

EU Presidency
INFORMAL MEETING OF MINISTERS RESPONSIBLE FOR RESEARCH
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The Case for Sustainable Accounting Standards

When the planet faces big issues, scientists are the first to flag them, the first to understand them, the first to design solutions – sadly science is seldom at the table when business decisions are taken.

When the issues are simple, such as the ozone hole above Antarctica, scientists can get decision-makers to understand and act and we have Science to thank for the Montreal protocol: 20 years elapsed from discovery to inverting the trend – this speed is possible when the problem is simple: a single chemical reaction -ozone and chlorine- and a single culprit – man-made CFC gases. Climate change is very complex, there are multiple causes, the magnitude of change needed is massive and therefore cannot be solved without a transversal approach.

Scientists are not able to influence decision-making because they do not speak the language of business. Companies, CEOs, asset managers, shareholders, funds march to the tune of profitability, their language is that of financial performance – today's accounting standards ignore externalities and measure business profit not accounting for the good and the bad impacts of business on society and on the environment.

Sustainable accounting standards that measure profitability adjusted for social and environmental impact is the necessary new common language if we are to ensure scientists, business and other stakeholders understand each-other. If we do not measure, we cannot manage. CFOs don't know what is a mole of a newton, as much as most people in this room might not know what is EBITDA or an impairment. We must measure unambiguously the true and complete value of business. This measure of value added corrected for sustainability can connect to a measure of sustainable GDP of a city or of a country, which in turn can connect with the value of the world's ecosystem services and natural capital. Tracking this performance over time will allow to assess the trajectory of the health of our planet.

Sustainable accounting standards will drive business to hire new skills. Finance and controlling areas will recruit scientists, engineers, anthropologists, sociologists... Over time the Chief Financial Officer will see its role evolving to that of a Chief Value Officer.

If business adopts sustainable accounting standards, executives and shareholders will know the complete extent of their impact and the liabilities they face from exposure to climate change. No one can then plead ignorance. Taxation can take into account social benefits and environmental costs thereby driving desired behaviors. No amount of Science Based targets and Mission Oriented R&D projects can ever come close to the impact on Climate Change that Business harnessed by the right accounting standards can deliver by doing its day-to-day work in a manner that considers the people and the planet. Sustainable accounting standards will allow the market forces to drive decisions in the right direction.

Putting a man on the moon by the decade's end, may be more inspiring than making every company in the EU to comply with Sustainable Accounting Standards. This may come across as a small step for the EU Commission to take, but it would be a giant leap for the planet.

How could Horizon Europe spur the innovations necessary not only to embrace sustainable accounting practices, but also make it possible for economic, business and investment actors to evolve the underlying logic of market capitalism to value natural, social and human capital on par with financial? Could the EU lead the world in this evolution during next 10 years?"

Guy Villax
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