Funding the Future

It is time the accounting profession - and big business...

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As the FT has noted this morning:

> Just 5 per cent of the UK's largest public companies have published climate transition plans that are "credible" or sufficiently detailed under draft British government guidance, despite most businesses saying they are committed to slashing their greenhouse gas emissions.

They added:

As part of a raft of green measures announced on last week, the UK government said it would consult later this year on making transition plans — where companies outline how they will cut emissions and the associated costs of doing so — mandatory for all large companies, including private businesses.

EY are suggesting that whilst maybe 80 per cent of FTSE 100 companies have plans of some sort in place only 5 per cent would comply with the new disclosure framework.

I am not surprised for three reasons. First, most transition plans are greenwashing.

Second, the new International Sustainability Standards Board (ISSB) standards on environmental disclosure do not require companies to take this issue seriously by leaving sustainability reporting out of accounts and even audit, meaning that this greenwashing can continue.

Third, the fight against having plans in place is spearheaded by companies like EY, who only last December wrote this in one of their own publications on the issue:

> ***Constructive obligations***
> An entity may make a public commitment to behave in a certain way or undertake certain activities in response to climate change. Such an entity must assess whether they have created a constructive obligation that requires recognition of a provision. Under IAS 37, only those obligations arising from past events that exist independently of an entity's future actions can be recognised as a provision. In this respect, entities should be careful to ensure that clear language is used in describing their aspirations, targets and intended actions in response to the climate change challenge. For example, a reader may have difficulty understanding the extent to which the entity can realistically withdraw from a course of action described in its transition plan.

Decode that and what they are saying is that companies must not make commitments or they might have to include the financial consequences of doing so in their accounts. This, of course, they would not wish to do. Such commitments will be very costly.

I have long argued that such commitments should be made by promoting sustainable cost accounting. This requires that:

* A company have a full transition plan.

* That plan be costed, in full.

* Provision for that cost be included in the plan in precisely the way that EY is trying to avoid its clients having to do.

* Those companies unable to finance their transitions should be declared carbon insolvent (if emissions are the issue) or environmentally insolvent if abuse of the biosphere is the issue instead.

Sustainable cost accounting has not gained traction as yet, I admit. But the campaign for i is ongoing. I suspect it will happen, one day. Big business and accountancy continue to pretend that the environment is someone else's concern. It isn't: it's theirs, and they need to deal with it.