

Climate Accounting: Obtuse New Math?

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LINKCO review and opinion:

We are reviewing three articles that focus on ESG/climate accounting.

- 1) *"How much Carbon Comes From a Liter of Coke? Companies Grapple With Climate Change Math"*¹ Jean Eaglesham and Shane Shifflett, WSJ, August 10, 2021
- 2) *"Get Ready for Big Political Fights Over Carbon Accounting"*² Akshat Rathi, May 25, 2021
- 3) *"IPCC Climate Change Report Shows Less Cause for Panic-But More Urgency to Act"*³ Greg Ip, WSJ, August 11, 2021

With twenty plus years of broad executive business experience cross industries, LINKCO is well situated to work with Middle Market CXO and Upper Management leaders in California and throughout the United States. LINKCO's Executive Search system is "on" 24/7/365, AI informed, and laser focused on rapid, cost saving and "pain" free results.



These articles about ESG Reporting, Climate Accounting and risk associated with global warming, highlight what public and private companies should be grappling with.

1. In April 2021 the SEC advised that they are reviewing ESG reporting standards.
2. The UN requires international companies to follow approved ESG reporting standards.
3. US based subsidiaries and US based companies with and without international interests, suppliers, and vendors are realizing they need to follow the lead of UN reporting adherent European business counterparts.
4. Investors and clients are increasingly pressuring companies and Boards of Directors to stop 'green washing' and begin to adequately monitor, report, and audit their carbon usage /eventual offsets.
 - a. 4a. Any carbon offsets should follow UN strategies and markets and preferably be regulated:
 - i. based on the UN ISO standards and with UN licensed companies,
 - ii. by the SEC (Security and Exchange Commission), for securitized offsets,
 - iii. by CFTC (Commodity Futures Trading Commission) for carbon offsets as a commodity.
5. Clients and investors are looking for reliable transparency. They want companies to realistically engage in assessing and accounting for climate change risk.

In *"How Much Carbon..."* investors and regulators are increasingly expecting companies to disclose, Green House Gas (GHG) emissions for products and services. This article notes that it is anticipated, based on the SEC guidance from April 2021, that all public companies will

have to disclose their climate related risk. LINKCO's sources note this guidance will likely extend to non-public companies as well. For more information regarding ESG reporting, checkout [LINKCO's Webinars](#) with George Sullivan.

When implemented, this would be the most significant expansion of corporate financial disclosures in 80 years. Additional disclosures being considered would highlight the physical risks from extreme weather.

One of the key challenges will be how companies comply with the guidance avoiding internal non-experts and third parties who do not adhere to the UN reporting standards, and do not provide regulated offsets (see #4 above). And it's not entirely the companies' fault! However, WSJ found that out of almost 1500 companies, 2/3rd had received different grades due to there not being a uniform methodology for scoring companies' sustainability risk, impact, and values.

In, *"Get Ready for Big Political Fights..."* Emissions picking based on accounting high jinks led Australia to claim a significant reduction in its GHG emissions from fossil fuels from 2005-2019. This was accomplished by including forests and agriculture in its emission claims. Based on a study conducted by the Australia Institute, fossil-fuel emissions increased by 6% in 2018. Accounting for forests and agriculture is also mired in challenges because emission reductions are calculated using methodology that assumes avoiding a polluting hypothetical.

This example highlights the accounting black hole that COP26 in November 2021 faces and hopes to herd countries to resolve Article 6 of the Paris Agreement- rules for public and private entities trading/selling registered offsets. Voluntary offsets can and do manipulate baselines and thereby can significantly increase the reported volume of credits. Part of the challenge goes back to that accounting black hole and trying to avoid companies and countries double counting the same offsets!

In the *"IPCC Climate Change Report..."*, the UN Intergovernmental Panel on Climate Change much-anticipated report last issued in 2013 is considered. Bottom line, temperatures are rising, and some climate change effects are irreversible. Most powerfully the IPCC report indicates a higher confidence in its statements. Pundits may focus on the how the most extreme weather change predictions are less likely to occur than previously suggested. But the risk factors while dismissing the extreme ranges of temperature rise predictions, should still be sounding alarm bells in every Board Room. That is the takeaway from the report.

LINKCO's perspective: 77% of clients consider climate change a risk factor yet most have taken few pragmatic steps to mitigate the liability. This includes understanding the changing ESG reporting landscape and ensuring that leaders assigned to manage these increasingly significant risk factors are highly qualified and not symbolic. Yet, LINKCO is noting a significant uptick in client engagement and interest in what company changes must take place ensuring leadership is committed to reporting real ESG metrics legally and responsibly. Companies are

eager to expand their sustainability tracking to be robust, and not just the bare minimum. This also includes ensuring the tone is set from the Top Down, driving the change.

1. <https://www.wsj.com/articles/climate-change-accounting-for-companies-looms-with-all-its-complexities-11628608324>
2. https://www.bloomberg.com/news/articles/2021-05-25/get-ready-for-big-political-fights-over-carbon-accounting?cmpid=BBD080321_GREENDAILY&utm_medium=email&utm_source=newsletter&utm_term=210803&utm_campaign=greendaily
3. <https://www.wsj.com/articles/ipcc-climate-change-report-gives-a-less-extreme-but-more-sobering-outlook-11628697997>

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