

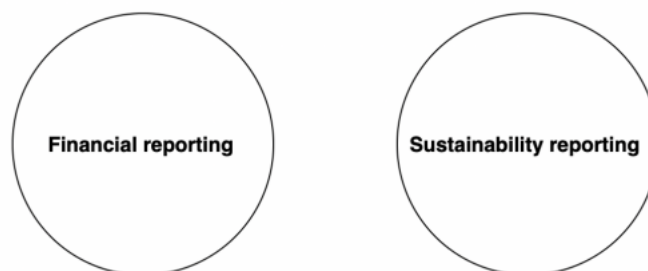
Accounting is the new frontline when it comes to the en...

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I know accounting is not everyone's idea of excitement. As a chartered accountant I have had to live with that for almost four decades. But, as one, quite well-informed journalist put it to me recently, when it comes to climate change accounting is now absolutely out there in the forefront of the issue. Frankly, this is where the barricades need to be mounted if business is going to be forced to change its ways.

Let me explain. The issue is really quite straightforward. After all, we all know now that unless we get to zero net carbon we're in pretty big trouble. We also know the importance of maintaining biodiversity. Companies have, as a result, got the message. Around the world a plethora of sustainability reports are being produced to tell us just what big business thinks we want to know about how green they are.

But there is a problem. Simply put it is that the sustainability reports are quite separate from any company's accounts at present. It's as if business still thinks that making money and being green are separate issues, and that this environmental stuff is all very nice but the hardcore activity of making money should be unsullied by it. This is their world view:



There is, of course, a problem with that attitude. Unless business goes green then there is no chance of net-zero carbon targets being met. But business won't go green until it is a bottom line, profit and loss issue. And it will not become a bottom-line issue until climate change is forced onto a businesses' balance sheet and into its profit and loss account. This is what we need:

The [Corporate Accountability Network](#), which I direct, [has come up with the only proposal there currently is to make this happen](#). What we propose is that the full potential cost of a corporation meeting its net-zero carbon goals is reflected as an up-front provision for those costs within its accounting system, and so in its financial reporting. We then suggest annual reporting on the movement in that provision as the entity moves towards achieving its goal. This approach will provide the opportunity for the ongoing integration of these issues into the accounting and financial reporting in a way that we suggest nothing else can. It will also disclose the full cost of the capital that the company will require to achieve its sustainability targets. In addition, it will reveal how over time the reporting entity moves towards achieving that goal, and its success, or otherwise, in managing that process.

But a massive impediment to progress on this issue has now appeared. It comes in the form of the International Financial Reporting Standards Foundation - the IFRS.

You may have never heard of the IFRS, but it's really important. The IFRS sets the accounting rules for most of the large companies in the world - including in the UK and EU. And - this is the crucial bit - their standards have the force of law in the countries where they apply. Companies have to comply with them. And it has noted there is a market for sustainability reports. As a result it is making an audacious bid to take over that space and create its own sustainability standards to replace all the others that now exist. The [details are here](#).

Now it has to be said that one set of sustainability standards might be good.

One set of sustainability standards that do, however, keep the costs of getting to net-zero carbon out of corporate financial accounting is definitely bad. And that is what the IFRS is proposing.

Just to emphasise the point, the [IFRS is also suggesting](#) that sustainability reporting standards should be created by a separate body to accounting standards, just to make sure the two should never mix.

And worse still, it is also suggesting that these sustainability standards should only be produced with the needs of the investment community in mind. All the rest of us, with our multifarious green concerns, can apparently whistle for the information that we need from the largest companies in the world.

My University of Sheffield accounting colleague, Prof Adam Leaver, and I have written a pretty wonky submission to the IFRS on why this is wrong. [It is here](#). But if sustainability reporting is to really go to the bottom line, and so count, its cost will have to impact on the profits that companies report. And to achieve that goal we need support.

There is an opportunity to submit comments on this really deeply flawed IFRS proposal until 31 December. [You can find it here](#), although you do have to register first, but that

does not take long.

What I am asking is, might you submit a letter to the IFRS? This is the chance to effectively change the law on this issue and to force companies to really begin to account for how they will get to be net-zero carbon. But, just to make it awkward, emails won't do. Something like this would be great, but please alter it a bit. [**A Word version is available here.**](#)

Dear IFRS Foundation

Sustainability Reporting

I have noticed your consultation on the above subject. I am concerned about this issue because xxxx (please add a short explanation).

I have real concern about your proposal. I think that:

- * Sustainability reports should be for the benefit of all stakeholders of a company and not just those in the financial community, who seem to be your main concern;*
- * Sustainability reporting should be built into mainstream financial reporting, and not be treated as a separate issue, as you propose. It will forever remain peripheral, and at risk of being treated as 'greenwash' if your proposal for a separate Sustainability Standards Board is adopted;*
- * Companies should now be required to disclose their likely costs of becoming net zero carbon compliant, and to account for these costs as they make the transition to achieving that goal over the years to come. These costs must be on the balance sheet now and in the profit and loss account as they are expended. How else are we to know who is really walking the talk on this issue? As someone with a stake in the world I really need to know this.*

You have the option to make this issue the biggest issue in accounting for decades to come, which is what it should be given the urgency of climate change. Instead your proposal sweeps it to one side and treats it as peripheral. This will no longer do. I urge you to rethink, and to propose integrated financial and sustainability reporting as the way forward for accounting standards.

Yours etc

Thanks for reading.

And thanks too if you can do this.

We need to hold the world's corporations to account for their impact on climate change. Telling the IFRS to do so is a way to achieve this goal. And every voice will count,

whether from an individual or an organisation, and in that case whether large or small. And please don't wait. We need to get letters in now.

There's more [***technical stuff on this issue here.***](#)

And this might help too:

<https://youtu.be/WwZd1ME0g7c>