

IVSC PERSPECTIVES PAPER

The Integration of ESG in Valuation Practices:

IVSC Global Survey 2024

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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 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.

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Based on a survey of valuation professional service providers.

Respondent Demographics

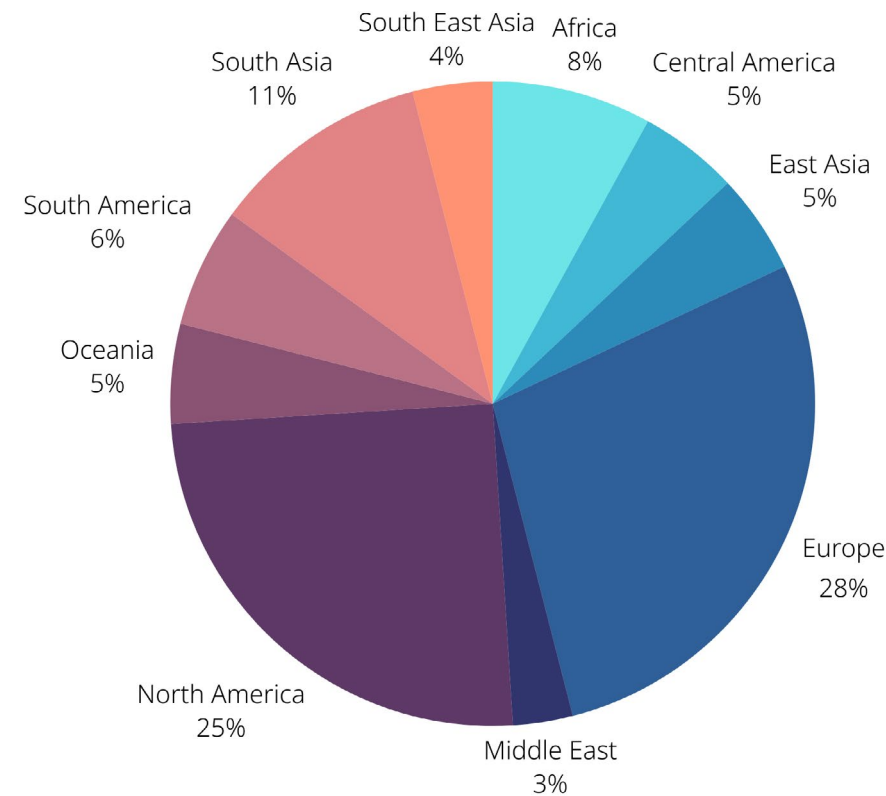


Chart 1: In which geography are you located? (542 respondents)

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]

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]

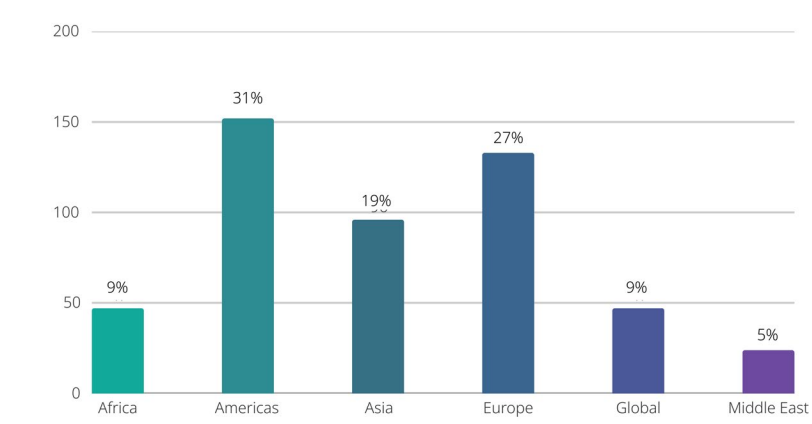


Chart 2: In which markets do you work? (417 respondents, 499 responses)

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]

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

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

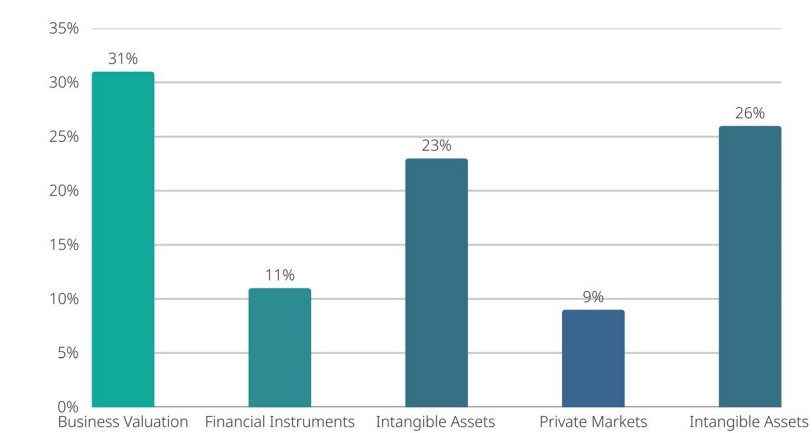


Chart 3: What is your valuation focus? (534 respondents, 968 responses)

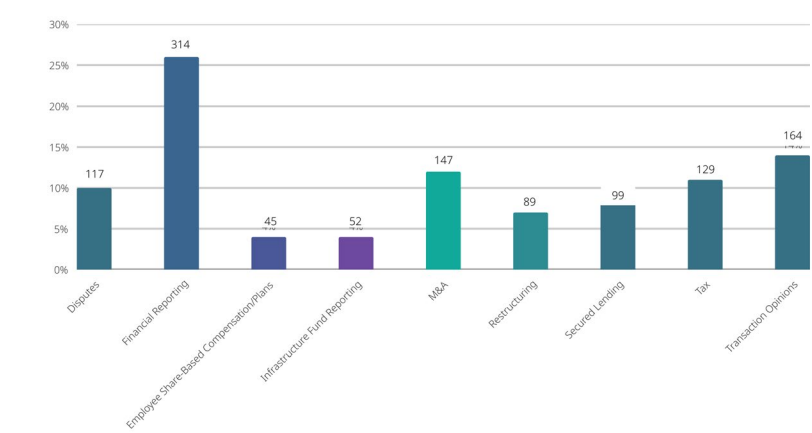


Chart 5: What is the main purpose(s) of the valuations you perform or review? (427 respondents, 1190 responses)



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?

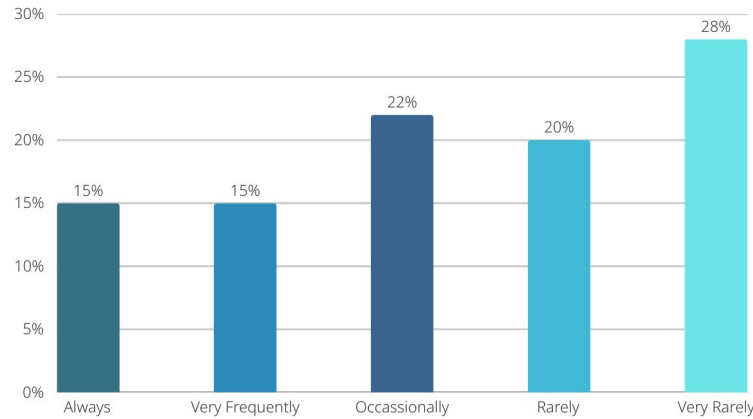


Chart 6: To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation's reports? (511 responses)

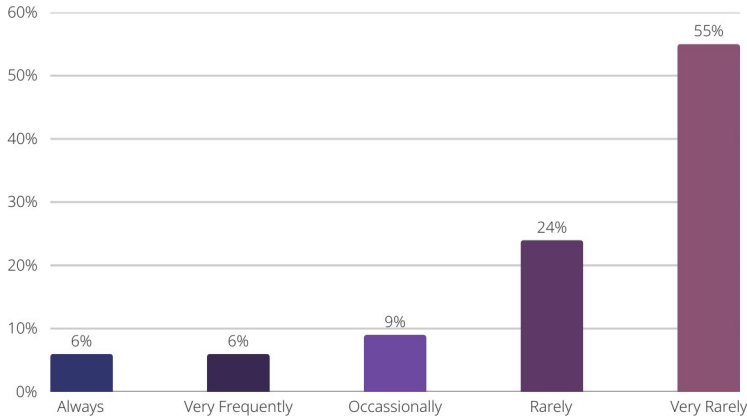


Chart 6b: USA – To what extent are you currently considering ESG/ ustainability factors within your valuation and valuationreports? (125 responses)

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]

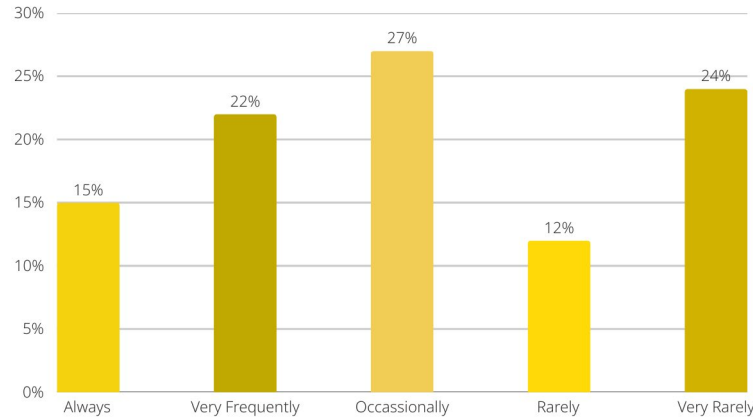


Chart 6a: Europe – To what extent are you currently considering ESG/ Sustainability factors within your valuation and valuation reports? (132 responses)

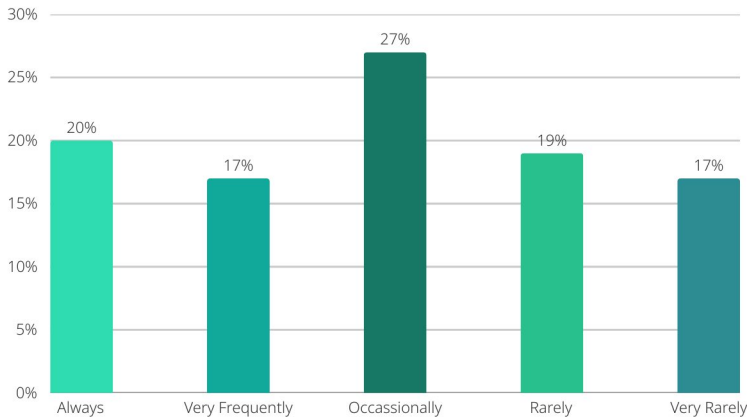


Chart 6c: Rest of the World – To what extent are you currently considering ESG/Sustainability factors within your valuation and valuation reports? (254 responses)

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.



ESG

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.

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

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.

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>.

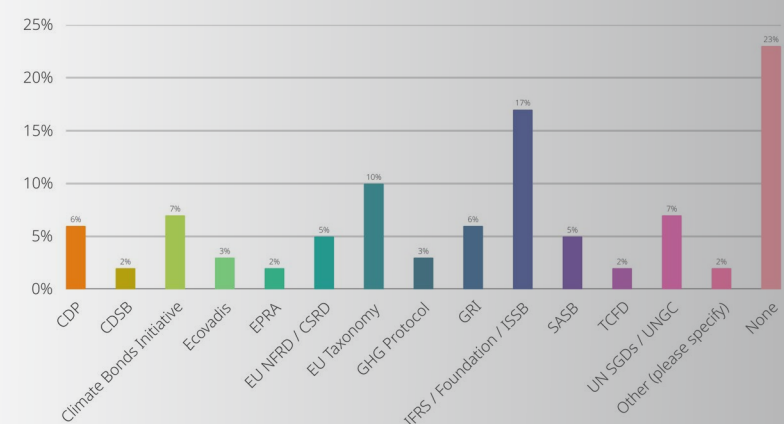


Chart 7: Which frameworks, guidelines, methods, or reporting standards have you found most useful in the course of considering ESG/Sustainability within your CORPORATE valuation work? (410 Respondents, 649 Responses)

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.

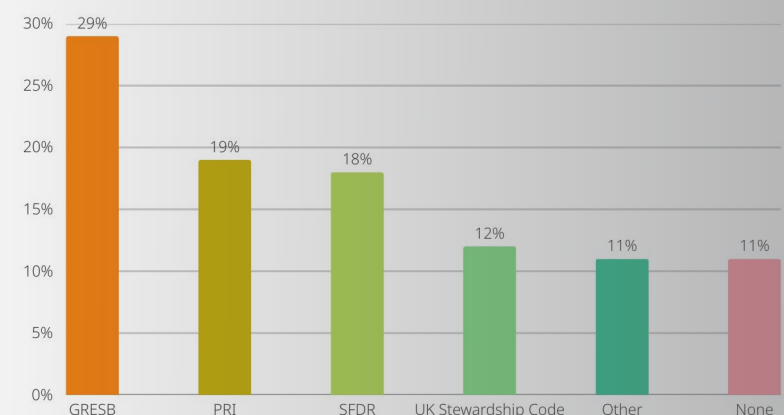


Chart 8: Which frameworks, guidelines, methods, or reporting standards have you found most useful in the course of considering ESG/Sustainability within your INVESTMENT/PORTFOLIO valuation work? (205 Respondents, 257 Responses)

31% of respondents are using third-party certifications to assess ESG

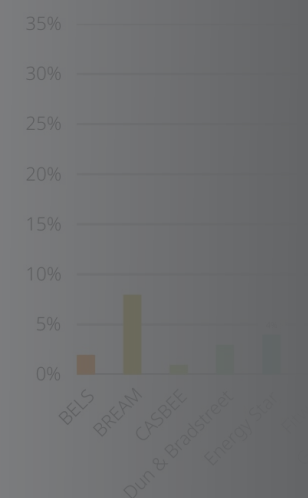
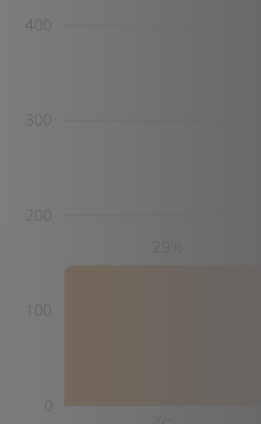


Chart 9: Which ratings or certifications do you use to assist in assessing ESG within your valuations? (348 Respondents, 541 Responses)

Another significant challenge is the varying importance placed on ESG by different stakeholders, with



Access the full report:
www.ivsc.org/esg-survey-2024/