

## The temperature is literally rising but the Financial R...

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As the [FT reported](#) yesterday afternoon:

*Companies and their auditors will be more closely scrutinised over how they report the impact of climate change, under a new push by the accounting watchdog to provide investors with greater transparency.*

*The Financial Reporting Council said on Thursday it would undertake “a major review” of the way UK businesses disclose climate risks in their reports and accounts, to ensure that recently increased requirements are being met.*

Checking out the [Financial Reporting Council web site](#) did not leave me feeling optimistic about this review. In essence they are saying that they intend to review a sample of company reports and accounts across industries to assess the quality of their compliance with reporting requirements in relation to climate change whilst also considering the audit and governance dimensions to this issue, and that they will take note of the Task Force on Climate-related Financial Disclosures’ requirements when doing so. However, at no point do they suggest that you will consider four issues that seem to be of great significance if an appropriate response from the accounting community is to be made to the climate crisis that we face.

The first is that this is the biggest social and economic change now facing the human race. Every business is, therefore, impacted. Accountancy cannot ignore that fact and remain relevant. And yet the FRC is not suggesting changing anything when undertaking this review. There is no recognition that the paradigm is changing.

Secondly, although the scale of this crisis means that reporting must be both mandatory, and audited and that this requires any disclosure to be within the financial statements and not in ESG or other reports the FRC do not appear to be reviewing this requirement.

Third, although this issue is vital to all the stakeholders of a company, including its investors, the FRC provides no acknowledgement of this. What it does not suggest is

how all those stakeholders will learn if a reporting entity can make the transition to be net-zero carbon, or whether it has access to the capital that will be required to make this happen. This is a financial reporting issue, and so an accounting issue, and so has to be on the balance sheet, but the FRC shows no sign of being aware of that as yet.

Last, accounting is not neutral: it should both report and encourage good practice. Requiring that provisions for the cost of climate change be reported now on the balance sheet of the larger entities (at least) that will be most impacted is all about providing them with the incentive to make the necessary investments, and to secure the necessary capital to make the required changes to become net-zero carbon as soon as possible, which is exactly what society requires. Again, the FRC does in no way reflect this urgency.

I admit I am biased on this issue: my authorship of [sustainable cost accounting](#) makes me so. Equally, I wrote that because I think accounting is missing the point on climate change. The time for token gestures and reviews as to whether existing rules can be applied, and even work, in a world where we know everything has changed are over. Accounting needs fundamental reform if it is to reflect what really needs to happen on this issue.

The temperature is, literally rising. The Financial Reporting Council is not feeling the heat. It is time it did.

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*I will be writing to the FRC on this issue, and hope others might as well. I hope this post provides some material that might be used. The FRC needs to know that the world will not let them, and the accounting profession, sit by and watch this crisis happen.*