Dmytro POPOVICHENKO,
Kyiv National University of Technologies and Design

INTEGRATING ESG INTO VALUATION STANDARDS AND ADJACENT FRAMEWORKS

Abstract.

This paper analyzes the incorporation of ESG factors into the EVS valuation standards (Europe), USPAP (United States), the RICS Red Book (United Kingdom and common law markets), and relevant IFRS/IAS requirements (fair value measurement, impairment, and provisions). It further reviews national practices in Ukraine, Germany, Canada, Australia, New Zealand, and South Africa, as well as related frameworks such as the OECD Transfer Pricing Guidelines and banking regulatory expectations for collateral valuation. The analysis demonstrates that ESG influences value primarily through adjustments to cash flows, the discount rate, and constraints on highest and best use. A discernible trend is evident across markets: a shift from broad declarations toward systematic data collection, scenario testing, and transparent disclosure of key assumptions. Drawing on these findings, a practical step-by-step approach is proposed for embedding ESG into valuation terms of reference and valuation reports, with specific adaptation for the Ukrainian market.

Keywords: ESG; valuation; EVS; USPAP; RICS; IFRS/IAS; fair value; impairment; transfer pricing; collateral value.

Introduction.

Within valuation practice, ESG (Environmental, Social, and Governance) is increasingly regarded as a structured set of risks and opportunities that can materially influence the market value of assets and businesses, rather than as a standalone narrative. In real estate, ESG considerations are most frequently observed through energy performance, resilience to climate-related hazards, compliance with green requirements, and access to financing. In business valuation, ESG is reflected in supply-chain risks, occupational safety,

reputational exposure, regulatory costs (such as carbon taxes or quotas), and the overall quality of governance.

However, significant information asymmetry persists in many markets: ESG data may be incomplete, inconsistent, or difficult to verify, and market pricing of ESG characteristics varies widely across sectors and regions. This situation presents both practical and methodological challenges: specifically, how to incorporate ESG in a manner that respects market evidence, avoids reliance on subjective judgment, and still captures risks that are demonstrably material.

This paper aims to compare the integration of ESG within leading valuation standards and adjacent frameworks, to identify commonalities and differences, and to translate these insights into practical guidance for the Ukrainian valuation community. The methodology comprises content analysis of regulatory documents and professional guidance, a comparative review of process requirements, and a structured synthesis of the principal transmission channels through which ESG affects value, specifically cash flows, risk premiums embedded in discount rates, and constraints on highest and best use.

1. Theoretical channels through which ESG affects value.

ESG is incorporated into valuation models through three primary channels: (1) cash flows (including CAPEX/OPEX, revenues, growth rates, and economic life); (2) the discount rate and risk premia (such as risk premium, credit spread, and liquidity); and (3) constraints on highest and best use (including regulatory restrictions, energy-efficiency requirements, occupational health and safety standards, and sanctions regimes). In practice, a single ESG-related event may affect multiple model parameters. For instance, a mandatory thermal retrofit may reduce net operating income through increased CAPEX, while flood risk may elevate the discount rate due to uncertainty regarding insurance coverage and potential operational downtime.

Materiality is a critical condition: a factor should be included if it could influence the decision of the valuation user, such as an investor, bank, or auditor. Consequently, contemporary standards emphasize evidence-based inputs (including market comparables, tariffs, regulatory benchmarks, and

technical data), transparent assumptions, and clearly defined boundaries of professional competence.

2. Europe: EVS (TEGoVA).

EVS 2025 reflects a regulation-driven approach to ESG integration. The standard highlights the link between real estate value, energy performance, and investment in modernization, and expands the sustainability section in the context of the European Green Deal [1]. The focus is on how valuers should account for characteristics that become mandatory as a result of regulation (minimum energy-efficiency classes, decarbonization pathways, and financial-sector disclosure requirements).

EVS also strengthens valuation logic for mortgage lending and "prudent" approaches to collateral value in line with financial supervisory expectations [1]. In effect, this frames ESG within credit risk: an asset with a high risk of becoming "stranded," or facing substantial future retrofit costs, may warrant a discount already at the collateral valuation stage.

3. United States: USPAP and the role of practical guidance.

USPAP primarily sets ethical and procedural requirements; ESG enters the valuation process through the market-based concept of materiality. Historically, a persistent challenge has been the "as if clean" approach, where potential environmental risks were not reflected in value due to a lack of verified data or the valuer's reluctance to go beyond available information [2]. In such cases, a gap can emerge between environmental due diligence reports (Phase I/II) and the valuation report, increasing the risk of overvaluing assets.

To support the practical integration of sustainability considerations, The Appraisal Foundation issued Valuation Advisory No. 6 on valuing "green" and high-performance buildings, describing relevant property characteristics and how they may be reflected across valuation approaches [3]. The key emphasis is not on formally "scoring" ESG, but on testing whether a market effect exists (a premium or discount) and, if it does, how to substantiate it—through operating expenses, rental rates, vacancy, and available tax incentives.

4. RICS Red Book: common law markets.

RICS formalizes ESG through requirements for competence and disclosure: the valuer is expected to understand how sustainability affects value over different time horizons and, where necessary, to involve relevant specialists [4]. This helps balance the principle of "reflecting the market" with the obligation not to overlook factors that are already influencing stakeholder behavior (investors, tenants, lenders).

RICS guidance on sustainability also proposes a structured approach to data collection (energy performance, climate risks, certifications, governance policies) and reinforces the need for transparent disclosure of assumptions where the market has not yet fully priced these attributes [4]. In practical terms, valuation reports increasingly include dedicated sections describing the asset's ESG profile, the data sources used, and the sensitivity of value to key parameters (for example, retrofit costs).

5. IFRS/IAS: ESG in fair value measurement and impairment.

IFRS/IAS incorporate ESG indirectly through requirements related to market participant assumptions (IFRS 13), impairment testing (IAS 36), provisioning (IAS 37), and qualitative disclosure of uncertainty. If climate, social, or governance risks affect future cash flows or impose constraints on an asset's use, this should be reflected either in the fair value measurement or in impairment testing.

The FRC highlights that climate-related factors increase estimation uncertainty and call for higher-quality disclosures of assumptions and sensitivities [5]. As a result, even without explicit ESG terminology in accounting standards, the role of valuers is strengthened as providers of transparent, auditable inputs for financial reporting and assurance.

6. National standards and practice examples.

In Ukraine, the National Valuation Standards (NSO) require valuers to take environmental factors and constraints into account when valuing real estate, which creates a clear methodological "entry point" for ESG integration [6]. In practice, this means: (a) documenting environmental constraints within the highest and best use analysis; (b) estimating compliance-related costs; and

(c) recording whether verified information on the environmental condition is available—or explicitly noting its absence.

In Germany, IDW S 1 (business valuation) brings ESG into the model primarily through cash-flow forecasts and risk assessment: carbon-related payments, environmental liabilities, occupational health and safety risks, and governance practices (compliance and internal control) can affect expected returns and risk premia. In Canada, CUSPAP and professional publications support reflecting "green" characteristics in value, while international initiatives propose standardized ESG data requests for business valuation [7].

In Australia/New Zealand/South Africa, professional standards are largely aligned with IVS/RICS, so ESG integration tends to follow international terminology and disclosure practices. Local specifics typically include the use of national building rating schemes, climate risk mapping, and social requirements—factors that can translate into market premiums or discounts.

7. Adjacent frameworks: OECD guidance and banking regulation.

The OECD Transfer Pricing Guidelines become relevant to valuation when ESG-driven transformations lead to restructurings, transfers of functions/risks/assets, or remeasurement of intangible assets (for example, "green" technologies) [8]. In such cases, the valuer needs to justify the arm's-length nature of any compensation based on the functional and risk profile and the real economic effects of the transformation.

Banking regulation further increases the practical relevance of climate risks. The ECB has announced adjustments to its collateral framework to reflect transition risks, which may result in additional value adjustments for assets accepted as collateral [9]. This reinforces the need for consistent approaches to identifying and disclosing climate-related risks in valuation reports.

8. Comparative matrix of ESG integration

Approach	ESG mechanism	What is expected in the report	Value implication
EVS	Direct requirements (sustainability, energy performance) + EU law	Explanation of how energy performance and regulation affect value	Premium/discount; retrofit CAPEX reflected in value

USPAP	Materiality + practical advisories	Evidence of market reaction and documented data sources	Adjustments in comparables; cost and income approach inputs
RICS	Competence + disclosure requirements	Description of ESG data, assumptions, and any specialists engaged	Changes in risk profile and life-cycle assumptions
IFRS/IAS	Market participant assumptions + impairment/provisions logic	Sensitivity analysis, scenarios, and disclosure of key uncertainties	Adjustments to fair value (FV), impairment, and provisions
National standards	Legal constraints + market practice	Documentation of constraints, compliance costs, and data sources	Discounts for risks and use ограничения (constraints)
OECD / banks	Tax rules / prudential supervision	Analysis of restructurings; climate-related collateral adjustments	Discounts; access to financing and collateral haircuts

9. A practical ESG integration protocol for the Terms of Reference and the valuation report.

To make ESG integration more consistent and reproducible, it is useful to specify a minimum set of procedures and data requirements directly in the Terms of Reference (ToR). The proposed protocol consists of five steps:

- Step 1. Materiality screening: define a list of ESG factors relevant to the asset and sector (climate risks, energy performance, occupational health and safety, compliance exposure, and governance structure).
- Step 2. Data and verification: agree on data sources (certificates, technical passports, audit/environmental reports, risk maps, retrofit cost estimates) and clarify the valuer's responsibility and limits in verifying the information provided.
- Step 3. Value transmission mechanism: link each factor to the specific valuation input it affects—cash flows, discount rate, or constraints on use. For example, future retrofit CAPEX is reflected in cash flows; uninsured-loss exposure may be reflected in the discount rate; a regulatory ban is addressed through alternative-use scenarios.

- Step 4. Sensitivity and scenarios: run at least one "stress" scenario for a key ESG parameter (retrofit costs, utility tariff growth, carbon charges), disclose the resulting value range, and highlight the assumptions that drive the result.
- Step 5. Disclosure: include a dedicated section in the valuation report describing the asset's ESG condition, data gaps, any external experts engaged, and how ESG considerations affected the valuation outcome.

This protocol is compatible with the logic of EVS/RICS/IFRS and can be applied in Ukrainian valuation practice without changing core valuation methods—while significantly improving transparency and the quality of the supporting evidence.

10. Research limitations and directions for future work.

A principal limitation of this study is that ESG integration is highly dependent on market maturity and data availability. In the absence of market evidence regarding ESG-related premiums or discounts, valuers may need to rely on indirect proxies such as costs, tariffs, or risk premia, thereby increasing the reliance on professional judgment. Future research should prioritize testing the existence and magnitude of brown discounts and green premiums in specific segments of the Ukrainian market, as well as adapting international ESG data-request protocols for business valuation to the context of post-war reconstruction.

Conclusions.

EVS and banking regulation demonstrate the most formalized, regulation-driven approach to ESG integration. RICS anchors ESG through clear expectations around professional competence and disclosure, while in the United States ESG is incorporated mainly through practical guidance developed around USPAP. IFRS/IAS, in turn, strengthens requirements for transparency in assumptions and sensitivity analysis, which effectively embeds ESG considerations into financial measurements of value.

In the Ukrainian context, the primary priority is to align the Terms of Reference and the valuation report with a minimum set of ESG procedures, including data collection, transmission mechanisms, scenario analysis, and

disclosure. This approach reduces the risk of a purely procedural or box-ticking exercise and enhances confidence among investors and lenders.

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