

Funding the Future

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Unusually much of my blogging today will be on just one subject, which is a new idea I am launching today, which I have dubbed sustainable cost accounting.

I am posting a [paper](#), a [blog](#) explaining what Sustainable Cost Accounting is and [slides](#) from the presentation I am making on the issue today. But I still feel it worth adding another comment as to why I have worked on this issue and why I now think it important.

I would not have done this work except for the fact that I was asked to do so by Prof Aled Jones of Anglia Ruskin University and Dr Rupert Read of the University of East Anglia. Many of my ideas have started this way: it's almost as if I need a question from someone else to answer to get me started.

Having begun to read and to think about whether financial accounting as we now know it and accounting in the way that the climate crisis demands can be reconciled I realised that this is impossible. I explain why in the blog and the paper. I can literally now see no way in which IFRS can survive if we are to tackle the climate crisis. IFRS provides no incentive to tackle it; indeed, it may do the opposite, and instead provides incentives to abuse the environment, which is exactly what we do not want.

My resulting suggestion is not that we go back to past methods: they were not forward-looking. Sustainable cost accounting (SCA) has to be that. What SCA does is require provisioning for the costs of the transition any business will incur if it is to trade sustainably. And because that transition is required now it requires that the provision be made now. And that the provision be the full cost, because we need to know what that is. Nothing less will do given the scale of the crisis that we face.

I would stress that the resulting provisioning for the costs of transition will be enormous. I suspect it will be hundreds of billions and maybe trillions, whatever currency you choose. Some companies will undoubtedly be climate insolvent as I define it as a consequence: what this will mean is that they will have insufficient capital to make the required changes. And nor will they have a viable plan for raising that required capital. And on the basis for prudent accounting that I propose - which is that a precautionary principle be applied to both climate and financial forecasting - this means

that at the very least any company in this position must enter administration whilst it solves these issues. If it can't, whether it is financially solvent or not at the time, it would have to cease trading.

This looks to be brutal. It could be construed as an attack on the business models of many large entities. And the reality is that this is exactly what it is. But those business models are killing us. Quite literally the business models of most major corporations have to change now (and I mean now), or we die. I suggest that this is the choice that the evidence suggests that we now face. Sustainable Cost Accounting is my response to that fact - because I think it is a fact as indisputable now as the climate and biodiversity crises now are.

I am, of course, aware that the consequences of this prudent form of accounting would be dramatic. Stock market values would decline, often dramatically. So too would dividends as profits were diverted to reinvestment. The demand for new capital would be enormous. But that is because there are many businesses that really are not sustainable as they are. The extractive industries cannot extract as it has. Airlines cannot fly at will. The idea that we can simply substitute electric cars for diesel or petrol ones is just wrong. And fast fashion will be a thing of the past, whilst food supply will have to change. And I am only scratching the surface there. It is time that we recognised all this, and its consequences for us all if (and I stress the 'if') we are to survive.

What SCA does is impose the requirement that we accept that this change is necessary, must be planned now and has massive consequences. It rejects greenwash accounting, and puts climate crisis at the very heart of accounting instead. It could be argued that it is the ultimate expression of going concern accounting. It's SCA, or we're all out of business, in my opinion.