

An accounting standard for carbon?

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Almost since its inception the [Tax Justice Network](#) has been developing and promoting the [International Financial Reporting Standard](#) calling for country-by-country reporting by all quoted companies. This is now the subject of discussion by the International Accounting Standard. One enjoyable side effect has been the opportunity to discuss ideas for accounting which may not as yet be mainstream but will, I have little doubt, be so one day.

I had such an opportunity yesterday. I spent some time discussing the possibility of an accounting standard for both carbon emissions and carbon trading. The idea has gripped my imagination, and so I'm deliberately blogging it with the hope of securing comment from others on the idea.

[Carbon emissions](#) are, of course, a 'green' issue. Traditionally this has meant it has been an issue for CSR reports. But I'm not sure that's true anymore. There are two reasons:

- 1) The issue is too important to be left to voluntary standards and disclosure mechanisms;
- 2) The likelihood of ever-expanding carbon trading schemes mean that the economic impact of this issue is going to be extensive, especially as the importance of the matter becomes increasingly apparent, as I think it will.

We bashed this around and considered there were four ways to respond to this:

- 1) Expand existing voluntary disclosure schemes such as that of the [Carbon Disclosure Project](#). The problem is simple though: voluntary disclosure means limited opportunity for imposing the obligation to report on those most likely to have significant carbon impact;
- 2) Legislation. However, we have a new Companies Act and this means this route seems unlikely at present. It has another disadvantage; any scheme of this sort needs to develop over time, and primary legislation is too inflexible for that;
- 3) Listing requirements might oblige quoted companies to make this disclosure, but whilst other [research I have been involved](#) in has shown that this can have a powerful impact on effective disclosure, in the case of carbon the impact extends far beyond

quoted companies and must cover the private equity market, local authorities and

major not for profit organisations including hospital trusts.

4) So we came to accounting standards. There are numerous advantages:

- This is about accounting;

- Reporting needs to be obligatory for large organisations;

- Concepts about what is a group, an associate and material relationships with suppliers and customers might be of significance in this reporting, and all are based on

accounting concepts;

- Reports would need to be audited and so need to be linked to existing reporting structures.

You can see why we thought an accounting standard was the right way to go. I stress, right now we didn't get as far as an International Financial Reporting Standard. There is a good reason: then we're back to quoted companies and a limited range of reporting. So we thought national standards might work best, applicable to larger entities, hopefully working within a consistent framework.

Of course the issues are complicated. Measuring carbon emissions is hard enough, but the results can also be misleading. For example, is it enough that a bank will always have a low carbon footprint for an organisation of its size? Or should the carbon profile of its loan book be an important part of its reporting? And supply chain assessment of the type pioneered by [Trucost](#) seems important as well.

Then there's the question of how to account for the costs of carbon trading. Is this just an income and expense issue? Surely there are long term liability positions in this too? How are they to be assessed?

It's because we didn't know the answers to these questions that we thought an accounting standard on this might be appropriate to ensure that people report on this issue, which I readily admit as a parent scares me rigid. But, and I stress, nothing about this blog suggests I have got the answers, I'm just exploring on screen.

Any thoughts anyone? Is this a new area to think about?