Blog

The role of accounting in achieving net-zero goals

Discover how recent changes in accounting standards are revolutionising the perception of net-zero investments. The IASB's new accounting measures, will help businesses to align financial incentives with environmental goals, offering a path towards a more sustainable future, endorsed by Charlotte O'Leary

Traditionally, accounting systems fail to recognise the true value of net-zero investments, which are treated as costs to a business – not as assets or investments. *Pensions for Purpose* believe this has been disincentivising firms to invest for good environmental outcomes.

IAS 37 – a new accouting standard

However, a recent development in accounting standards may turn this traditional challenge on its head. The International Accounting Standards Board (IASB) has effectively introduced a new accounting standard for net-zero commitments, adopted on 25 April 2024.

This new approach changes how investments aimed at reducing carbon emissions are accounted for – from costs to valuable assets. This shift is important as it makes these initiatives financially appealing and feasible.

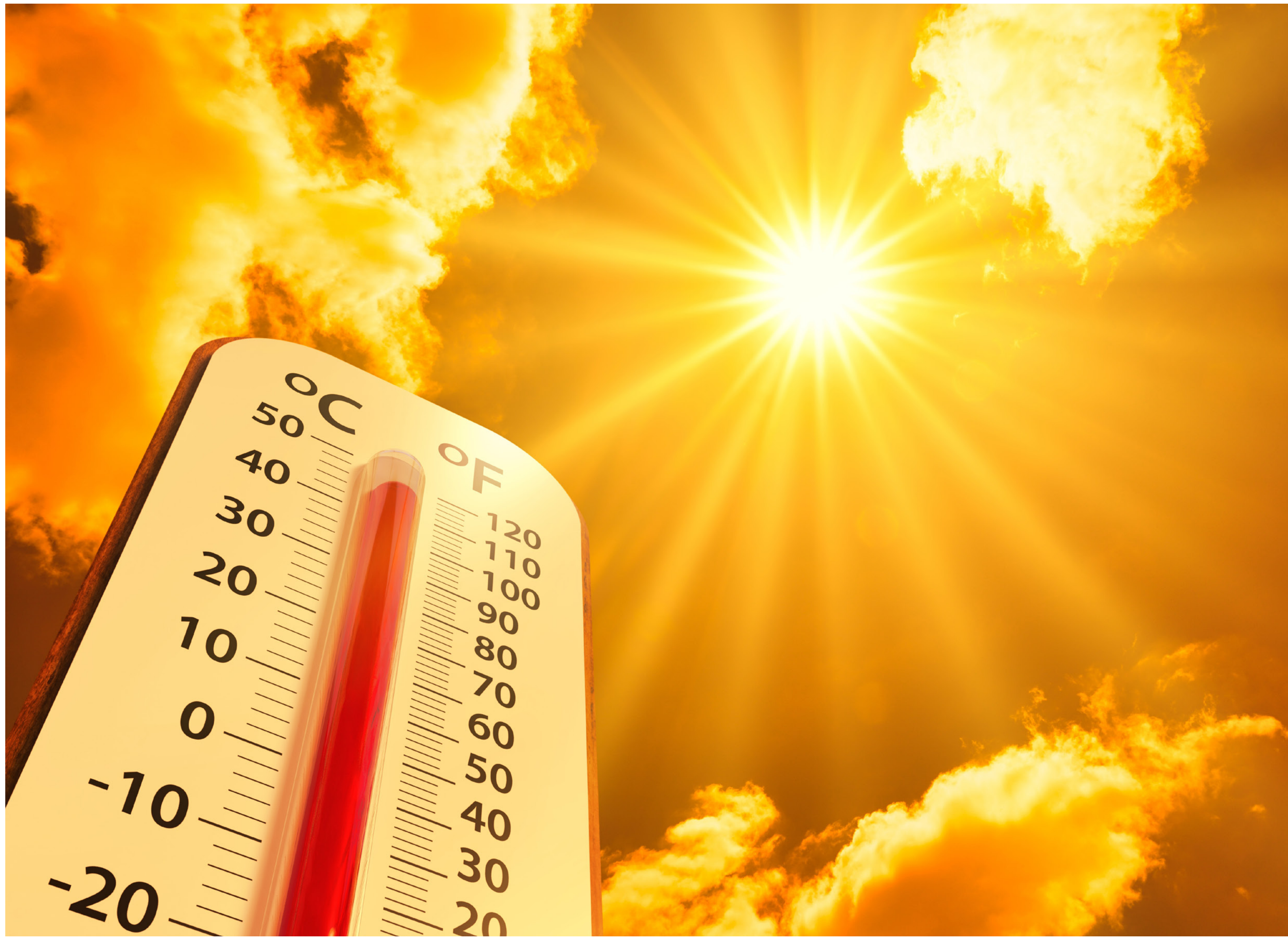
Charlotte O'Leary, CEO of Pensions for Purpose, supports this new development. She said: "Pensions for Purpose has long supported the impact investment case –positive, intentional and additional impact in investing leads to better long-term outcomes for people and planet, alongside profit. There is no greater impact goal than net zero. What has been at odds is the system that has externalised that impact by not recognising those assets and obligations. This has made it harder for asset owners to hold companies to account, to engage and reward companies that set themselves higher goals."

For *Pensions for Purpose*, this aligns with the Impact Investing Principles for Pensions, which advocate for clear and accountable investment practices. Transparent accounting will serve to distinguish the leaders from the laggards in environmental stewardship, thereby enabling asset owners to make more informed decisions. They can set clearer policies, engage more constructively with asset managers, and drive investee companies towards best practices.

Transitioning

Changes will not just happen overnight, however – investors and accountants still have to demand this change. Once employed, this new accounting framework is expected to unlock significant hidden returns from net-zero strategies and investments, as evidenced by the example of Anglo American in the Rethinking Capital paper. Under the new standards, Anglo American's commitment to reduce carbon emissions could see its balance sheet assets increase by approximately $495mn, enhancing key financial metrics such as profit, earnings per share (EPS), risk on return on equity (ROE), and debt-to-equity ratios.

Charlotte believes this approach offers a path forward "to pragmatically and prudently tackle companies not meeting their commitments while rewarding those that reach for best practice," she said. This method ensures companies are held accountable for their environmental commitments, empowering asset owners to demand better performance and adherence to sustainable practices from their investment portfolios. ●



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> CHARLOTTE O'LEARY
> PENSIONS FOR PURPOSE

More information

Read the full *Pensions for Purpose* statement on IAS 37 and article by Andrew Watson, Co-Founder of *Rethinking Capital* and T. Robert Zochowski, President and CEO of *International Foundation for Valuing Impacts (IFVI).*

If you are interested in a conversation on the new accounting standard covered in this blog, or on antother topic, please e-mail Charlotte O'Leary.

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● ***Charlotte O'Leary is CEO & an Executive Director of Pensions for Purpose***