added and risk associated with Human Capital in the given circumstance.



Conclusions and Next Steps

While we admittedly don't have all the answers, we believe the above insights can help spur additional dialogue, help inform standard setters and similar stakeholders in order to drive value relevant policies, and ultimately improve value measurement considerations.

In our next article we will explore brand and reputation. Central to the next article, and the others to follow, will be the consideration of network effect between each intangible asset. For example, there is strong evidence that a strong workforce can reflect positively on an entity, thereby enhancing its Brand. Alternatively, an entity's strong and desirable brand can help recruit and retain Human Capital, ultimately decreasing recruitment and training costs and perhaps even overall compensation expense.

The IVSC would be interested to hear your feedback on the subject discussed in this paper.



[i] For purposes of this paper, Human Capital refers to the collective knowledge, skills, and experience that resides within and amongst an enterprise's workforce.

[ii] This may partly be due to the recognition requirements in accounting frameworks, as recognised assets need to be separable and/or arise from contractual rights. Human capital cannot be compelled to be contractually secure for more than a short term and is rarely separable from the entity.

[iii] [Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#)

[iv] [Two Sigma Impact: Finding Untapped Value in the Workforce - Two Sigma](#)

[v] Piper Sandler Industry Note: Restaurants and Branded Hospitality, December 20, 2021.

[vi] Life Sciences & Diagnostic Tools UBS Evidence Lab inside: CRO Glassdoor Employee Review Monitor: PPD (TMO) Top Ranked And Largest Positive Ratings Change In 4Q, January 20, 2022.

[vii] Credit Suisse, HOLT Global Financial State of Play Heading into 2020, December 6, 2021.

[viii] Credit Suisse, HOLT Sustainability Toolkit – Capital Gains, Sharpening the focus on resource productivity, September 2, 2021.

[ix] BNP Paribas, Hardline Retailers, ESG: Hard line to take, December 13, 2021.

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PERSPECTIVES PAPER

DEFINING AND ESTIMATING SOCIAL VALUE

PART II

July 2022

Defining and Estimating Social Value

Part II

The IVSC issues Perspectives Papers from time to time, which focus on pertinent valuation topics and emerging issues. Perspectives Papers serve a number of purposes: they initiate and foster debate on valuation topics as they relate to the International Valuation Standards (IVS); they provide contextual information on a topic from the perspective of the standard setter; and they support the valuation community in their application of IVS through guidance and case studies.

Perspectives Papers are complementary to the IVS and do not replace or supersede the standards. Valuers have a responsibility to read and follow the standards when carrying out valuations.

By: Alexander Aronsohn and members of the IVSC's **Social Value Working Group**

The IVSC has issued this Perspectives Paper as the second in a series designed to initiate discussion and debate on the topic of Social Value. Share your thoughts and perspectives with us through LinkedIn.

Introduction

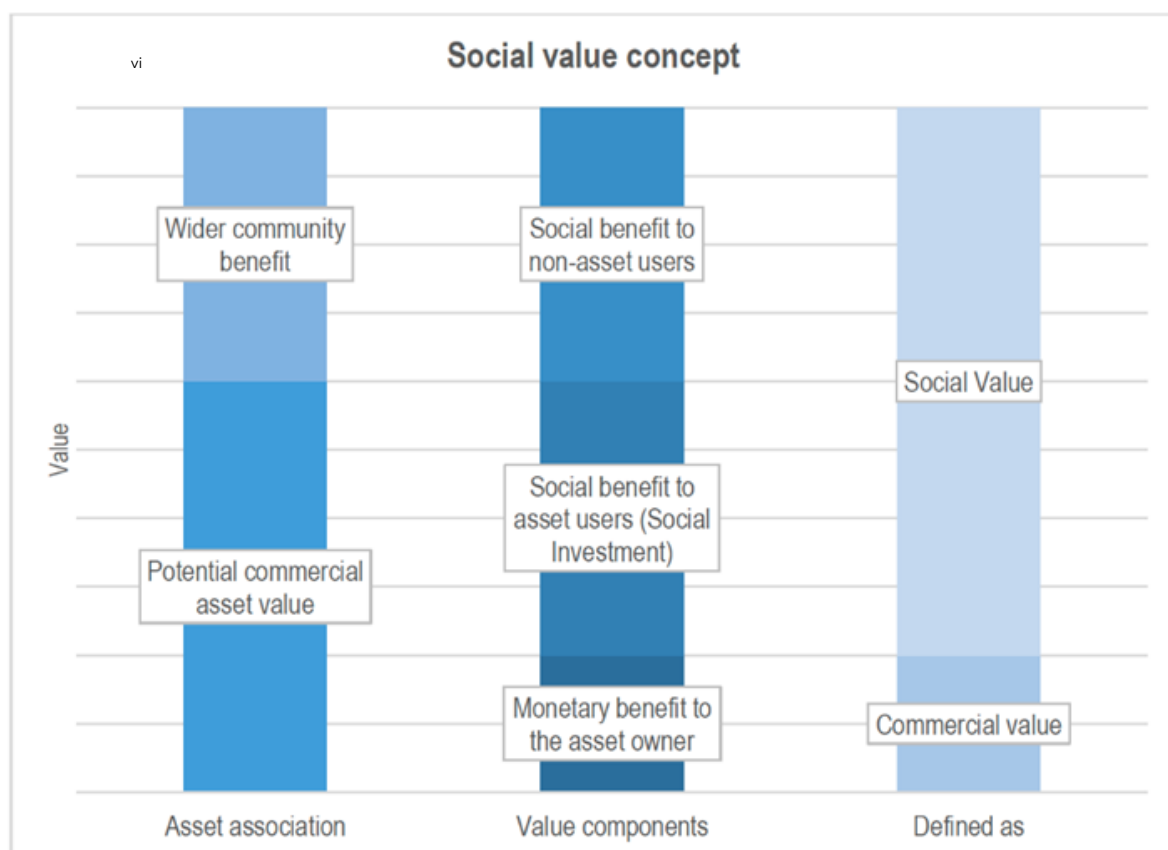
Further to the publication of the IVSC Perspective Paper on “*Defining and Estimating Social Value*” and the responses received from the questions attached to that paper, the IVSC Social Value working group has been working on a second perspective paper in the series to further explore many of the issues raised. This second paper in the series examines whether Social Value can be a basis of value, the difference between Social Value and the Social component of ESG, and whether the existing valuation principle of highest and best use can apply to Social Assets and Social Value.

Is Social Value a Basis of Value?

When we consider Social Value we are assessing the value accruing to users and non-users of the asset(s) in question, which is far broader than the providers of capital alone.

A number of respondents raised the question whether Social Value¹ should be considered a Basis of Value.² However, the concept of Social Value, does require a Basis or Bases of Value to be specified to convey, to a prospective user, the parameters used in the assessment of value, for example, from whose perspective Social Value has been assessed.

The Perspectives Paper identified a number of different components that fall within the Social Value concept or framework, some of which may meet the definitions of existing Bases of Value, such as Market Value, Fair Value, etc., however other elements may not fit within any existing Basis of Value. This is predominantly a function of the fact that Social Value is intended to capture elements of value from the perspective of non-owners, whereas value as its traditionally known typically only considers the benefits to the owner. (See diagram below).



[1] 'Social Value' includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial impacts including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users - IVSC Perspectives Paper: Defining and Estimating "Social Value".

[2] Basis (bases) of Value: The fundamental premises on which the reported values are or will be based (in some jurisdictions also known as standard of value) - IVS Effective 31 January 2022.

The Working Group have also met with key stakeholders such as the International Public Sector Accounting Standards Board (IPSASB) who published an exposure draft on Measurement published in 2021. The object of this was to define “measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities.” The paper examines “operational value”, which is defined as the “value of an asset used to achieve the entity’s service delivery objectives at the measurement date.”

IPSASB are in the process of considering “current operational value” as an alternative basis of value to “fair value” for financial reporting of public sector assets.³ The Working Group noted some synergies between the two concepts as “the objective of a current operational value is to estimate the value of a non-financial asset in achieving the entity’s service delivery objectives at the measurement date.”

However, though there are some synergies between these terms the Working Group felt that the concept of current operational value was slightly more limited.

This is because the concept of Social Value can potentially be used to help users identify and (potentially) measure the positive (and negative) impacts on society of investments in all Assets, whilst acknowledging that it is likely to be most relevant to Social Assets. Some of these impacts are measurable in terms of their direct monetary impact (such as discounted medical services), while others are obviously non-monetary in nature and may include more intangible elements such as social cohesion or wellbeing.⁴

Because social benefits often flow principally to a community or asset users, rather than the asset owner, the Working Group has described these elements as Social Investment. For these reasons the Working Group believes that each of these elements should be considered in their own right, within the overall framework of Social Value. The Working Group therefore continues to hold the position that Social Value should be considered a valuation concept or framework in which a number of different Bases of Value and other elements play a part rather than a single Basis of Value.

[3] International Public Sector Accounting Standards Board (IPSASB) exposure draft on Measurement, published in 2021: <https://www.ipsasb.org/publications/exposure-draft-ed-77-measurement>

[4] Although it may be possible to ascribe a notional monetary measure of ‘value’ to some or all of these intangible elements.

The difference between Social Value and ESG

In the responses received from recent IVS consultations it was noted that there was some confusion between the difference between Social Value and the Social element of ESG, which can generally be seen as comprising the following components: -

- Community relations
- Conflict
- Customer satisfaction
- Data protection and privacy
- Development of human capital (health & education);
- Employee engagement
- Gender and diversity
- Health & safety
- Human rights
- Working conditions

In the previous perspectives paper on *“Defining and Estimating Social Value”* it was stated that *“Social Value includes the social benefits that flow to asset users (social investment) and the wider financial and non-financial benefits including the wellbeing of individuals and communities, social capital and the environment, that flow to non-asset users.”*



Whereas ESG can be defined as *“the criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company or asset(s) on its financial performance and operations.”*

ESG comprises three pillars; environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.

There is crossover between ESG and Social Value however the two concepts are separate. The social component of ESG can include elements of Social Value such as community relations, but viewed from the owner’s perspective.

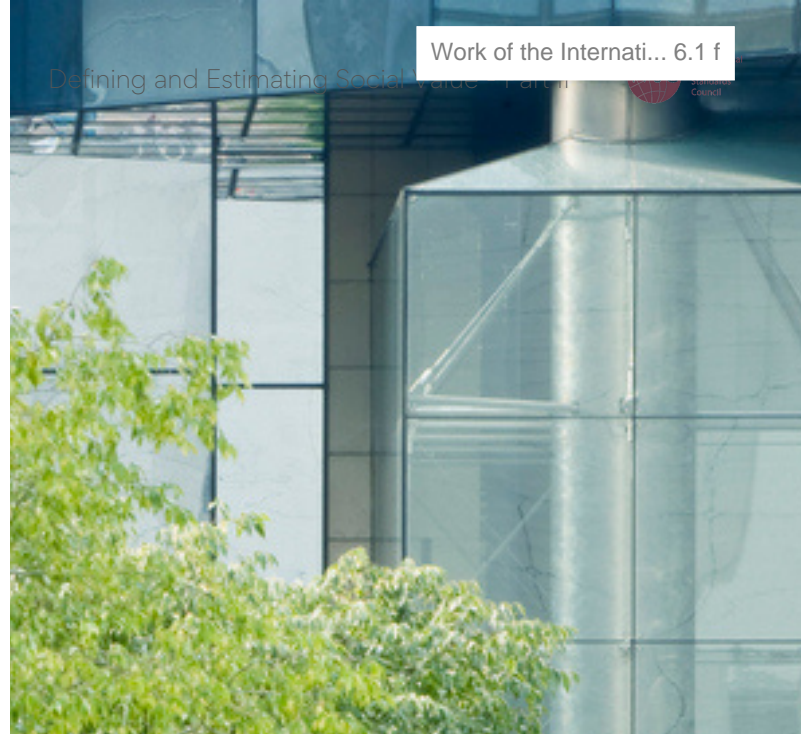
Social Value is about the contribution of the asset viewed from a non-owners perspective, in a broader context, such as the contribution made by community facilities or other Social Assets to the wider community.

The social component in ESG, when effectively managed, is generally value accretive or at the very least value preserving. For example, if a company does something within the social element of ESG, it may have a positive effect on the value of the company, or at the very least will restrict negative effects on the valuation through mitigation of future risks and liabilities. Moreover, the components within ESG are often interlinked and therefore the social component of ESG may also be linked to the quality of governance.



Social Value can be seen as an amalgam of benefits that accrue to a range of stakeholders and the breadth of perspectives for Social Value is vast. An asset may have a different Social Value to different stakeholders and to quantify this the perspective will need to be clearly defined in the scope of work, basis or bases of value in the valuation assignment.

Moreover, when looking at the value components of Social Value, though the monetary benefit to the asset owner and the social benefit to asset users (Social Investment) will often form part of the potential asset value, in most markets the social benefit to non-asset users currently lies outside the valuation process despite being a component of Social Value. However, in some markets such as Australia, the Social Investment element is largely encompassed in a Fair Value context, when considering the valuation of Social Assets. Finally, whilst the concept of Social Value has relevance to both for-profit and not-for-profit-entities, it is largely related to public sector and charity assets held by entities with a not-for-profit focus (Social Assets).



Can the Highest and Best Use apply to Social Assets and Social Value?

In respect of Social Value, it can be inappropriate to use commercial highest and best use as defined and understood from a financial reporting and/or secured lending perspective. In the first Social Value perspectives paper we considered “highest and best use” in relation to land converted into a cemetery in an example:

“The permitted use of the land is subsequently amended to the specific public use as a cemetery. On one interpretation of highest and best use principles, this has the effect of materially diminishing the value of the land (from a commercial perspective), because those alternative uses are no longer permissible.”



The “interpretation” of commercial highest and best use referred to in the example is the classical interpretation taken from the perspective of the asset owner. Such an interpretation is inappropriate when considering Social Value. This is perhaps obvious for governments, not-for-profit-entities and other social organisations who exist to serve a group other than their providers of capital, however the same applies when assessing the Social Value of a for-profit activity or organisation.

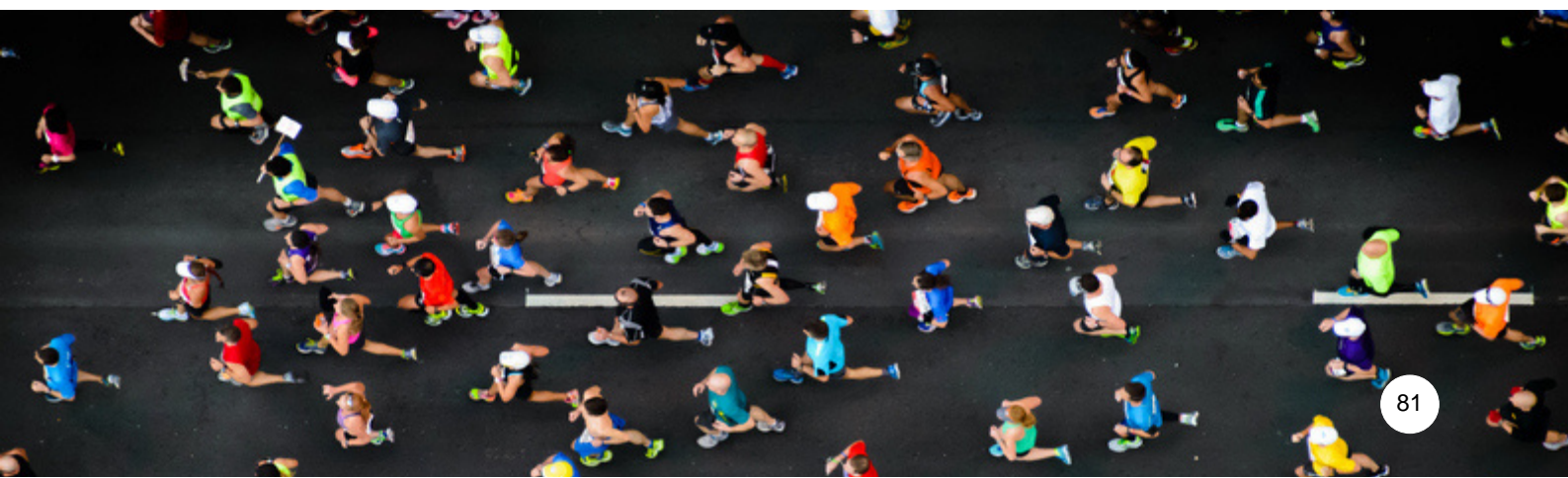
This point of view is also supported by some of the responses received following the previous IVS Social Value Perspectives Paper and as highlighted in the IPSASB Measurement Exposure Draft, where several respondents raised concerns in relation to the relevance of adopting the principle of highest and best use for public sector assets.

When considering Social Value, we must put aside the commercial interpretation of highest and best use as applied in financial statements for for-profit entities. In this instance, financial statements are prepared to show the financial position of a specific legal entity.

The definition of Market Value under General Standards *IVS 104: Bases of Value*, section 30.4 states:

The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset’s existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.

The first two sentences of this commonly used definition are agnostic to whom the benefits accrue. Maximising potential is a matter of perspective and will vary from party to party. Furthermore, we might readily anticipate that a non-owner, or non-profit motivated owner might have a different opinion of the best use to a profit-driven owner.



It is in the third sentence we consider from whose perspective; maximising potential is considered. A market participant will normally include all potential providers of capital, but not the non-owner users or non-users who may be impacted positively or negatively by the existence or operation of the asset(s). An example of this may be with the purchase of land for use as a cemetery, this may not apply.

In the case of Social Value, we have to determine the highest and best use from the perspective of a wider group as social value considers all elements of value from the perspective of non-owners, for example users and the local community. This brings us again to the importance of determining the Basis of Value used as the foundation for assessing the Social Value of an asset.

Perhaps the most important element of a Basis of Value for the assessment of Social Value is determining the stakeholders (e.g. users and non-users living within 20km) to be considered. This requires greater consideration than for a commercial basis of value as stakeholders are likely to significantly outnumber owners.

When considering highest and best use this raises two important questions:

1. Which population(s) should be considered in a highest and best use assessment?
2. How does one ascribe a value to the positive and negative impacts arising from the asset in question?

We address each of these in turn below.

Population Selection

The selection of the population can result in very different highest and best use determinations, as the examples below illustrate:

Example (i) Polluting chemicals plant

Town planners in City A have a choice. They have a plot of land that can be designated either for organic farming or developed into a chemicals plant. The chemicals plant would create more jobs and has offered to fund infrastructure improvements in the City. The chemicals company however has a track record of discharging its toxic waste into rivers. City B is directly downstream of City A.

Highest and best use likely varies significantly depending on the population considered. The negative impacts felt in City B from a chemicals plant may well outweigh the positive impacts in City A.

From City B's perspective an organic farm would be the better use. The result of a highest and best use assessment would be different if it only considered the population of City A versus both Cities together.

Example (ii) Global warming

A country has a choice between abolishing a project or supporting it for another 10 years. The project produces a vast amount of global warming gasses (CO₂, N₂O and CH₄) but is helping lift the population out of poverty. There are no other negative effects of the project.

From the perspective of everyone in the country and indeed the surrounding countries who would benefit from their wealthier neighbour there is a strong positive Social Value and no better use. However, globally the contribution to greenhouse gasses while minute for any one individual or population, in aggregate would cause the project to have a net negative Social Value. From a global perspective there are many better projects the country could pursue.

These two simplified examples illustrate the importance of careful selection of the population considered when assessing Social Value. The valuer should consider the various potential impacts arising from the asset and identify the potentially affected populations.

Impact Value

The second question, assuming the population(s) included in the assessment have been identified, gets to the heart of the question of highest and best use. In a commercial assessment of highest and best use “the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid” is likely to be a function of their expected returns on the asset.

As highlighted above when considering Social Value, only some of the impacts have a directly measurable monetary impact, such as improved healthcare outcomes arising from the introduction of a new healthcare facility or reduced transport costs arising from the introduction of a new rail link. Many, such as welfare improvements may have indirect benefits that are harder to quantify. Nonetheless the value attributable to all impacts must be determined in order to rank the net value of different potential uses, and hence identify the highest and best use.

Having regard to each of the above, in a Social Value context the highest and best use concept may need to be expanded or reframed.

The future of Social Value

In recent years the concept and quantification of Social Value has become prominent on the community agenda, particularly in developed and emerging markets, with increasing accountability of governments and charities when using public funds to construct and manage assets as trustees on their behalf. As the world continues to develop in a digital and increasingly connected world, this does not look like abating.

Whilst strategic project evaluation, capital allocation, prudent budgeting and timely auditing of capital expenditure are always under the microscope, so too is the expectation that trustees account for and accurately measure value associated with these assets on an ongoing basis. In many countries, this is now expected by the community and associated stakeholders to ensure that public funds are appropriately managed and periodic value measurement forms a key pillar of these asset management frameworks.

But along with this expectation is also the need for value measurement associated with Social Assets to be transparent, comparable and principles based, all of which requires the development of appropriate standards under which Social Value can be measured consistently across borders.

We hope that this series of perspectives papers has helped to provide an insight into the concepts, challenges and opportunities that Social Value presents. As always, the IVSC would be interested to hear any further thoughts on the topic, and the following series of questions may guide you in providing this feedback:

1. Do you think that the definition for Highest and Best Use within a Social Value context needs to be expanded or reframed, and if so, how would you revise the existing definition?
2. Should governments and charities be maintaining a Social Value balance sheet in addition to their traditional balance sheets?
3. Do you consider that the current discussions on ESG adequately addresses Social Value concepts in both a for-profit and not-for-profit world? If not, what would give this discussion more prominence and stimulus?
4. With the information that is presently available, is it possible in most situations to accurately quantify and measure Social Value? If yes how, and if not, what is missing?

The IVSC will continue to consider the topics in this article, and feedback outside our formal consultations is always welcome. You can share your thoughts with the Board or contribute to the discussion through the [IVSC website](#) or [LinkedIn group page](#).

You can contact the authors through the IVSC at: contact@ivsc.org





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IVSC PERSPECTIVES PAPER

ESG & Real Asset Valuation



SHARPENING THE FOCUS,
NOT REINVENTING THE WHEEL

IVSC

Issued by the International Valuation Standards Council (IVSC)
Tangible Assets Valuation Board

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IVSC Perspectives Paper

ESG & Real Asset Valuation: Sharpening the focus, not reinventing the wheel

The IVSC periodically publishes Perspectives Papers to address significant topics and emerging trends within the valuation profession. These papers are designed to stimulate discussion, provide the valuation community with valuable insights, and support the consistent application of the International Valuation Standards (IVS). While Perspectives Papers offer guidance, they are not intended to replace or override the IVS, which remains the authoritative framework for valuers.

This Perspectives Paper focuses on the evolving role of Environmental, Social, and Governance (ESG) factors in the valuation of tangible assets. It follows recent changes to the IVS, including the introduction of an ESG appendix within IVS 104, and addresses the increasing interest and concern from market participants about incorporating ESG criteria into valuation practices. By exploring how ESG factors impact various tangible asset classes—ranging from real estate to infrastructure—this paper aims to encourage informed and confident adoption of ESG considerations within everyday valuation assignments.

ESG & Real Asset Valuation: Sharpening the focus, not reinventing the wheel

WRITTEN AND ISSUED BY THE
IVSC TANGIBLE ASSETS VALUATION BOARD

The IVSC's Tangible Assets Board (TAB) have issued this Perspectives Paper following the recent changes to International Valuation Standards, effective 31 January 2025 (IVS). These include an Environmental, Social and Governance (ESG) Appendix within IVS 104 Data and Inputs. The Paper also builds on the earlier publication of IVSC's Perspectives Paper on "ESG and Real Estate Valuation"¹. Furthermore, the recent IVSC ESG survey, which closed on the 31st May 2024, indicated a high level of interest for this topic from valuation stakeholders.

ESG considerations are increasingly being referenced as relevant risks and opportunities by market participants making investment decisions when considering a broad variety of real assets.

For the purposes of this perspectives paper, real assets include all tangible asset classes such as real estate, undeveloped land, farmland, plant & equipment, infrastructure, transportation assets, utilities and commodities, amongst others.

Whilst the correlation between value and ESG criteria may vary across real assets for a variety of reasons, capital flows appear to be increasingly channelled into asset classes which take into account a variety of ESG determinants.

This comes at a time when there is increasing ESG regulation, examples of which include the EU taxonomy, the recently issued IFRS Sustainability Disclosure Standards created by the International Sustainability Standards Board (ISSB)², and the

¹ <https://www.ivsc.org/esg-and-real-estate-valuation/>

² <https://www.ifrs.org/projects/completed-projects/2023/general-sustainability-related-disclosures/>



US SEC Enhancement and Standardisation of Climate-Related Disclosures for Investors³. This heightened regulation has a direct impact on market participants, causing an indirect knock-on effect to valuation service providers. ESG factors and regulatory environment should be considered in valuations to the extent that they are measurable.

The recent IVSC ESG survey⁴ however, highlighted areas of significant stakeholder unease regarding the incorporation of ESG factors into valuation opinions. Perceptions around the lack of suitable valuation approaches and methods creates a cause for concern for valuation standard setters. Some 47% of respondents to the survey believed

'The recent IVSC ESG survey highlighted areas of significant stakeholder unease regarding the incorporation of ESG factors into valuation opinions.'

³ <https://www.sec.gov/newsroom/press-releases/2024-31>

⁴ <https://www.ivsc.org/esg2024/>

that quantifying the impacts of ESG in valuations requires the development of wholly new valuation approaches and methodologies.

But with the backdrop of these challenges, the TAB believe the IVS are well placed to assist valuers in providing valuations of real assets within an evolving ESG paradigm. This Perspectives Paper aims to create greater awareness on the ESG topic as it pertains to real asset valuation, to stimulate discussion and debate, and ultimately provide a calming influence which acts as a catalyst to encourage and give confidence to more widespread use of robust ESG concepts in everyday valuation assignments.

Setting the scene: what are the changes to IVS as it pertains to ESG?

Recent changes to the IVS have incorporated several references to ESG that pertain to real assets. These can be found within the Glossary, the General Standards, and the respective Tangible Asset Standards including IVS 300 Plant, Equipment & Infrastructure; IVS 400 Real Property Interests; and IVS 410 Development Property.

Whilst these changes are subtle, the incorporation of new terminology gives the valuation community impetus for more detailed and explicit consideration of ESG's influences on valuation. We now consider each in further detail.

Glossary

Collectively, ESG has been defined within IVS as:

The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices, financial performance or operations of a company, asset or liability. ESG comprises three pillars: Environmental, Social and Governance, all of which may collectively impact performance, the wider markets and society.

ESG should not be viewed as being solely limited to sustainability. ESG is regarded by many as having a much broader definition than merely sustainability.

General Standards

Within IVS 101 Scope of Work, the scope of work must specify, amongst other factors:

(m) Environmental, Social and Governance factors: Any requirements in relation to the consideration of significant environmental, social and governance factors.

The Appendix to IVS 103 Valuation Approaches, adds a requirement to analyse and adjust for any significant differences between comparable transactions and the subject asset:

A10.08 The valuer should analyse and make adjustments for any significant differences between the comparable transactions and the subject asset. Examples of common differences that could warrant adjustments may include, but are not limited to:



...

(l) differences in ESG considerations, and

...

Perhaps the most salient change in relation to ESG occurs within the Appendix to IVS 104 Data and Inputs, where valuation professionals are prompted regarding various ESG factors impacting a valuation:

The valuer should be aware of relevant legislation and frameworks in relation to the environmental, social and governance factors impacting a valuation.

A10 Environmental, Social and Governance (ESG) Considerations

A10.01 The impact of significant ESG factors should be considered in determining the value of a company, asset or liability.

A10.02 ESG factors may impact valuations both from a qualitative and quantitative perspective and may pose risks or opportunities that should be considered.

...

A10.06 ESG factors and the ESG regulatory environments should be considered in valuations to the extent that they are measurable and would be considered reasonable by the valuer applying professional judgement.

The use of the word 'significant' should be noted. It is defined in the IVS Glossary as 'any aspect of a valuation which, in the professional judgement of the valuer greatly impacts the resultant value'. Furthermore, the valuer should have an awareness that ESG can represent either 'risks or opportunities' associated with an asset.

Emphasis should be placed on the fact that it's not the valuer's role to invent ESG characteristics; valuers are not market makers. Rather, the valuer should interpret the collective actions of market participants and consider ESG characteristics 'to the extent that they are measurable and would be considered reasonable by the valuer applying professional judgement'.

A full quotation of the IVS 104 Data and Inputs Appendix can be found as an addendum to this Perspectives Paper.

Finally, IVS 106 Documentation and Reporting states that:

30.06 Valuation reports must convey the following, at a minimum:

...

(m) significant environmental, social and governance factors used and considered,

...

Asset Standards

Each of the Tangible Asset Standards (IVS 300, IVS 400 and IVS 410) have mirrored requirements for the consideration of ESG factors, reiterating commentary within the General Standards by stating:

100.06 Significant ESG factors associated with the value of an asset should be considered as part of the data and input selection process.

To be IVS compliant, a real asset valuation must meet the requirements of the General Standards, the Appendices, as well as the relevant Asset Standards pertaining to the assets under consideration. If legal, statutory, regulatory and/or other authoritative requirements appropriate

for the purpose and jurisdiction of the valuation conflict with IVS, such requirements should be prioritised, explained, documented, and reported to remain compliant with IVS. These requirements include applicable ESG prescriptions.

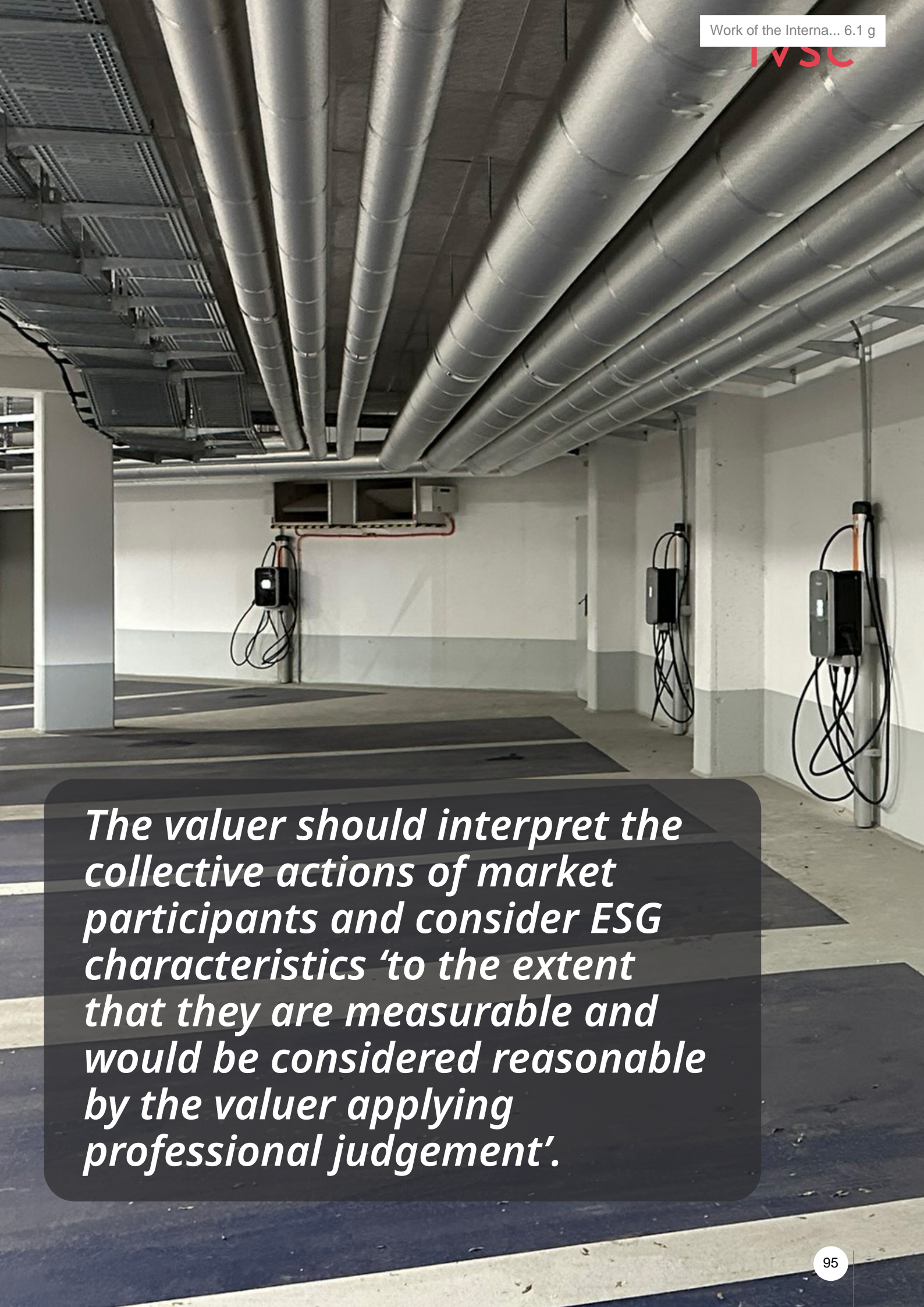
How should valuers think about applying E, S and G in a real asset context?

IVS 104 Data and Inputs Appendix, sections A10.03, A10.04 and A10.05 give examples of how valuation professionals might consider environmental, social and governance factors respectively. Whilst not exhaustive, these sections are designed to prompt the valuer to consider the possible influence of these factors within a valuation assignment.

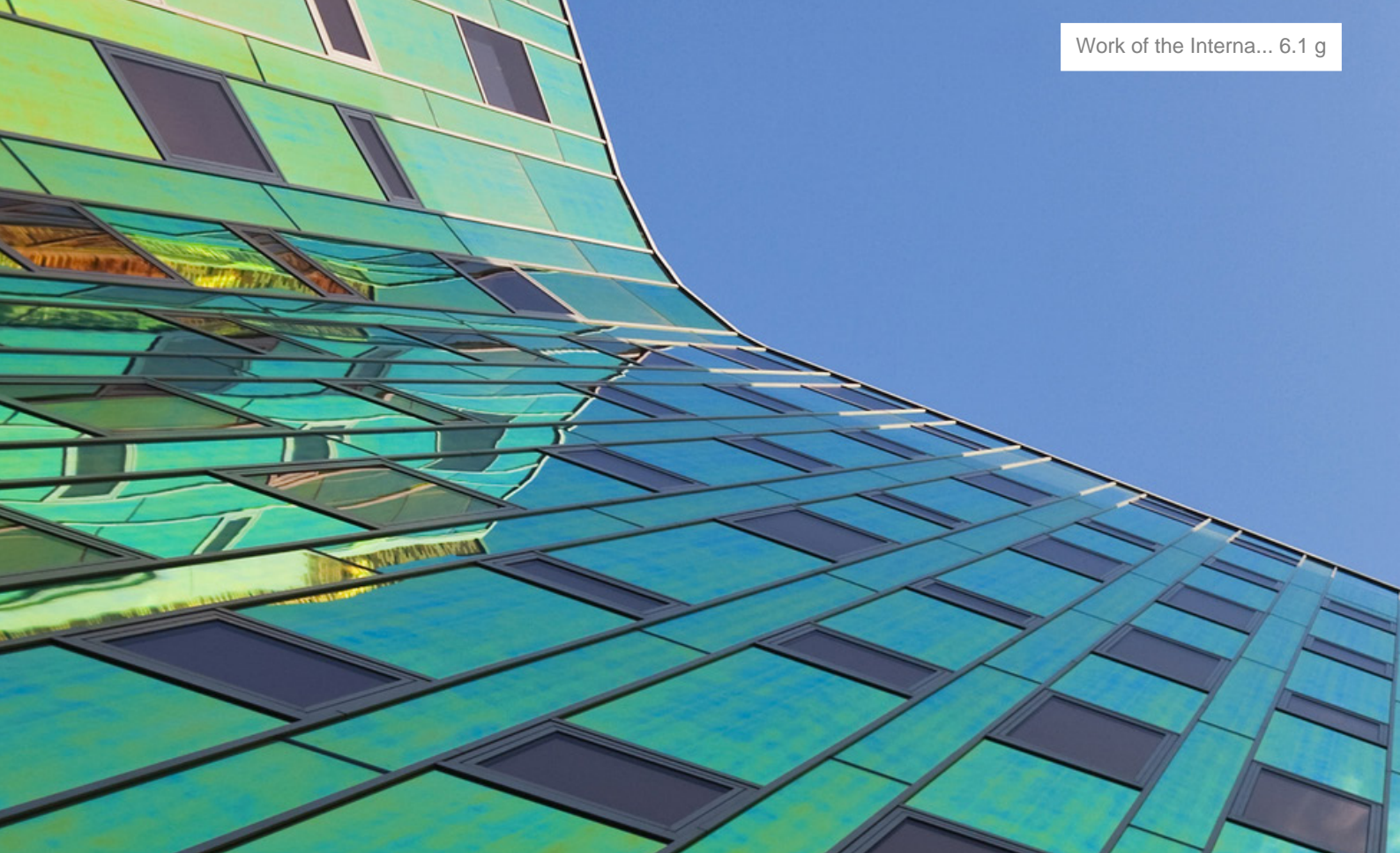
From a real asset perspective, examples of questions that valuers might pose include:

Environmental

- How does the asset contribute to pollution (air, water, land or otherwise)?
- Will the asset be subject to climate change risks or natural disasters?
- How do the characteristics of the asset deal with resource scarcity, consumption or efficiency (e.g. energy, water, raw materials)?
- Is the asset constructed from recyclable materials?
- Does the asset have appropriate waste management protocols in place to promote circularity through recycling or repurposing?
- Does the asset need upfront capital



The valuer should interpret the collective actions of market participants and consider ESG characteristics 'to the extent that they are measurable and would be considered reasonable by the valuer applying professional judgement'.



expenditure or recurring maintenance outlays to meet compliance demands?

- Will government policies impact the assets' useful life?
- Does the asset have an extended useful life relative to its peers?

Social

- Is the asset located near adequate public services and social amenities?
- Does the asset have access to a deep pool of employee talent?
- Is the asset located in proximity to sufficient product demand?
- Is the asset well regarded by the community

in the area in which it operates?

- Does the asset adequately safeguard data protection and privacy?
- Does the asset manufacturer provide adequate training and education?
- What reputation does the asset have with operators, authorities and counterparties?
- Does the asset have an adequate health and safety record?

Governance

- How do market participants and/or lessees regard the asset?
- What are financing prospects of the asset?
- Are purchasers/lessees willing to pay a



the asset?

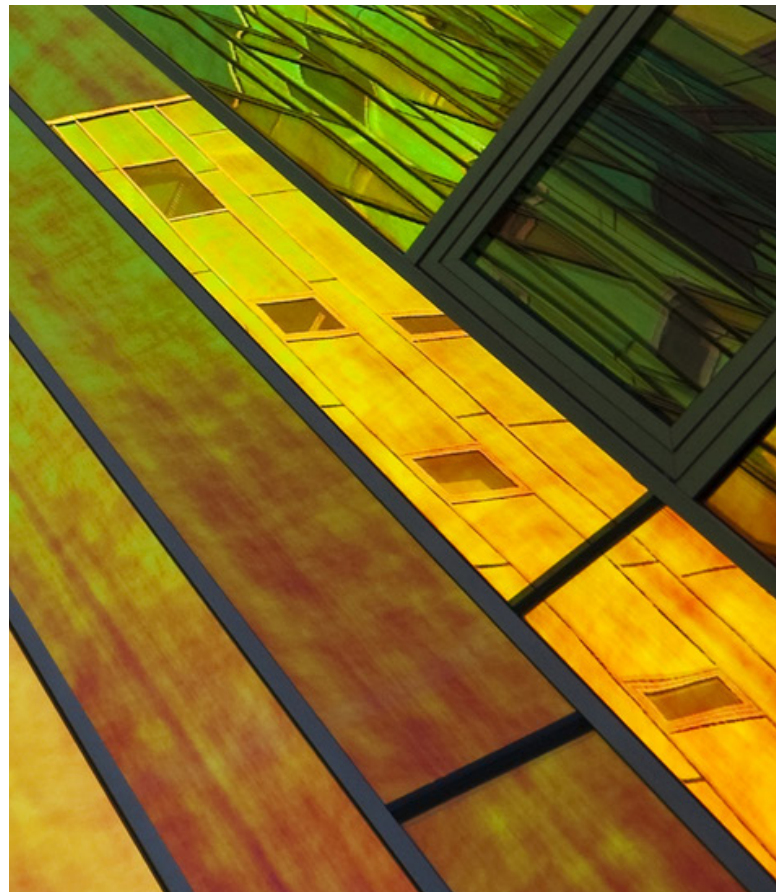
- Is there a higher and better use for the asset?
- How is the asset positioned for sustainable long-term demand?

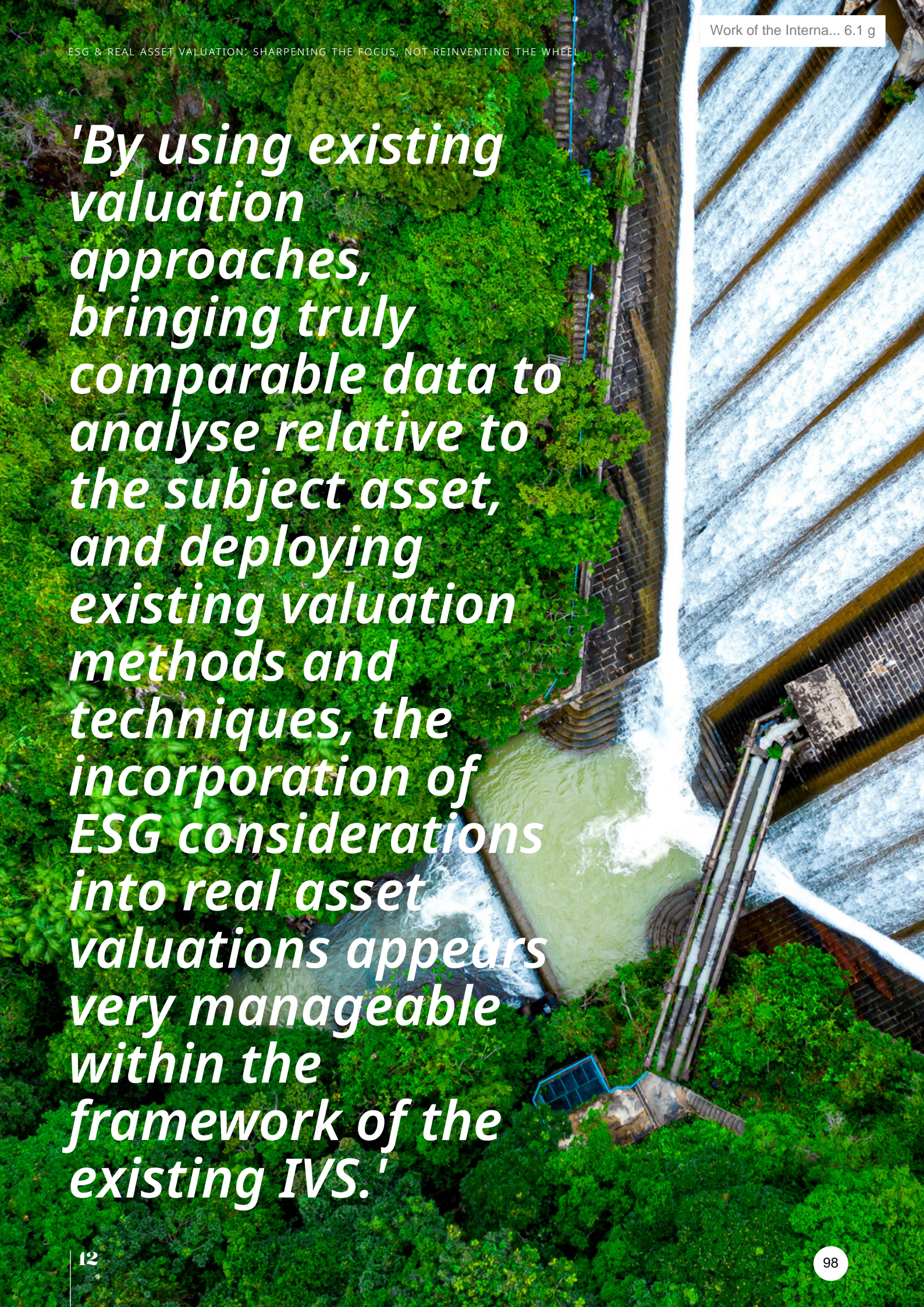
When considering these questions, a valuer may indeed find that some broach more than one of the E, S and G categories. This is not an issue as some of these topics may be relevant across more than one ESG criterion. A common misconception is that valuers are required to itemize discrete components of value for E, S and G factors respectively, but to be compliant with IVS this simply is not the case (barring local regulations or a scope of work requiring such).

Since one or several of these questions could have a significant impact on the real asset being valued, how should a valuation incorporate these E, S and G factors?


premium (or require a discount) to buy/lease the asset?

- Does the asset have a history of appropriate operation and maintenance?
- Does the asset meet or exceed the required operating and safety standards?
- Are there regulatory restrictions regarding the asset's utilisation?
- Is the asset subject to certain taxation considerations?
- Will technological advancement impact on the future of the asset?
- Does the asset meet relevant regulatory reporting requirements?
- Are there legal considerations that will impact





'By using existing valuation approaches, bringing truly comparable data to analyse relative to the subject asset, and deploying existing valuation methods and techniques, the incorporation of ESG considerations into real asset valuations appears very manageable within the framework of the existing IVS.'



Considering truly comparable information in the valuation of your subject asset

The most important aspects of incorporating ESG factors into a real asset valuation assignment broadly involves the following steps:

- Identify the 'significant' ESG factors that impact the asset. These factors may have a positive or negative impact on value, may be current or future orientated, and must be measurable.
- Similarly, don't sweat the small stuff. It is not the valuer's role to invent ESG factors. Valuers are required to interpret the market and consider ESG characteristics that are important to market participants.
- Once the relevant ESG factors are identified, the valuer needs to consider truly relevant and comparable information to value the real asset in question. On this basis, the importance of data availability to measure the relevant ESG factors is critical.

So what is 'truly relevant and comparable' information?

As with any valuation, many metrics will often be considered to assess how comparable information is benchmarked to the subject asset. In the context of a real asset, these traditionally might include metrics such as:

- Land or gross building floor area,
- Building installed mechanical and electrical services,
- Manufacturer and model,

- Current location and most favourable market,
- Income generating capacity,
- Occupancy rates or utilisation,
- Year of manufacture or condition,
- Operating capacity,
- Overhaul and maintenance status.

The evaluation of ESG features of an asset is simply an extension of this benchmarking exercise. It might encompass the following metrics or characteristics, for example:

- Fuel type and efficiency,
- Revenue generation capability or utilisation,
- Current or future capital expenditure requirements,
- Remaining useful life considerations,
- Distance from public or social amenities,
- Asset maintenance and overhaul regime,
- Technological status or advancement relative to peers,
- Favourable or unfavourable financing prospects,
- Compliance with regulations,
- Positive or negative taxation considerations.

Many valuation professionals may consider that they are already including these metrics or characteristics in their valuations. Does this mean that they are meeting their ESG obligations under the IVS?

Indeed, since valuers are including genuinely comparable information in the analysis of their subject asset, they might find that their

valuations already meet ESG obligations under the IVS. Nonetheless, valuers must continue to stay close to the market, and ensure that their consideration of ESG factors remain relevant as these will evolve over time.

So, how might real asset valuation professionals consider ESG factors differently, depending upon the valuation approach they are utilising?

Does ESG apply to all valuation approaches under IVS?

The incorporation of ESG factors into a real asset valuation may take different forms, depending upon the valuation approach being utilised. We examine this through the lens of the three common valuation approaches: Market, Income and Cost.

Market approach

When applying the market approach, IVS 103 Valuation Approaches states the following:

20.01 The market approach provides an indication of value by comparing the asset and/or liability with identical or comparable (that is similar) asset and/ or liability for which price information is available.

...

20.05 When comparable market information does not relate to the exact or substantially the same asset, the valuer must perform a comparative analysis of qualitative and quantitative similarities and differences between comparable assets and the subject asset. It will often be necessary to make adjustments based on this comparative

analysis. Those adjustments must be reasonable and the valuer must document the reasons for the adjustments and how they were quantified.

To the extent that comparable evidence is identical (or near identical) to the subject asset, it should be seen as incorporating all value-defining ESG factors that the market deems relevant for that asset. Therefore, no adjustment is required.

Where comparable evidence is not identical, valuers should use market information for similar assets and make adjustments for value-defining ESG characteristics. This is similar to what they do when undertaking valuations for assets using traditional metrics. However, these adjustments will have an additional ESG perspective through which they conduct this analysis.

The valuer's selection of relevant and defining ESG factors is crucial in the appropriate implementation of the Market approach.

Income approach

Where the valuer employs the income approach to value a real asset, there may be several areas where the valuer could incorporate ESG factors into a valuation based on the application of the discounted cash flow (DCF) method. For example.

- Revenue: Will any ESG factors impact the revenue generating capacity of the subject asset, favourably or negatively? Such items might include incremental utilisation and revenue generation, and enhanced growth potential, resulting from ESG characteristics relative to its peers in the market.
- Explicit forecast period: Will ESG factors curtail or extend the forecast cash flow period of the

subject asset? This might include a reduced explicit forecast period due to the phasing out of the asset, in compliance with government regulations.

- Operating costs: Will ESG factors increase or reduce operating costs of the subject asset? Assets displaying enhanced energy storage and/or efficiency relative to their peers could incur lower recurring power consumption costs.
- Maintenance costs: Are there ESG factors that increase maintenance costs associated with the subject asset? Older assets displaying less favourable ESG characteristics may be prone to higher ongoing maintenance costs relative to their peers.
- Capital expenditure: Does the DCF incorporate relevant and timely capex associated with the subject asset? Enhanced future revenue generation might require corresponding future capex, which might in turn extend the asset's useful life. Importantly, future capex may be net present value positive or negative, depending upon its nature.
- Taxation: Do applicable taxation provisions stimulate (or disincentivise) investment in the subject asset? If so, the timely incorporation these tax benefits (or disincentives) into a DCF could be relevant.
- Government intervention: Will government intervention lead to levies on the asset in the foreseeable future? Such levies would likely have a negative impact on the value of the subject asset and will need to be incorporated into future cash flows.

- Discount rate: To round out the effects enumerated above, the determination of a relevant discount rate will be critical. A discount rate observed for a coal-fired power station transaction will not be appropriate to value a wind farm, despite both assets being within the power generation sector.

Almost every step of a DCF valuation might require specific adjustment to ensure that the facts and circumstances associated with the subject asset's ESG characteristics are considered in an appropriate manner.

Cost approach

Similarly to the income approach, various adjustments might be required when utilising the cost approach to incorporate ESG factors in a real asset valuation. These might include:

- Replacement cost: Does the replacement cost consider a lowest-cost, modern equivalent asset, without incorporating betterment? In industries subject to significant technological change, distinguishing between these features will be important.
- Functional obsolescence: Are the excess operating costs associated with the subject asset relative to its peers being incorporated? An asset that incurs a levy due to its excessive water consumption should not be considered the same as those that do not.
- Useful life: Whilst the asset may be physically capable of operating for an extended period, societal expectations and/or government intervention may result in an assets life being curtailed. Differential remaining useful life assumptions can result in significant

variations in valuations.

- Economic or external obsolescence: Does the valuation incorporate any economic obsolescence relating to the external factors associated with the asset? This is particularly important for any real asset subject to negative ESG influences. In some cases, the portable nature of an asset takes it to alternative markets where it exhibits a higher and better use.

Regardless of the approach employed to perform a real asset valuation, ESG factors should be incorporated in the valuation in different forms. Whilst each of these forms may be subtly different, each can be performed utilising existing valuation approaches and methods under IVS.



The incorporation of ESG factors into a real asset valuation may take different forms, depending upon the valuation approach being utilised.



Maybe not green, but greener ... some asset class perspectives.

Some categories of real assets have been subject to rapid technological improvements and have greatly improved their ESG credentials and outlook.

For example, the diffusion of renewable electricity has been a game changer for power generation. Renewable energy accounted for 30.3% of global electricity generation in 2023⁵, up from under 20% in 2010. It has been viewed quite favourably as an investment asset class and attracted new capital in many markets despite recurring

challenges in the form of intermittent supply, and lack of affordable energy storage. Similarly, whilst light vehicles have seen a rapid evolution in technology to electric models, heavy vehicles and broader industrial transportation are still largely reliant on traditional petroleum fuels which can be seen as a detracting investment feature.

As such, the transition for some asset classes towards more favourable ESG characteristics might take longer for some than others. But real asset valuation professionals should remain attuned to these changes and corresponding market reactions and resist blindly lumping asset classes into ESG friendly or unfriendly buckets.

Rather, for certain real asset categories that are perhaps viewed less favourably from an ESG perspective, it may be more appropriate to rank comparable asset information from least

⁵ <https://www.statista.com/statistics/489131/share-of-renewables-in-power-generation-globally/>



favourable to most favourable. For example, while an asset class such as a locomotive may still not display perfect ESG characteristics because it uses traditional petroleum fuels, a modern equivalent locomotive might be viewed as 'best-in-class' relative to a 20-year old equivalent because it uses 30% less fuel when hauling equivalent tonnage.

In this instance the asset class may not be regarded as 'green' but 'greener' than its peer group. Ultimately, the valuation of such an asset might be viewed more favourably from an ESG perspective because of its i) lower operational costs, ii) greater ability to attract financing, and iii) enhanced utilisation by customers who lean towards more environmentally friendly transportation modes, for example.

'This creates an important need for valuation professionals to have a deep understanding of their asset class and the markets within which they operate.'

The importance of Professional Judgement, Data and Inputs

IVS 104 Data and Inputs provides that ESG factors should be considered in a valuation when they are 'measurable and would be considered reasonable by the valuer applying professional judgement'. The appropriate selection of data and inputs is central to the asset standards IVS 300, IVS 400 and IVS 410.

This creates an important need for valuation professionals to have a deep understanding of their asset class and the markets within which they operate. After all, ESG defining factors relevant in an asset class within one market might display greater or lesser value prominence in another.

Whilst some data and inputs will be readily available, others may require research, including the use of third-party data service providers. Valuation professionals' unique understanding of

market drivers within their real asset specialism will be important for providing expert, timely and knowledgeable valuation advice to their clients.

To this end, the recent introduction of IFRS Sustainability Disclosure Standards created by the ISSB⁵, or local equivalents, will no doubt assist valuation professionals across all real asset classes by providing a global comparable baseline for sustainability reporting.

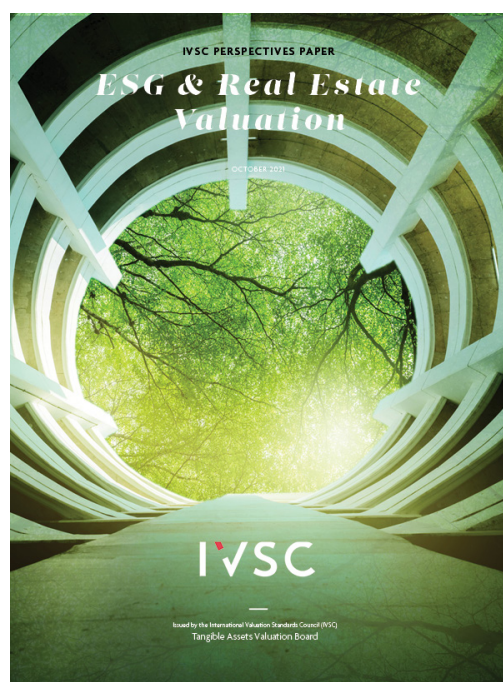
ISSB have issued two standards, IFRS S1 General Requirements for Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

The scope of IFRS S1 applies to an entity preparing and reporting sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards.

The Scope of IFRS S2 applies to:

- (a) climate-related risks to which the entity is exposed, which are:
 - i. climate-related physical risks; and
 - ii. climate-related transition risks; and
- (b) climate-related opportunities available to the entity.

When undertaking a valuation of real assets (for any purpose) that are impacted by IFRS S1 and S2, or local equivalents, valuers should be acutely aware of this information and related disclosures and leverage it where appropriate in conducting their valuation analysis.



IVSC PERSPECTIVES PAPER:
ESG & REAL ESTATE VALUATION (OCTOBER 2021)

⁵ <https://www.ifrs.org/projects/completed-projects/2023/general-sustainability-related-disclosures/>

Deeper thinking and a sharper focus, but manageable within the existing IVS!

The incorporation of ESG considerations into the IVS creates another element for valuation professionals to consider when conducting real asset valuations. On the surface, and based on the IVSC's recent ESG Survey results, valuers could be justified in thinking that the incorporation of such requirements into valuation standards requires a new way of thinking about valuation.

But based on the perspectives shared above and following on from the recent TAB perspectives paper on ESG and Real Estate Valuation², the TAB believe that valuers have all the tools they need to appropriately reflect ESG risks and opportunities into their valuations. The IVS are well placed to assist valuers in dealing with the valuation of real assets in a new ESG paradigm.

There is no doubt that ESG considerations require deeper thinking and a sharper focus, requiring valuation professionals to have an in-depth knowledge of their real asset class and markets within which they operate. And let's not forget, ESG is still a work in progress and will continue to evolve, just as it has done in recent years. But all of this can be achieved without real asset valuation professionals having to reinvent the wheel.

By using existing valuation approaches, bringing truly comparable data to analyse relative to the subject asset, and deploying existing valuation methods and techniques,

the incorporation of ESG considerations into real asset valuations appears very manageable within the framework of the existing IVS.

We would welcome your feedback

The IVSC will continue to monitor the topics in this perspectives paper and welcomes stakeholders' insights and feedback.

In order to understand what ongoing issues (if any) you or your stakeholders have observed with real assets and ESG, or its interpretation in your jurisdiction, the following series of questions might guide you in providing insight and feedback:

1. Do you believe that the IVS enables you to undertake valuations of real assets that incorporates ESG factors witnessed in your market?
2. Are there certain real asset classes or valuation approaches that cause confusion when considering ESG factors as part of your valuation assignments?
3. What valuation standards or regulations are applicable when considering ESG factors as part of real assets valuations in your jurisdiction?
4. Is there sufficient transparency around real asset data in your jurisdiction to enable you to effectively analyse and incorporate ESG factors into your valuation assignments?
5. Are auditors, regulators or other authoritative bodies providing more prescriptive ESG

6 <https://www.ivsc.org/esg-and-real-estate-valuation/>

guidance or requirements than international regulations for ESG factors for real assets in your jurisdiction?

In addition to answering the questions posed above, we would also welcome any further feedback to be sent to the IVSC's Tangible Asset Board via the following email: contact@ivsc.org.



Scan or click on the QR code to access the online feedback form.

Further reading material

Below is a list of further reading material to highlight different perspectives relating to ESG and real asset valuation around the world.

- EY, *'Embracing the future: approaches to ESG in real estate valuation'*, https://www.ey.com/en_ch/real-estate-hospitality-construction/embracing-the-future-approaches-to-esg-in-real-estate-valuation
- PwC, *'ESG in Real Estate Valuation 2.0'*, <https://www.pwc.de/en/real-estate/esg-in-real-estate-valuation-update.pdf>
- RICS, *'The future of real estate valuations: The impact of ESG'*, <https://www.rics.org/news-insights/wbef/the-future-of-real-estate-valuations-the-impact-of-esg>

Addendum

IVS 104 Data and Inputs: Appendix

The valuer should be aware of relevant legislation and frameworks in relation to the environmental, social and governance factors impacting a valuation.

A10. Environmental, Social and Governance (ESG) Considerations

A10.01 The impact of significant ESG factors should be considered in determining the value of a company, asset or liability.

A10.02 ESG factors may impact valuations both from a qualitative and quantitative perspective and may pose risks or opportunities that should be considered.

A10.03 Examples of environmental factors may include but are not limited to the following:

- (a) air and water pollution,*
- (b) biodiversity,*
- (c) climate change (current and future risks),*
- (d) clean water and sanitation,*
- (e) carbon and other gas emissions,*
- (f) deforestation,*
- (g) natural disaster,*
- (h) resource scarcity or efficiency (eg, energy, water and raw materials),*
- (i) waste management.*

A10.04 Examples of social factors may include but are not limited to the following:

- (a) community relations,*
- (b) conflict,*
- (c) customer satisfaction,*
- (d) data protection and privacy,*

- (e) development of human capital (health & education),*
- (f) employee engagement,*
- (g) gender equality and racial equality,*
- (h) good health and well-being,*
- (i) human rights,*
- (j) working conditions,*
- (k) working environment.*

A10.05 Examples of governance factors may include but are not limited to the following:

- (a) audit committee structure,*
- (b) board diversity and structure,*
- (c) bribery and corruption,*
- (d) corporate governance,*
- (e) donations,*
- (f) ESG reporting standards and regulatory costs,*
- (g) executive remuneration,*
- (h) institutional strength,*
- (i) management succession planning,*
- (j) partnerships,*
- (k) political lobbying,*
- (l) rule of law,*
- (m) transparency,*
- (n) whistle-blower schemes.*

A10.06 ESG factors and the ESG regulatory environment should be considered in valuations to the extent that they are measurable and would be considered reasonable by the valuer applying professional judgement.



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IVSC PERSPECTIVES PAPER

The Integration of ESG in Valuation Practices:

IVSC Global Survey 2024

January 2025

IVSC



Richard Hayler

Chair, IVSC ESG Working Group

Navigating ESG Integration: Insights from the IVSC Global Survey

Foreword

Over the past decade, the significance of Environmental, Social, and Governance (ESG) factors in valuation has been extensively debated. To ensure the ongoing relevance of International Valuation Standards (IVS), the International Valuation Standards Council (IVSC) closely monitors the integration of ESG considerations into valuation practices. The IVSC's ESG Committee was specifically established to address this developing area.

Our recent survey was aimed to inform the incorporation of ESG into the development of IVS, while also providing valuable insights to the valuation profession and the public on the evolving landscape of ESG integration in valuation across various markets. The ESG Committee, recognising the diverse perspectives on ESG in valuation, prioritised neutrality and objectivity in the formulation of questions and the interpretation of responses.

The survey findings reveal significant uncertainty surrounding the integration of ESG factors in valuation. Moreover, they

highlight the diverse pace and direction of ESG adoption across different markets. While this diversity may raise concerns regarding valuation comparability, it is encouraging to note that only 9% of respondents deemed the 'IVS 104 Appendix on ESG considerations' insufficient. This suggests that, for the time being, the IVSC has struck a suitable balance in its approach to ESG integration within the IVS framework.

The IVSC is committed to continuing to use tools such as this survey to canvas market opinion on the role of ESG in valuations. We welcome your comments and feedback.

Introduction

As a global valuation standard setter, the International Valuation Standards Council (IVSC) considers opinions from valuation stakeholders around the world. The global debate on sustainability and Environmental, Social and Governance (ESG) issues continues to garner considerable attention, including, for example, whether investors should consider these factors when pricing assets and investments.

To the extent such factors are influencing asset values, stakeholders need to be able to understand the extent to which they are being captured in the underlying valuations. In this context, the IVSC has sought through its annual survey to assess the state of the market on ESG factors and their relevance in the valuation of assets and businesses across geographies and valuation specialisms.

These factors, once considered peripheral, have moved to the forefront of discussions among investors, regulators, and valuation professionals in some markets. However, perspectives are divergent with jurisdictions and asset classes moving at different speeds and in different directions. Political polarisation in some areas of the world has also led some stakeholders to avoid the use of the term 'ESG', focusing instead on 'sustainability' to encapsulate similar factors.

This paper presents an analysis of the survey responses, highlighting the consistent themes, surprises and challenges. While the concepts of 'ESG' and 'sustainability' overlap, they are not necessarily the same. However, for simplification purposes, henceforth these terms may be used interchangeably.

IVSC ESG Working Group

The IVSC is grateful to the members of its ESG Working Group for their time and contribution to this survey and report.

- **Alexander Aronsohn** - Standard Review Board Technical Director
- **Anjanette (AJ) Hutson** - Colliers and Appraisal Institute USA
- **Ayda Chamcham** - Appraisal Institute Canada
- **Carla Nunes** - Kroll
- **Catalina Miranda** - IVSC Business Valuation Board
- **David Larsen** - IVSC Standards Review Board
- **Dr Georgia Warren-Myers** - University of Melbourne/JLL
- **Giampiero Bambagioni** - IVSC European Membership and Standards Recognition Committee
- **Howard Mah Lee** - American Institute of Certified Public Accountants (AICPA)
- **Jose Covas** - IVSC Standards Review Board
- **Miguel Cordano Rodríguez** - President of CTPP
- **Richard Hayler (Chair)** - IVSC Standards Review Board
- **Richard Olson** - Lincoln International
- **Simon Orr** - J P Morgan
- **Susann Ihlau** - IVSC Standards Review Board



Survey Overview

The IVSC ESG survey of valuation providers ran between 28th March 2024 and 31st May 2024, with responses being received from 542 survey participants from 85 countries. Since not all the questions were mandatory the number of responses varies between questions. The charts throughout this report indicate the number of responses received for each survey question to assist the reader in interpreting the data. In instances where not all respondent replied, statistics (and proportion of responses) are based solely on those who replied. In addition, some questions allowed the respondent to select multiple options, which means that, for such questions, the number of responses may exceed the number of respondents who answered the question.

The IVSC ESG survey ran between 28th March and 31st May 2024, with responses received from 542 participants from 85 countries.

Based on a survey of valuation professional service providers.

Respondent Demographics

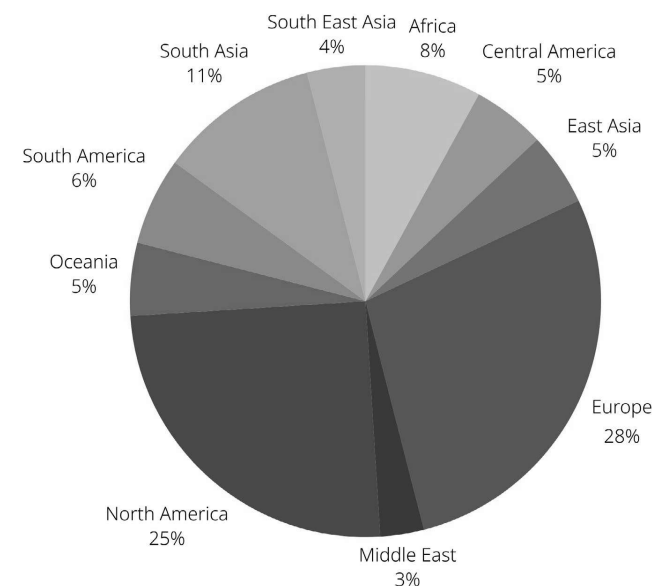


Chart 1: In which geography are you located? (542 respondents)

Geographic coverage was well balanced. The majority of respondents were located in Europe (28%), closely followed by North America and Asia-Pacific (both at 25% each). The balance is comprised of Central & South America and Africa & Middle East, with equal weights (11% each). Notably, the fact that responses came from stakeholders located in 85 countries is a testament to the global reach

of the IVSC and the interest that this topic generates. Chart 1 provides a more granular detail on the geographic distribution of the survey respondents. The three countries with the highest number of respondents were the United States (24%), India (9%) and Italy (6.8%).

The survey conducted by the IVSC drew responses from valuation professionals who focus their valuation work on various regions and

markets (Africa: 9%, Asia: 19%, Americas: 30%, Europe: 27%, Middle East: 5%), with 9% having a global focus. [See Chart 2]

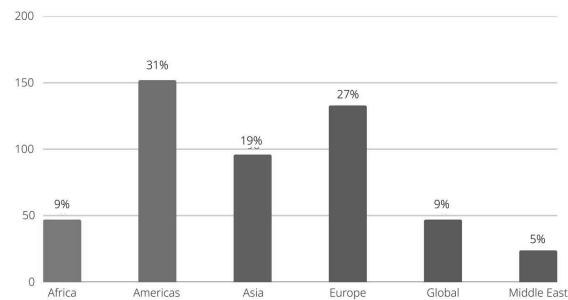


Chart 2: In which markets do you work? (417 respondents, 499 responses)

Valuation focus spread across a variety of areas, with business valuation and intangible respondents accounting for over half of total responses. Tangible assets represented just over

a quarter of respondents (26%). Unsurprisingly, several respondents perform or review valuations in multiple asset classes. [See Chart 3]

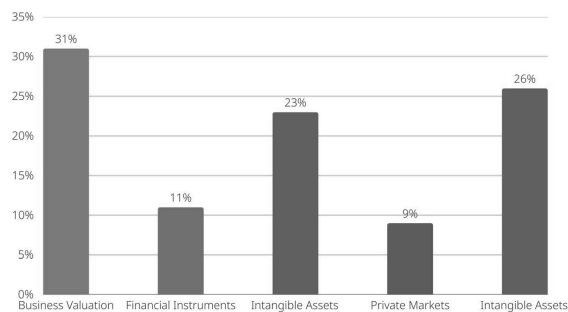


Chart 3: What is your valuation focus? (534 respondents, 968 responses)

Experience levels varied, with respondents ranging from those with less than five years of experience to those with over two decades in

the field. Notably of those who replied to this questionnaire, almost half (44%) had over 20 years of experience. [See Chart 4]

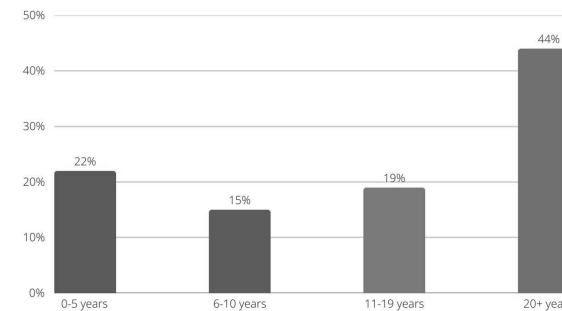


Chart 4: How many years of valuation experience do you have? (402 responses)

Respondents performed or reviewed valuations for a variety of purposes, with financial reporting

being the most common (26%) [See Chart 5],

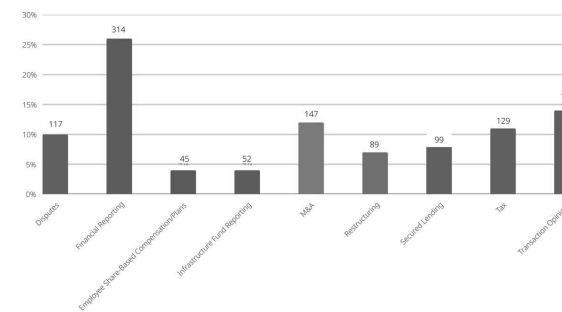


Chart 5: What is the main purpose(s) of the valuations you perform or review? (427 respondents, 1190 responses)

Perspectives Paper: The Integration of ESG in Valuation Practices: IVSC Global Survey 2024



Survey Scope: The survey included questions on the respondents' awareness of ESG factors, their integration into current practices, the challenges encountered, and the types of professional development being undertaken.

Analysis and Key Findings

1. ESG Awareness and Integration

The survey revealed that while there is a growing awareness of ESG factors among valuation professionals, the degree of integration into valuation practices remains varied. As illustrated in Chart 6, only 30% of respondents commented that they always or very frequently consider ESG/ Sustainability factors within their valuation and valuation reports. This may be because ESG/ sustainability considerations in valuations are still in their infancy or simply that many valuers do not consider them to be material variables in the valuation and therefore not worthy of separate consideration.

Respondents from Europe show higher levels of ESG integration compared to those from other regions or countries.

Question: To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation reports?

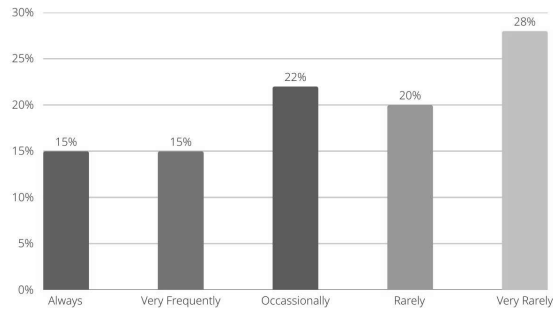


Chart 6: To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation's reports? (511 responses)

Notably, respondents from Europe show higher levels of ESG integration compared to those from other regions or countries such as the United States. For example, in Europe just over a third of respondents rarely (12%) or very rarely (24%) consider ESG factors in valuations. This means the majority of European respondents are

reflecting ESG factors in their valuations, even if only occasionally. [See Chart 6A]

In contrast, the vast majority (80%) of U.S. respondents rarely (24%) or very rarely (56%) consider ESG factors in valuations. [See Chart 6B]

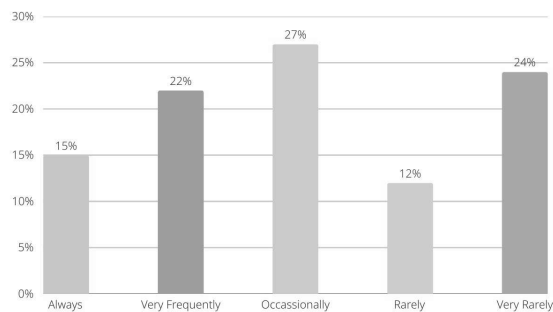


Chart 6a: Europe – To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation reports? (132 responses)

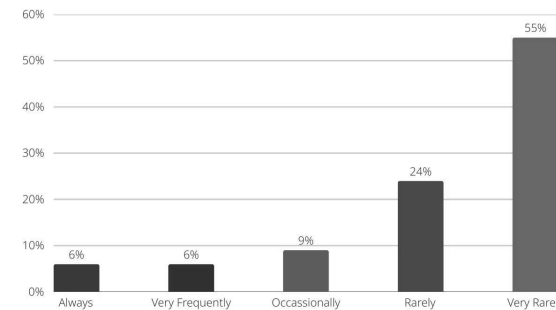


Chart 6b: USA – To what extent are you currently considering ESG/ sustainability factors within your valuation and valuation reports? (125 responses)

The U.S. respondents took a different approach, rarely considering ESG factors when compared not just with Europe, but also the Rest of the World (ie, excluding Europe and the United States). Although divergence exists, these other markets appear to be more aligned with Europe [see Chart 6C].

The cause of this is unclear but may be linked to the regulatory environment existing in different jurisdictions, with Europe leading the way on the consideration of ESG factors.

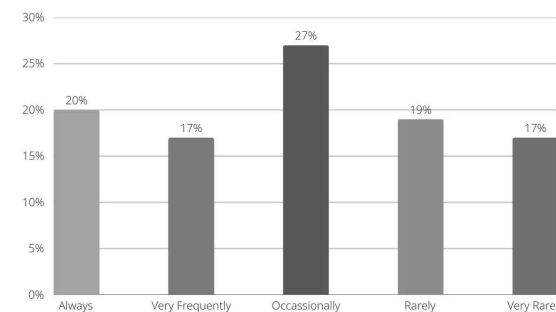


Chart 6c: Rest of the World – To what extent are you currently considering ESG/Sustainability factors within your valuation and valuation reports? (254 responses)



2. Challenges in ESG Integration

Respondents identified several challenges in incorporating ESG factors into valuations. The most frequently cited challenge was the lack of standardised metrics for measuring ESG impacts. Valuation professionals expressed difficulty in quantifying the effects of ESG factors, particularly social and environmental components, which are often seen as difficult to quantify, lacking data or speculative.

but aligning them with ISSB standards.¹

The second most used framework (for those who use one) was the EU Taxonomy at 10%.

However, almost a quarter of these respondents (23%) found none of the existing frameworks useful when incorporating ESG factors for the valuation of Corporates.

Range of frameworks, guidelines, methods or reporting standards used

Although there was no dominant ESG framework used for the valuation of Corporates, the IFRS Foundation's International Sustainability Standards Board (ISSB) appear to be gaining some traction (17%). [See Chart 7]

According to the IFRS Foundation, 30 jurisdictions representing nearly 57% of global GDP and over 40% of global market capitalisation have already decided to use or are taking steps to introduce ISSB standards in their legal or regulatory frameworks. This includes for example, Australia, Brazil, China, and Japan. Some of these jurisdictions are developing their own standards

No overarching framework, guideline, method or reporting standard used by valuers

From a valuation standpoint, a standardised sustainability disclosure framework across countries is crucial if ESG factors are to be consistently incorporated into the valuation exercise. The disparate responses for corporate valuations, [Chart 7] is therefore a cause for concern.

¹ IFRS Foundation, "Progress on Corporate Climate-related Disclosures—2024 Report", November 2024. Available here: <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/progress-climate-related-disclosures-2024.pdf>.

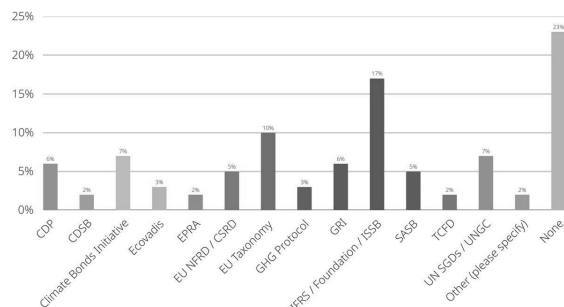


Chart 7: Which frameworks, guidelines, methods, or reporting standards have you found most useful in the course of considering ESG/Sustainability within your CORPORATE valuation work? (410 Respondents, 649 Responses)

However, when incorporating ESG/Sustainability factors in the valuation of investments and portfolios, GRESB (formerly known as Global Real Estate Sustainability Benchmark) is being used by 29% of respondents. [See Chart 8]

GRESB provides ESG benchmark data for real estate and infrastructure investments across the world. Real estate is an area where energy efficiency and other environmental regulation has

been issued in many jurisdictions, and the need for benchmarking data has been more acute here than in some other asset classes.

The United Nations-supported Principles for Responsible Investment (PRI) and the EU's Sustainable Finance Disclosure Regulation (SFDR) were the next most-used frameworks for the valuation of investments and portfolios, at 19% and 18%, respectively.

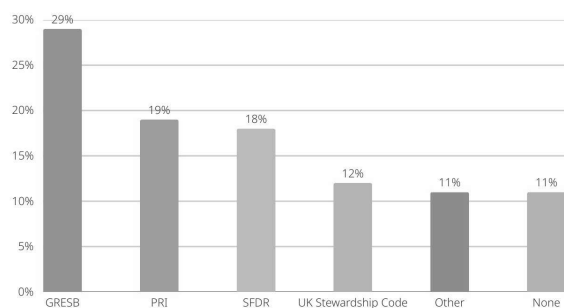


Chart 8: Which frameworks, guidelines, methods, or reporting standards have you found most useful in the course of considering ESG/Sustainability within your INVESTMENT/PORTFOLIO valuation work? (205 Respondents, 257 Responses)

31% of respondents are not using ratings or certifications to assess ESG/Sustainability.

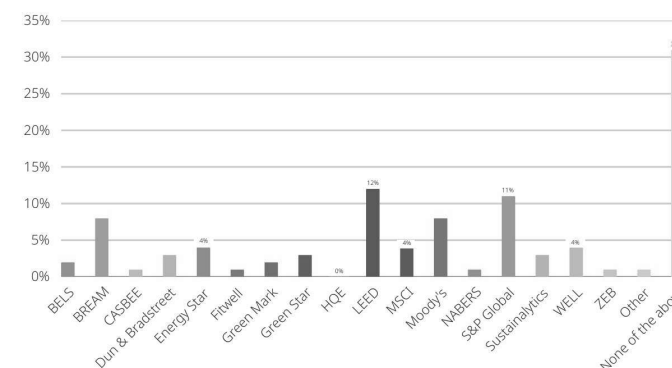


Chart 9: Which ratings or certifications are you utilising in your valuations to assist in assessing ESG/Sustainability? (348 Respondents, 541 Responses)

Another significant challenge highlighted was the varying importance placed on ESG factors by different stakeholders, with most valuers (71%)

not independently assessing ESG/Sustainability factors within their valuations. [See Chart 10]

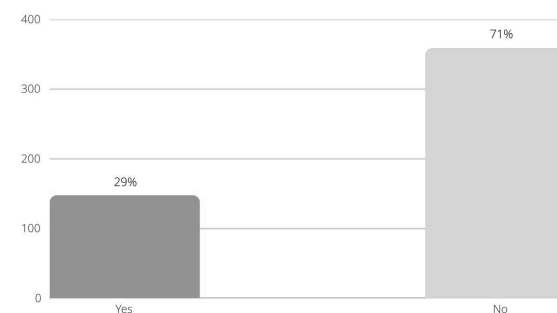


Chart 10: Do you independently assess ESG/Sustainability factors on all or most company and asset valuations? (507 Respondents)

The majority of respondents (57%) also did not separately identify factors within the environmental, social and governance pillars

when determining if ESG is material for their valuations. [See Chart 11]

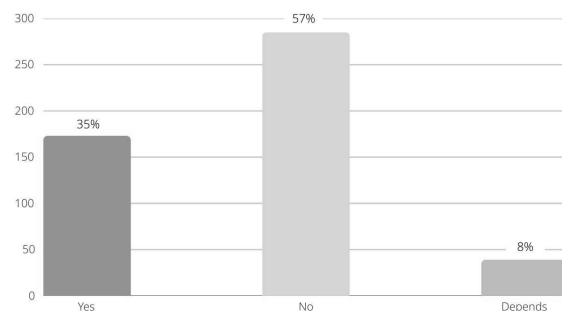


Chart 11: Do you separately identify Environmental (E), Social (S) and Governance (G) considerations from each other to reflect and report on the various individual factors which may be material to the valuation? (497 Respondents)

This may indicate that the consideration of ESG factors is relatively high level or superficial, given the potential for material differences in the applicability of each factor between sectors. For example, water usage and water treatment (environment) would likely be very material for a clothes manufacturing facility, but not for a consulting firm. On the other hand, a data breach

from a cyber-attack (governance) could be a material risk to consider for that consulting firm.

One respondent noted, "ESG has not yet become a meaningful consideration for many of my clients, which makes it challenging to incorporate these factors into valuations consistently."

The most frequently cited challenge to integration of ESG considerations in valuations was the lack of standardised metrics for measuring ESG impacts.



IVSC

3. Training and Development

The survey responses indicated a gap in professional development related to ESG. Just over half of respondents (see Chart 12) reported that neither they nor their organisations are currently undertaking any formal training or certifications focused on ESG or sustainability. This lack of training most likely reflects the priorities of members in their respective markets but may also contribute to the inconsistent integration of ESG factors across the profession.

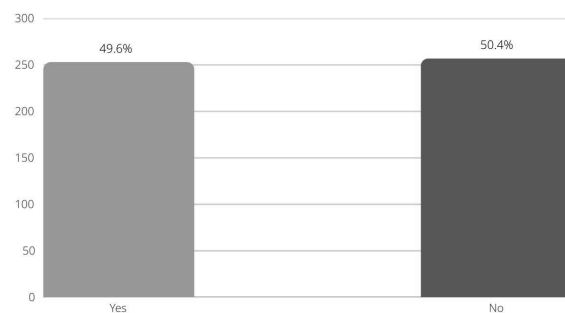


Chart 12: Are you or your organisation undertaking any professional development or training focused on ESG/Sustainability (eg official certifications, self-study, webcasts etc)? (510 Respondents)

Despite this, comfortably, the majority of respondents thought the level of detail contained within the IVS 104 Data and Inputs Appendix on consideration of environmental, social and

Nevertheless, some respondents expressed interest in pursuing further education in this area, potentially indicating evolving priorities. The need for more structured training and standardized guidelines was a common theme, with several respondents calling for the IVSC and other bodies to take a leading role in this regard.

governance factors was generally adequate. Over a third believed the guidance was sufficient (28%) or very sufficient (8%), while another 24% believed it to be somewhat sufficient. [See Chart 13]

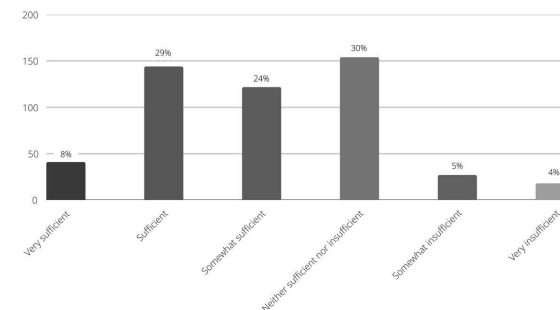


Chart 13: Is the IVS (effective 31 January 2025) – IVS 104 Appendix on ESG considerations sufficient for your valuation needs? (506 Respondents)

However, it was noted that further technical guidance was required for quantifying ESG using existing valuation approaches and methodologies. Almost half of respondents believed that the quantifying the impacts of ESG on valuations required the development of wholly new valuation approaches and methodologies. [See Chart 14]

That is not to say that current valuations under IVS do not implicitly include ESG factors, but rather that help is needed to explicitly demonstrate the impact of these factors, where appropriate, in a clear and consistent way.

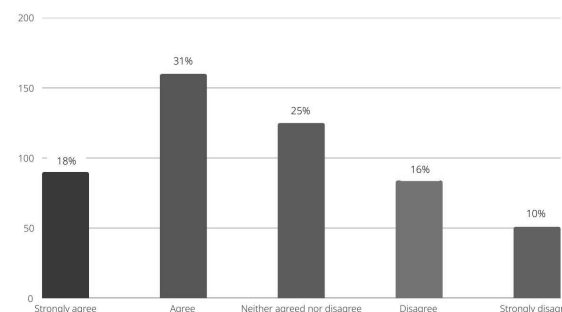


Chart 14: Do you believe that quantifying the impacts of ESG on valuations requires the development of wholly new valuation approaches and methodologies? (510 Respondents)

4. Market Differences and Regional Insights

The survey highlighted notable differences in ESG integration across various markets. Respondents from Europe, particularly those in the Netherlands and the UK, reported higher levels of ESG awareness and integration compared to their counterparts in the Americas and Asia-Pacific regions. This regional disparity may be attributed to differences in political and regulatory pressures as well as market demand for sustainable investment practices.

The United States shows a clear departure from other jurisdictions, as the majority of respondents (59%) did not consider ESG factors in their valuations. [See Chart 17]

However, focusing on the non-US jurisdictions (Exhibits 15, 16 and 18), there are some interesting observations that can be gleaned. At this juncture, those who consider ESG/Sustainability in their valuation are mostly focused on identifying and disclosing the factors that may have an impact on value. But those who either qualitatively or quantitatively measure the impact of ESG/Sustainability factors are still in the minority. This may demonstrate the difficulty in directly reflecting these factors in valuation as outlined above. Some respondents indicated this was due to data constraints while others complained of a lack of understanding how these concepts can be incorporated into the valuation, or a lack of demand for such considerations from the stakeholders who request/use the valuation report.

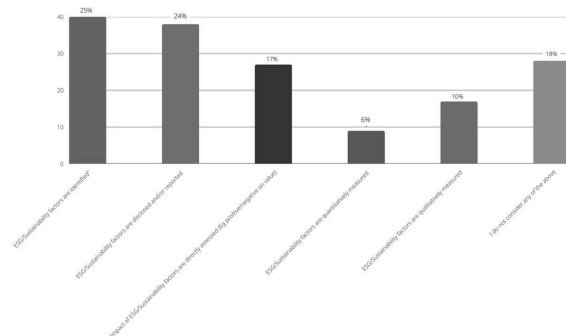


Chart 15: Asia - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (102 Respondents, 159 Responses)

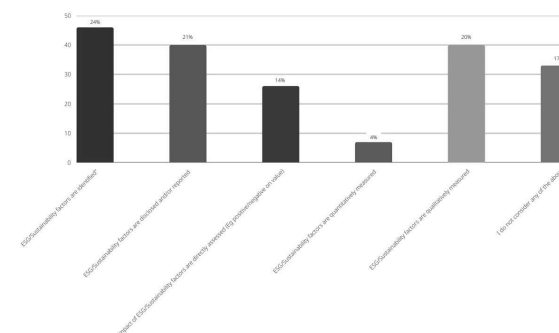


Chart 16: Europe - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (136 Respondents, 192 Responses)

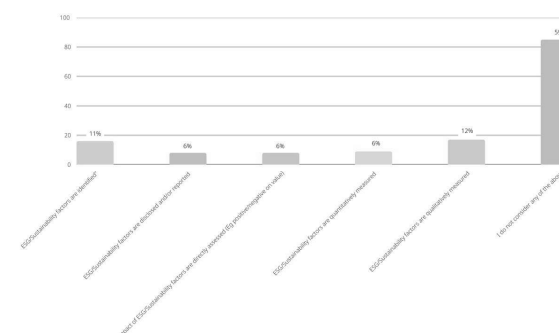


Chart 17: USA - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (130 Respondents, 143 Responses)

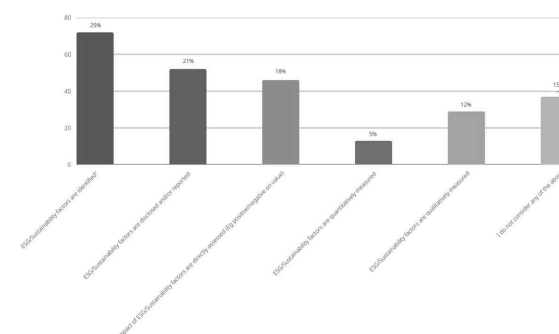


Chart 18: Rest of the World - When preparing or reviewing a report how are ESG/Sustainability considerations reflected. (153 Respondents, 249 Responses)

There does seem to be a risk that the 'Environment' pillar of ESG is being reduced to a discussion on carbon emissions, when other factors, such as water use, pollution or waste disposal, could have a more immediate effect on the value of an asset, for example in the form of fines or stop work orders.

In markets where ESG integration is less prevalent, respondents often cited a lack of client demand and limited access to relevant data as key barriers. These insights suggest that while ESG is gaining traction globally, its adoption is still heavily influenced by local market conditions.

Corporate perspectives will, absent legal or regulatory requirements, necessarily be driven to a significant degree by what their customers demand in exchange for buying their products and services. Further, in most jurisdictions the directors' fiduciary duty is still to shareholders, rather than society or the environment, and valuation of an asset is typically valued accordingly.

5. Future Outlook and Recommendations

Based on the survey findings, while ESG integration in valuation practices is progressing, the direction and timeline is unclear. Obstacles that will need to be overcome for the profession to progress in the explicit consideration of ESG factors in valuations include:

- **Standardisation of ESG Metrics:** There is a pressing need for the development of standardized metrics for evaluating ESG factors in valuations. This would enable more consistent and comparable assessments across different markets and asset classes.
- **Enhanced Professional Development:** Valuers would benefit from increased access to training programs focused on the value impact of different ESG factors. This training should be designed to equip professionals with the

skills needed to effectively integrate ESG considerations into their work.

- **Greater Engagement with Stakeholders:** To ensure that ESG factors are appropriately valued, there must be greater dialogue between valuers, clients, and regulators. This engagement will help align expectations and foster a shared understanding of the importance of ESG in valuations.

Conclusion

The integration of ESG factors into valuation practices is an evolving area that presents both challenges and opportunities for professionals in the field. The IVSC SRB ESG Working Group generally believe, and comments received appear to corroborate, that most valuers agree that ESG factors are implicitly accounted for in their valuations, but the questionnaire responses clearly show room for their explicit consideration, quantification and disclosure.

The public commentary around ESG appears to have been largely driven by political and public forces, which in turn is driving market participants. It is for those market participants to determine whether the valuers serving it should be providing

such explicit consideration, quantification and disclosure.

Critically however, valuers must not lose sight of the basis of value being applied, as this will necessarily have a bearing on the role ESG factors play in their valuation. Valuation does not decide whether something is moral, as this changes with

society, rather it provides a quantitative value of a given asset and/or liability at a given time for a set of assumed circumstances.

The IVSC will continue to monitor the integration of ESG factors into valuation practices and will maintain ongoing dialogue with the valuation community to provide the support required.



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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Guidance update 6.2 a

Update on guidance

Presenters:

Judy Ryan

Technical Advisor Sustainability
Reporting

Jeremie Madamour

Principal advisor Sustainability reporting

GHG emissions

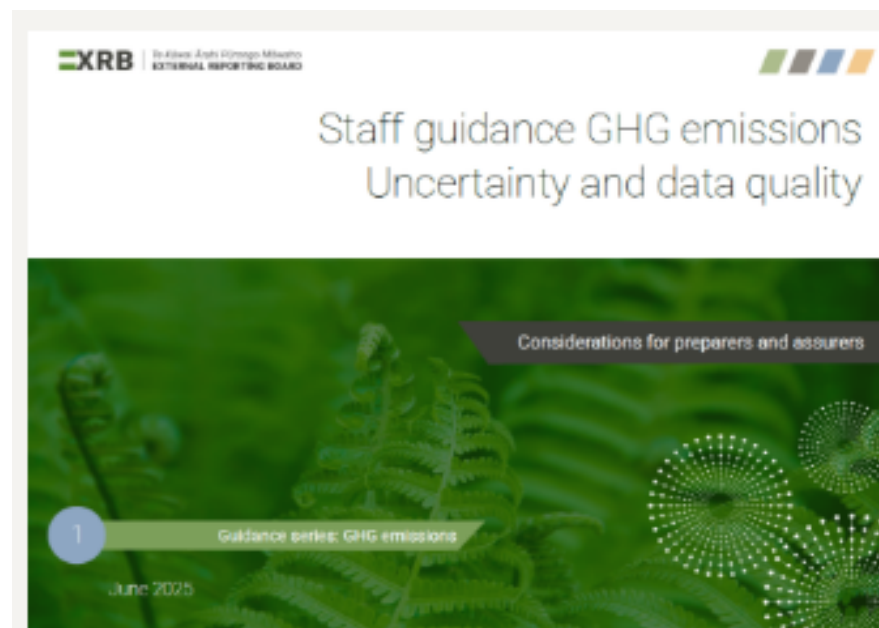
We continue to provide guidance to support preparers and assurance providers on their GHG emissions disclosures

This series explains key GHG emissions accounting concepts and aims to clarify areas where interpretation may vary as practice evolves.

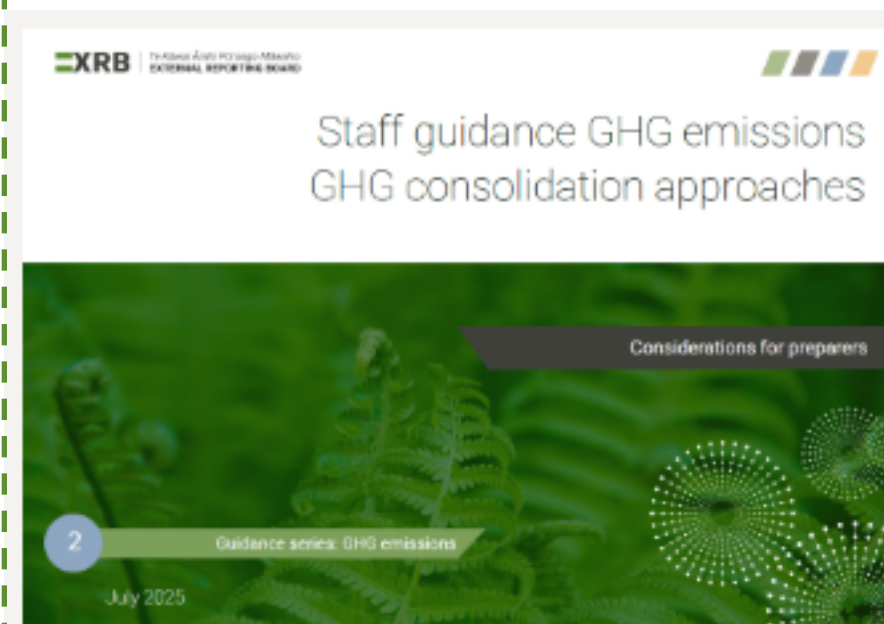
GHG Assurance Report Explainer



GHG emissions guidance uncertainty data quality



GHG emissions guidance consolidation approach



New guidance released in July

GHG emissions guidance consolidation approach



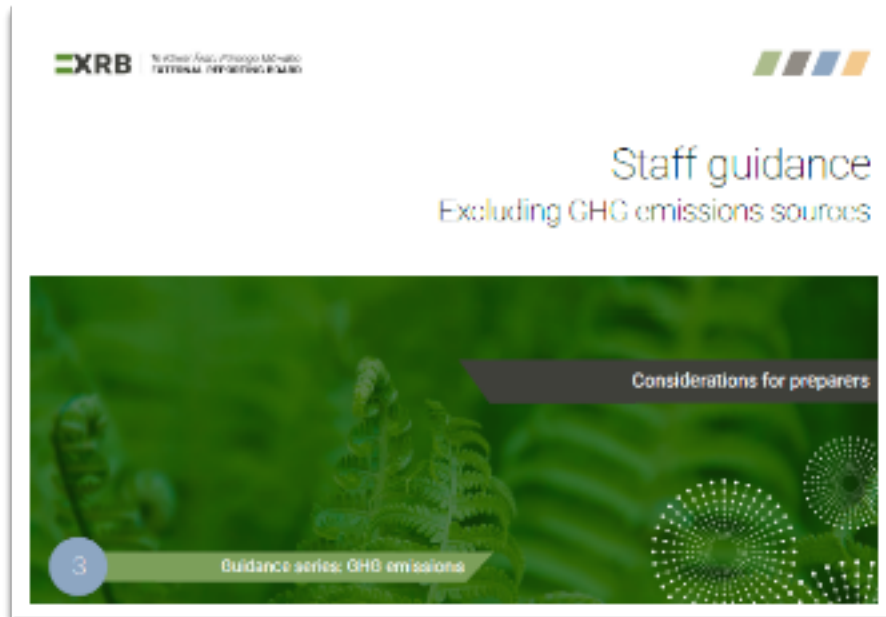
This guide supports preparers in identifying their organisational boundary and applying the chosen consolidation method, noting key differences between them.

Key messages are:

1. Any of the three consolidation approaches (equity share, financial control, or operational control) are acceptable under Aotearoa New Zealand Climate Standards (NZ CS).
2. These consolidation approaches for climate reporting can be different to the consolidation approaches used for financial reporting purposes.

Upcoming guidance

GHG emissions guidance exclusions



NZ CS include an exclusions requirement to allow flexibility in response to continuing evolutions in measurement approaches and standards, provided exclusions are transparently justified.

The key messages will be:

- Exclusions under NZ CS are permitted
- Disclosure of exclusions supports completeness

The document will provide guidance regarding the factors justifying exclusions and record keeping.

On track for publication this month (August 2025)

Upcoming guidance – other GHG emission topics

Other GHG emission topics we are looking at with the Assurance team include:

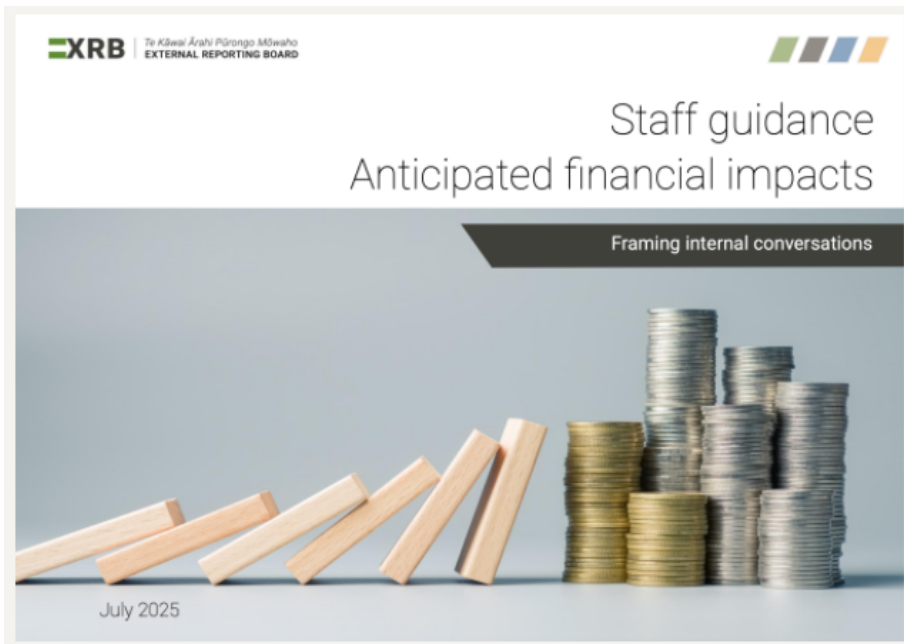
- Restatements
 - why these are common
 - what is required under the disclosure standard
 - what is required under the assurance standard
- Materiality
 - The interplay between assurance materiality and preparer materiality

We will continue to respond to feedback for any other topics that require additional guidance

Anticipated financial impacts

We published a guide to support preparers' first year of AFIs disclosure

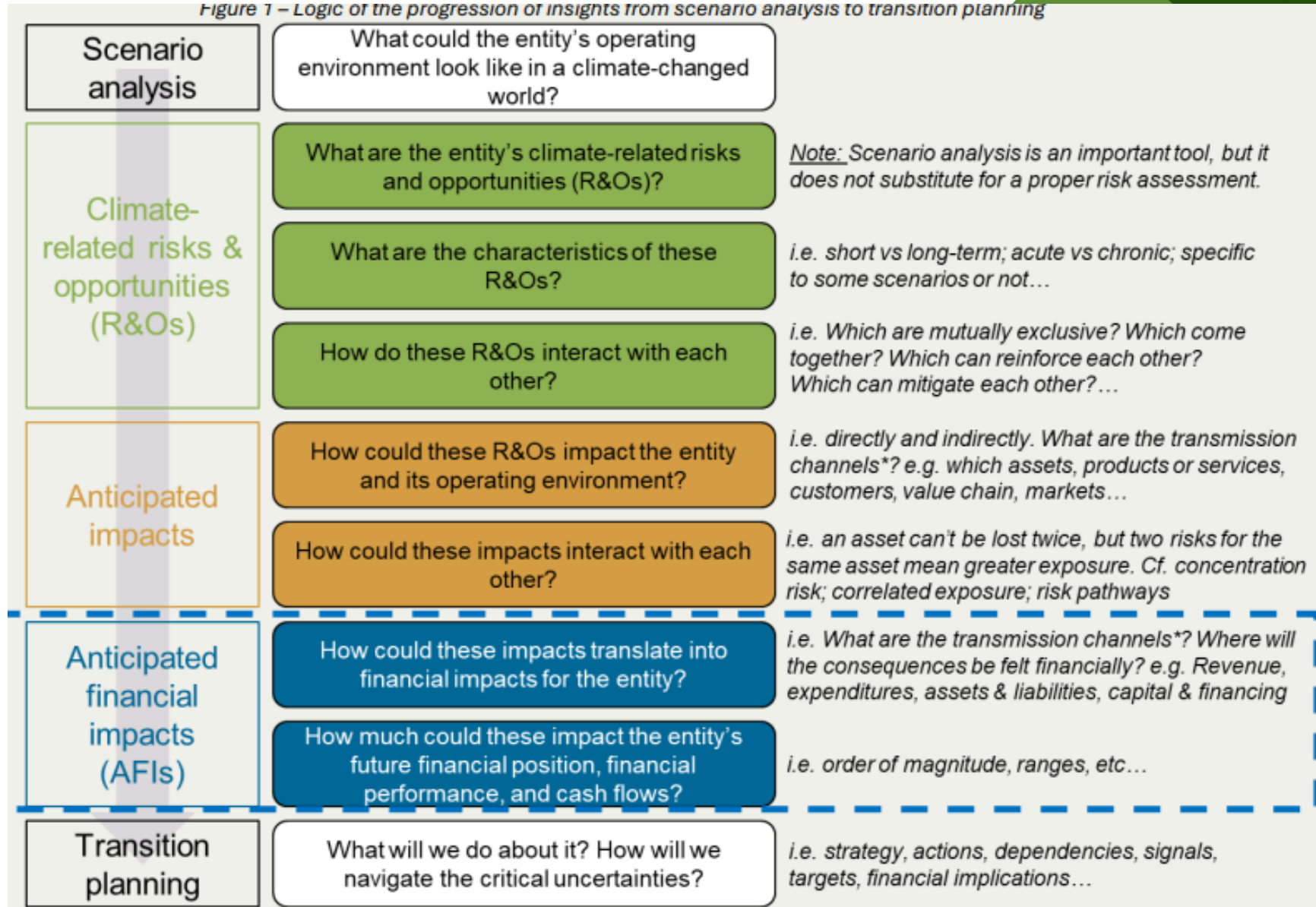
Anticipated financial impacts Framing the internal conversations Publication



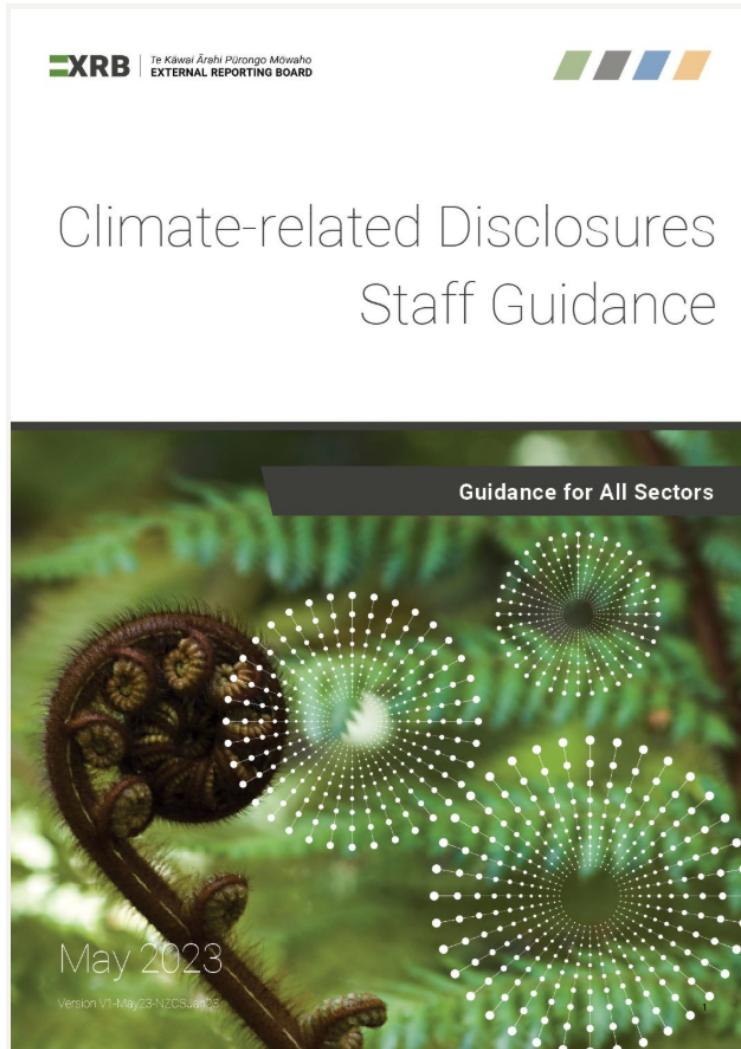
- This guide's aim is to remind and clarify expectations regarding anticipated financial impacts, focusing on the 'why' and the decision useful insights obtained from AFIs assessment.
- Notable topics include:
 - This is not about the recognition and measurement of financial reporting balances.
 - Focus on exposure and vulnerability, not probability.
 - The use of "reasonably expected".
 - There is no one-size-fits all method.
 - The relationships with other parts of CRD.

At a glance

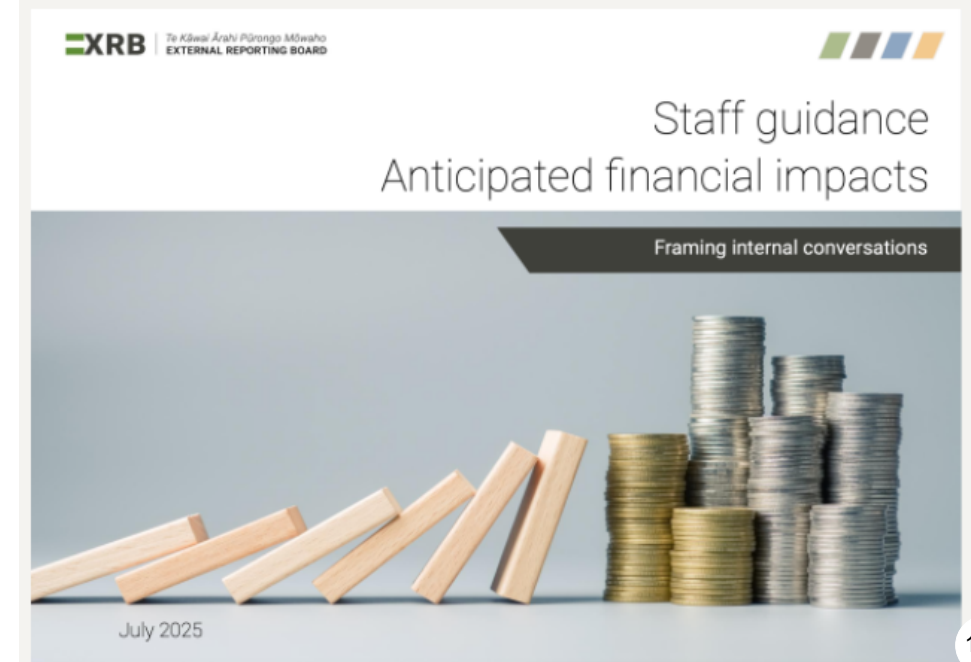
Figure 1 – Logic of the progression of insights from scenario analysis to transition planning



Preparers have sufficient guidance for first year of AFIs disclosure



- The main existing staff guidance, published in 2023, addresses AFIs disclosures.
- The latest XRB guidance and FMA insights document provide CREs with increased clarity about AFI disclosures' expectations.



Upcoming guidance

- We are working with the New Zealand Society of Actuaries (NZSA) on a guide sharing insights from the actuarial profession that could be valuable for entities' anticipated financial impacts assessments.

AFIs assessments - Practical considerations

- This guide is not needed for entities to start disclosing their AFIs.
- This is additional implementation support to bring relevant risk expertise to a nascent area.
- This guide should be available by the end of this year (2025).