

Recommendations for a Comprehensive Accounting of Climate Related Business Efforts

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I. Background

Climate Change is an unstoppable event from times unknown. Effects of climate change has affected all forms of lives on Earth, including Humans and Animals alike. Earthquakes in Americas, Floods in Asia and Volcanoes in Africa, have left millions without food and shelter – yet, communities still emerge in such previously disaster affected areas, as if to find out how to defy history. Perseverance against natural odds is a human survivor instinct and a prevalence of economic activities under the shadows of this, is still occurring.

Businesses grow with communities and irrespective of the historic risk of business cycle in a particular geographic location, business owners and communities need to be served by the enterprises that exist to serve such communities. When communities exist in a particular state of existence, enterprises will create opportunities to prosper nevertheless.

Notably, such enterprises would exist to displace the personal risk of existence under such shadows, to an economic placement that is safer and more desirable. Whilst historically, humans have physically displaced to safer regions without such natural calamities, evolution now expects that enterprise may exist in such unnatural conditions whilst reducing the risk of exposure to natural disasters.

II. Progress Plan

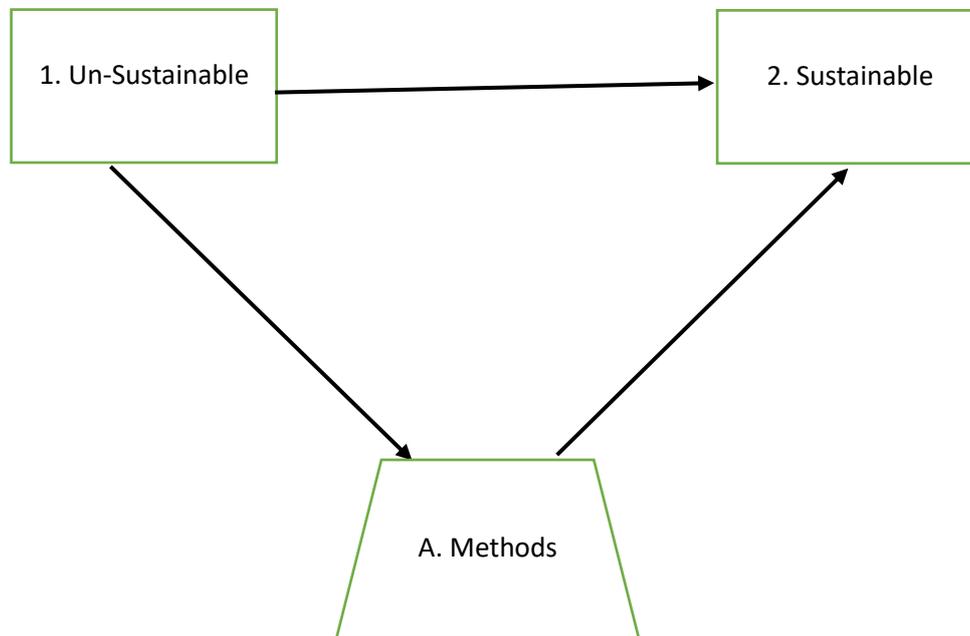


Figure 1: Climate Progress for Business

A. Un-Sustainable

This is a state of business where essential activities that are undertaken are unsustainable in nature. The examples provided are a mention of such activities.

B. Sustainable

This is a state of business where activities undertaken are sustainable in nature. Sustainability is achieved when there is minimal risk of environmental impact for and by the business.

C. Methods

This is the most important step for the requirements. It is quite impossible to go from State 1 to State 2 without an enabler and a provided set of methods that the business can use is important for the business to undertake in its strategic execution as well as for financial benefits.

Current set of methods are introductory in nature, in that they simply provide a set of disclosure standards that companies can use. However, such disclosures are business dependent and to the reader of financial statements there could be no consistent set of standards that can be applied to derive a comparison between companies. Hence, in the current state, a financial benefit is difficult to derive.

The risk of current standard of disclosures is that financial markets would inevitably capitalize on sustainability disclosures. Whilst not beneficial or sustainable for the financial market itself, it could easily dislodge the integrity of the market when applied to the prevailing understandings of participants. In example, 8.3 and 8.4, the set of disclosures is stated to be creating a financial market opportunity to hedge the value of such assets.

Accordingly, the financial markets would allocate different values to such a hedge depending on the time and location of such a valuation. Moreover, an investor in a sustainability integrating market would value a positive movement towards sustainability much higher than a market that is unable or unwilling to allocate resources towards such efforts. The most affected are the markets who are developing, as a need for external funds would confuse their particular financial attachment to sustainability efforts, often reflected in a hyper-inflationary symptom in their particular currency value or stock market indexes.

III. Accounting Implications

Current state of methods to provide disclosures is insufficient for a full accounting purpose. Herein, that the purpose of accounting is to reflect in financial values and numbers, that which is important, comes into play. This accepts that the most detailed disclosure would still be insufficient to fully serve the purpose of financial statements in order to reflect the financial worth of a company only in its financial statements – and nowhere else, such as from its share price in stock markets. Conversely, disclosures in statements serve to add to the value of financial statements from the stock price in the current market and its inclusions of asset worthy notations.

Indeed, the full set of Progress Plan in Figure 1, is an Asset for the company that is uncontained financially, from simple disclosure statements.

Effective methods that translate from company efforts and undertakings to financial values are needed. Possible methodologies that are required are discussed.

A. Climate Exchanges

Climate exchanges that allocate a financial value to the effort of conservation is a growing phenomenon worldwide. In such exchanges companies can trade a pre-allocated set of Climate Credits with financial funds. Hence a direct mapping of the current state of disclosures is achieved for the readers of the financial statements to read and understand. It is not left upto the financial markets to decide how much financial worth a particular climate effort should be allocated, that too from the increase/decrease in its share price, which when not fully liquidated becomes a theoretical value for the company, and ineffective in cash flows.

B. Specified Currency

Specific currency can be targeted by companies to best contain the climate risk for its operations. For example, a company that operates in a market that has a high risk of earthquakes, can include in its reserve currency a basket of the currency from such a region, so that the risk of this particular natural disaster is adjusted in its liquid assets. This would add to the set of disclosures by mentioning that the particular risk of operations is contained in a specified financial value in a local currency, translating the particular functional currency for the reader of the statements.

C. Replacement Value

Companies can specify in their financial statements the particular replacement value of assets-at-risk due to climate and sustainability reasons. The difference between the current book value and the

replacement asset value should be stated in the financial statement as a Liability. A new reporting section in the financial report could be introduced to allocate a financial value that can be mapped with the sustainability disclosures per section with listed items.

IV. Recommendations

Sustainability reporting standards only contained in a set of disclosures pose a serious risk of misunderstandings by readers and a risk of economic instability caused by a global financial market. To mitigate this risk, appropriate financial allocation methods should be prescribed by the IFRS Standards that do not leave the financial accounting element in merely a qualitative discussion. Indeed, IFRS Standards are a set of accounting standards, and discussion on an important financial element is not an expected outcome for such reasons.

It is recommended that the IFRS Foundation provide a clear set of objectives for Climate Related activities of the companies and direct the need for a quantitative value for accounting. Whilst jurisdictions may have a requirement for detailed application of business, but it is imperative that IFRS Standards themselves have a definition for such a accounting value.

Methods as per the Progress Plan that consists of accounting activity per a., b., or c. mentioned in previous sections should be adopted as a part of the comprehensive Climate Reporting Standards.