

Alistair's Introduction to IVAS-IVSC Business Valuation Conference

Hello and welcome to this conference.

This is the fifth edition of what is becoming a very important and highly-anticipated international conference for the global business valuation community.

I'd like to thank the organisers, the Institute of Valuers and Appraisers, Singapore and in particular to IVAS Chair, Mr Basnayake.

I'm also honoured to welcome back Minister Rajah and thank her for making this conference a priority in her busy schedule.

Since last conference the COVID-19 pandemic has continued to bear its influence on our world and will, of course, set the backdrop for this conference.

We are seeing signs of recovery and we can have optimism for the future. But that recovery is patchy – the IMF predicts the global economy will grow by 6% in 2021 but prospects for emerging market and developing economies have been marked down.¹ Some industries are bouncing back, but others have been hit harder and it will take time for recovery.

¹ <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

- The pandemic has also brought about price and supply concerns which are leading to inflationary pressures around the world and we need to stay vigilant.

We've seen tremendous progress in the development of vaccines, but roll-out has been very uneven – as of September, 40% of the world's population had received at least one dose; 5.52 billion doses have been administered. However, only 1.9% of people in low-income countries have had any access to these vaccines.²

Until such time as the vaccine distribution is improved we are likely to see new variants and waves of cases.

We will be living in an uncertain world for quite some time, we just have to get used to that reality.

Importance of Valuation today

During periods of market and economic uncertainty, the importance of valuation quality and professionalism is brought into sharp focus.

Valuation matters. The standards that valuers use, matter.

Whatever the reason for conducting a valuation – e.g. • financial reporting • M&A • financing • restructuring • taxation • insurance • determining the capital adequacy of a financial institution – and whatever the asset or

² <https://ourworldindata.org/covid-vaccinations>

liability being valued, the need for trusted and reliable valuations has never been greater.

If valuations are weak, or if standards are inconsistently applied, then the financial systems and markets that they exist in become more opaque, riskier and less stable, suppressing investment and business activity or, worse still, laying the foundations for economic and financial crises.

Previous financial crises, including the Global Financial Crisis of 2007/08, have shown that a failure to understand the true value of underlying assets can have severe consequences for investors, shareholders and the public at large.

A consistent approach to valuation, built on internationally-agreed and universally-adopted standards, makes markets more transparent and valuations more comparable.

Global standards support and make viable the efforts already underway to harmonise the financial ecosystem with common accounting, banking and investment rules, all of which reference and rely on robust valuations. In short, international standards reduce risk and enhance confidence.

As the world emerges from a sustained period of economic inactivity, the importance of reliable and trusted valuations as a means of enhancing market confidence becomes greater than ever before. Uncertainty on the road to recovery is high; confidence is in shorter supply.

In 2020, global Foreign Direct Investment fell more than 40% according to the United Nations. During the same period, business confidence as measured by the OECD dropped to its lowest level since 2009.

Valuation quality and consistency might not have been a contributing factor in the onset of this economic crisis, but it will certainly be a key factor in the global recovery.

The rise of ESG

One trend that has seen a continued and rapid acceleration over the last year, at least in part as a result of the pandemic, is 'ESG' (Environmental, Social and Governance) as a framework for socially responsible investing.

While ESG is not a new paradigm – 90% of S&P 500 companies produced a sustainability report in 2019 - The events of 2020 have only acted to accelerate the broader adoption of ESG frameworks, both by investors and by senior management.

- E - Environmental disasters have become too prevalent and destructive to ignore. The number of climate-related disasters has tripled in the last 30 years and recent years have been punctuated by extreme weather events.
- S - Social unrest has obligated enterprises to take a point of view on issues important to their workforce and broader stakeholders. There is widespread agreement that the economic impact of coronavirus has acted as a catalyst that has and will likely drive this trend in the years ahead.

- G – and the pandemic has challenged the governance structures of every industry and forced management to continuously adapt as they guide a path to recovery. Recent research by the Asia Development Bank notes that post-COVID economic recovery could be delayed in countries with poor track records on governance; and there is a strong correlation between a composite governance indicator for 170 countries, using the World Bank governance indicators, and growth forecast for 2021 from the World Economic Outlook.

The role for business valuation

ESG is a key theme for this conference and it is something that our stakeholders have told us is a priority – our *2020 Agenda Consultation* which sets the work of the IVSC's boards for the next three years highlighted this, with many contributors pressing for guidance and standards relating to ESG.

And it's not just a priority for valuers, it's of critical importance to those that rely on valuations too including investors and corporates.

The IVSC has published two Perspectives Papers on the subject of ESG and Business Valuation, earlier this year (2021).

The simple logic being that as ESG increasingly shapes business and investment decisions, so the valuation profession will need to consider its influence on value and value creation.

Though few people 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 a hesitancy from the valuation profession to wholeheartedly embrace the value creation impact of ESG.

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.

A number of international organisations are now looking at how ESG is presented in financial information – including the International Financial Reporting Foundation, The CFA Institute, and the European Financial Reporting Advisory Group. The IVSC is working with all entities to share our expertise and insights from the valuation profession.

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.

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There is a fascinating programme ahead with some excellent speakers and I look forward to joining these discussions and hearing your thoughts on the trends shaping the business valuation world.

I hope that you will continue to stay engaged with the IVSC and with IVAS as we work together, and with the global valuation profession, to support and equip valuers into the future.

Finally, I hope that we might have the opportunity to meet again in person in the near future.