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Sample Management/Client Information Request List (IRL) for ESG Factors in Business Valuations

21 March 2024

Background



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- In 2021, the following Valuation Professional Organisations (VPOs) came together to discuss the impact of market trends on the valuation profession:



- This led to the Singapore Business Valuations Roundtable which took a closer look at what are the important trends for discussion. One of the key trends is the impact of ESG on Business Valuation.

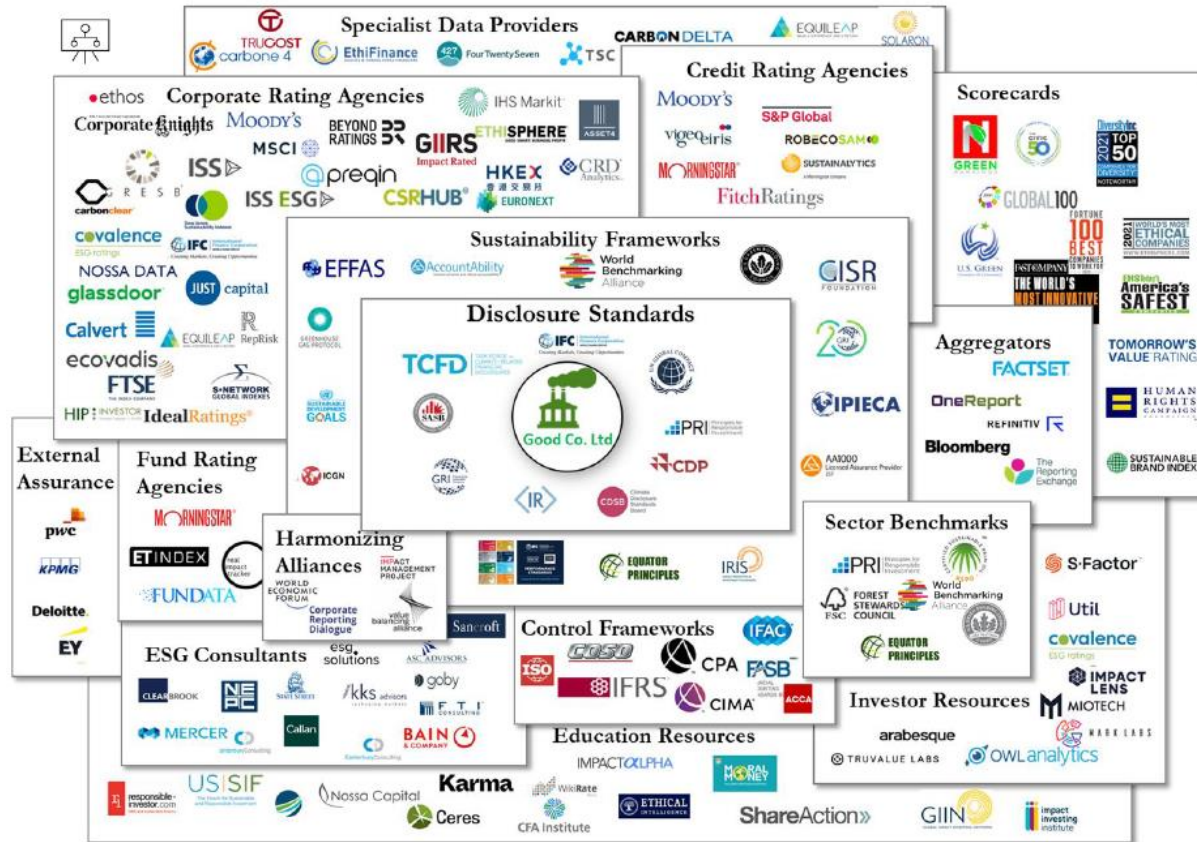
Objective and Purpose

- Various valuation standards require BV Professionals valuers to consider any ESG factors that could affect the valuation.
- The IRL took reference from the 2023 International Valuation Standards (IVS) 2024 which requires BV professionals to consider significant ESG factors when performing valuations, and whether such ESG factors would affect how a market participant would assess the value of that asset.
- The goal of the IRL is to help BV professionals ask the pertinent questions to their clients that will enable them to consider the relevant ESG factors when undertaking valuations of businesses.
- By considering ESG factors, Business Valuation (BV) professionals can produce comprehensive and valuations that meet the evolving needs of today's stakeholders.

Various ESG Frameworks, Standards, Indices, etc



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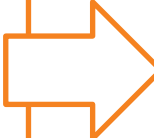
Navigating a fast-changing reporting landscape

The world's largest economies & regulatory commissions have asked for harmonisation of global sustainability and climate standards.



Globalisation of sustainability standards

- ✓ **Convergence** of sustainability frameworks
- ✓ **Global baseline** for sustainability & climate disclosures
- ✓ **Greater connectivity** between sustainability & climate information and financial statements



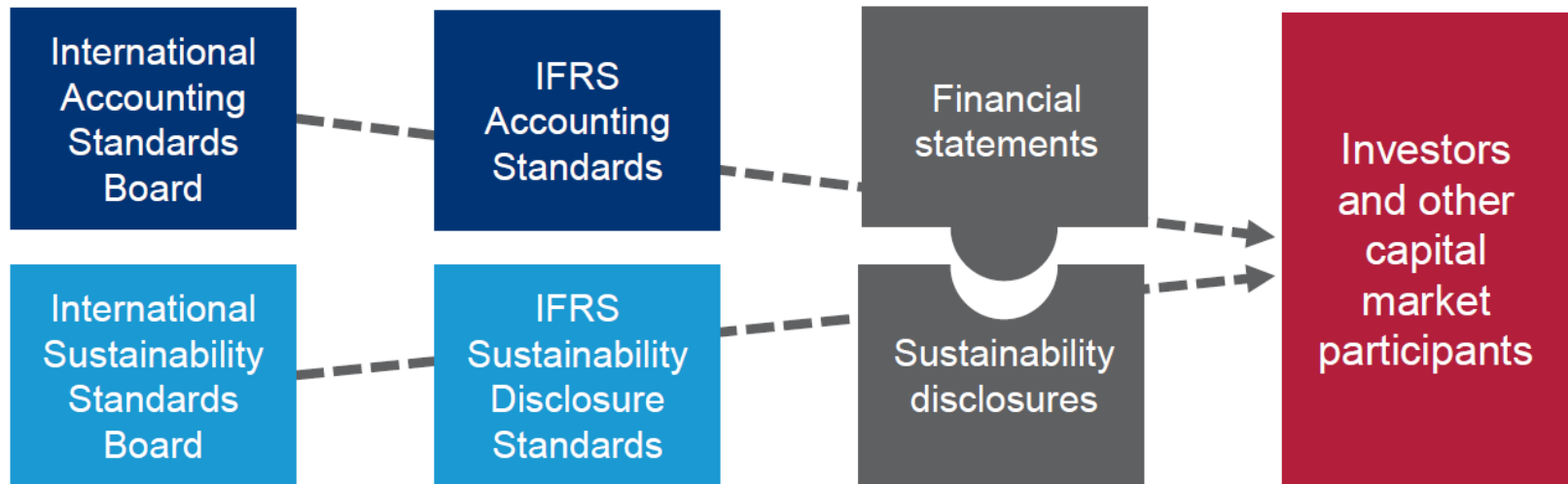
International Sustainability Standards Board ('ISSB')

- General Requirements Disclosures – Sustainability related financial information
- Climate-Related Disclosures

Designed for Communication with Investors



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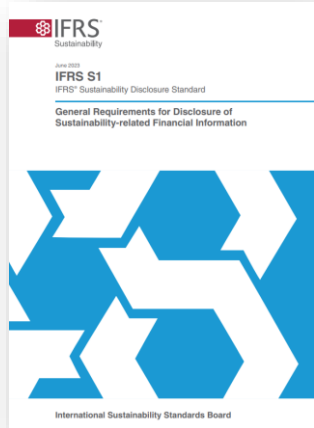


Summary of IFRS S1

General Requirements for Disclosure of Sustainability-related Financial Information



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Objective

Require an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users' of the general purpose reports in making decisions in providing resources to the entity

Why useful?

It is recognized that an entity's ability to generate cash flows in the short, medium and long term is inextricably linked to stakeholders, society, economy and natural environment existing throughout its value chain. A company's dependencies and impacts on resources and relationships give rise to sustainability-related risks and opportunities for the company .

Effective Date : For annual reporting periods beginning on or after 1 January 2024

Applicability : Jurisdictions to decide whether, when and how to make the standards mandatory

Overview

A company is required to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its prospects – its cash flows, its access to finance or cost of capital over the short, medium or long term. The core content a company should address is as follows:



Strategy – The approach a company uses to manage sustainability-related risks and opportunities



Metrics & Targets – A company's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets it has set or is required to meet by law or regulation



Risk Management – The processes a company uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities



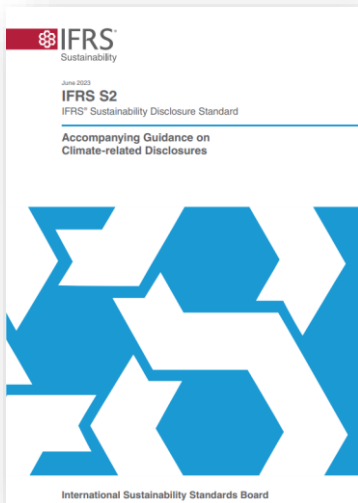
Governance – The governance processes, controls and procedures a company uses to monitor and manage sustainability-related risks and opportunities

Connected information: Companies must explain the connections across their sustainability-related risks and opportunities and the information in related corporate reports, including the financial statements. The intent is to promote an integrated approach to reporting on sustainability matters.

Summary of IFRS S2 Climate-related Disclosure



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Effective Date : For annual reporting periods beginning on or after 1 January 2024

Applicability : Jurisdictions to decide whether, when and how to make the standards mandatory

Objective

To require a company to disclose information about its climate-related risks and opportunities that is useful to investors and other providers of financial capital in making decisions relating to providing resources to the company. The standard addresses:

- **Physical risks** (e.g. flooding)
- **Transition risks** (e.g. regulatory change)
- **Climate-related opportunities** (e.g. new technology)

The standard incorporates and builds on the **TCFD Recommendations** and should be applied alongside IFRS S1 which sets out general requirements for reporting using the ISSB standards.

Disclosure Requirements



Governance

The governance processes, controls and procedures a company uses to monitor and manage sustainability-related risks and opportunities



Risk Management

The processes used to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the company's overall risk management process. 8

Factors to Consider

- Some factors for consideration include:
 - Latest available sustainability disclosures (e.g. sustainability report, industry reporting, etc).
 - Any business plans approved by the board (or those charged with governance) in addressing ESG risks and opportunities.
 - Management assessment of the disclosed ESG factors that may have a significant impact on the cashflows and valuation assumptions of the subject interest.
 - Management's justification for factors not considered significant vis-à-vis Business Valuation professionals' understanding of the key ESG factors of the industry.

Conclusion

- The VPOs acknowledge that the lack of information means that BV professional would need to apply professional judgement in good faith. This would be the case until such time when information is more readily available.
- The IRL is not intended to be a checklist and is not an all-inclusive list of questions.



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Thank you

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