

Climate change needs to be on the balance sheet

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The FT has an article in it this morning from Natasha Landell-Mills, who is head of stewardship at Sarasin & Partners. In [it she argues that](#):

What gets measured gets managed. The climate impact of business and consumer decisions is not being fully measured and thus not being properly managed.

I wholeheartedly agree. And I also agree that a carbon tax is not the solution to this issue - because a tax at \$75 a tonne has consequences that are unmanageable in the rest of the economy. In that case I also agree that alternative actions are needed. Natasha Landell Mills identifies five. As she notes:

First, we need to incorporate climate effects into the rules that govern how companies calculate their profit and capital. In more than 140 countries, the International Accounting Standards Board sets these standards. Until recently, companies could report accounting numbers with little regard for either the climate consequences of their activities or the probable impact of efforts to reduce carbon emissions.

This matters because financial statements underpin capital allocation decisions. If you ignore decarbonisation promises, a coal-fired power station looks like a good investment choice because it appears to offer high returns. Factor in policies to phase out coal power, and the station looks like a much riskier, less attractive choice. In November, the IASB reminded companies that they should be including anticipated material climate-related impacts in their accounts. We need to go a step further. Companies need to make visible what their profit and capital would be, given a sustainable climate. Paris-aligned accounting would be catalytic.

This is where we really agree. I rather hope that Landell-Mills is referring to [sustainable cost accounting](#). I am well aware that she is familiar with it: she chaired a session when I presented the idea to the Local Authority Pension Fund Forum in December. And she is right: Paris-aligned accounting would be catalytic.

Of course it is not all that matters: the other recommendations Landell-Mills makes are also important. She calls on auditors to address climate change issues (but that has to

be linked to proper accounting); for shareholders to take on companies; for asset managers to do the same and for credit rating agencies to embrace the issue.

But when it comes down to it all need climate change accounting. And right now sustainable cost accounting is the only proposal there is for putting climate change on the balance sheet. And COP 26 needs to take note.