

There's a lot of accounting to do before COP26

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Mark Carney [spoke at the Madrid COP25 climate conference yesterday](#). He matters on this issue now: he will be the effective head of the UN's initiatives on climate finance once he leaves the Bank of England. It's important to note then that he said:

[This conference] comprehensively documents the scale of change that is needed across our economies to put emissions on a trajectory consistent with building a net zero economy.

That will require a more sustainable financial system.

Changes in climate policies, new technologies and growing physical risks will prompt reassessments of the values of virtually every financial asset.

And he added:

Firms that align their business models with the transition to net zero will be rewarded handsomely. Those that fail to adapt will cease to exist.

Now is the time to ensure that every financial decision takes climate change into account.

Before concluding (as far as I am concerned) by saying demanding that:

[O]ver the next year, [we must] enhance both the quality and quality of disclosures to make TCFD standards as comparable, efficient and as decision-useful as possible.

And, by COP26, exploring pathways to make TCFD disclosure mandatory.

The TCFD is the Task Force on Climate-related Financial Disclosures

Let me be clear, as I explained in a talk I gave for The Mint magazine yesterday, which was in this respect similar to one I gave to the Local Authority Pension Fund Forum last week, there are big problems with the TCFD. In particular, it:

- * Is completely voluntary right now
- * Is promoted by the Bank for International Settlements under the direction of Mark Carney, from its Financial Stability Board
- * Is aimed at investors alone
- * Reports outside the accounting framework
- * Has 80% of multinationals claiming to be complying according to Mark Carney in 2019
- * But for key data indicators disclosure is done by less than 10% of companies

What Carney said yesterday leaves the design flaws of Task Force on Climate-related Financial Disclosures intact. It is only targeted at the financial community and then provides them with non-financial data in the sense that it is not brought into the accounting framework of the reporting entity.

Carney's TCFD might help provide a framework for climate risk appraisal, although given how few companies are really doing it as yet we cannot know. It may need the European Taxonomy to assist it. But neither requires additional actual financial reporting and as such miss the obvious target of guiding investors as to why we need the information to be turned into real financial information. Sustainable cost accounting, [which I am promoting](#), addresses these flaws.

If TCFD is to be mandatory I have a lot to do before COP26 in Glasgow to make sure it delivers meaningful financial data that is properly integrated into financial reporting when right now it still pretends that this is an issue to be addressed outside the financial framework.