

Changing the Narrative on Climate Change: From Anticipated Catastrophe to Possibilities for Advancement

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The Why.

Climate change is one of the most pressing challenges of our time, and it has become increasingly clear that companies have a critical role to play in mitigating its impact. While this is certainly a concern, it is also important to shift the narrative from one of fear and impending doom to one of possibility and opportunity. The fight against climate change requires a collective effort from all sectors of society, including businesses. Companies have a significant impact on the environment, from their operations and supply chains to their products and services. As a result, there is growing pressure on companies to reduce their environmental impact and demonstrate their commitment to sustainability. Therefore, they have a critical role to play in reducing greenhouse gas emissions and addressing climate change.

Carbon credits are becoming an increasingly valuable intangible asset for companies looking to reduce their carbon footprint and demonstrate their commitment to sustainability. As companies invest in carbon credits, it's important to understand the legal and accounting implications of treating them as intangible assets. In this article, we'll examine the regulatory framework for carbon credits, how they are accounted for as intangible assets, and the legal and tax considerations involved in their treatment.

Companies may face several challenges in their efforts to become more sustainable, including:

1. **Limited resources:** Many companies may not have the resources, including financial resources and staff capacity, to fully implement sustainable practices. This can make it difficult to track and manage sustainability performance, and to develop and implement sustainability strategies.
2. **Complex reporting requirements:** Sustainability reporting frameworks can be complex, and many companies may struggle to navigate reporting requirements and accurately report on their sustainability performance.
3. **Changing regulations:** Environmental regulations and reporting requirements are constantly changing, which can make it difficult for companies to stay up-to-date and comply with the latest requirements.
4. **Lack of stakeholder buy-in:** Some companies may struggle to gain buy-in from stakeholders, including customers, investors, and employees, for their sustainability initiatives. This can make it difficult to implement sustainability strategies and achieve sustainability goals.

In addition to measuring and reporting on sustainability performance, accountants can also help companies set science-based targets for reducing greenhouse gas emissions. By setting targets that are aligned with the goals of the Paris Agreement, companies can demonstrate their commitment to reducing their carbon footprint and contribute to the global effort to address climate change.

Companies that do not comply with climate action regulations may face legal consequences such as:

1. **Fines:** Regulatory bodies may impose fines on non-compliant companies. The amount of the fine can vary depending on the severity of the violation.
2. **Lawsuits:** Companies that do not comply with climate action regulations may be subject to lawsuits from stakeholders such as customers, employees, or investors. These lawsuits can result in significant financial damages, as well as damage to the company's reputation. For example, Royal Dutch Shell faced a lawsuit in 2020 from environmental groups and individuals in the Netherlands, alleging that the company's activities contributed to climate change and violated human rights.
3. **Reputational damage:** Non-compliance with climate action regulations can damage a company's reputation, leading to loss of customers, investors, and business partners. This can have long-term consequences for the company's financial health.
4. **Criminal charges:** In extreme cases, non-compliance with climate action regulations can result in criminal charges. For example, if a company knowingly violates environmental laws, the responsible executives may face criminal charges and even imprisonment.
5. **Revocation of licenses and permits/regulatory sanctions:** Companies that do not comply with climate action regulations may have their licenses and permits revoked by regulatory bodies. This can have serious consequences for the company's ability to do business. For example, in 2020, the Indonesian government revoked the permits of 10 palm oil companies for failing to meet sustainability standards.

Sustainability reporting can be a powerful tool for building trust with stakeholders and enhancing a company's reputation by:

1. **Demonstrating commitment to sustainability:** By reporting on their sustainability performance, companies can demonstrate their commitment to sustainability and show that they are taking concrete actions to address environmental and social issues.
2. **Transparency:** Sustainability reporting provides transparency around a company's sustainability performance, allowing stakeholders to understand the company's environmental and social impacts and its efforts to manage these impacts.
3. **Accountability:** Sustainability reporting holds companies accountable for their sustainability performance, providing a framework for measuring and tracking progress over time. This can help companies identify areas where they need to improve and take action to address sustainability challenges.
4. **Engaging stakeholders:** Sustainability reporting provides a platform for engaging with stakeholders and seeking their feedback on a company's sustainability performance. This can help build trust and enhance a company's reputation by showing that it values stakeholder input and is committed to addressing sustainability challenges.
5. **Building brand value:** Sustainability reporting can help build brand value by demonstrating a company's commitment to sustainability and its efforts to address environmental and social issues. This can help differentiate the company from competitors and attract customers and investors who prioritize sustainability.

The Framework.

Sustainability reporting frameworks are tools that companies use to measure, manage, and report on their sustainability performance. These frameworks provide guidelines and standards for measuring and reporting on a wide range of sustainability issues, including environmental, social, and economic impacts. By using these frameworks, companies can improve their sustainability performance and communicate their progress to stakeholders.

Sustainability reporting frameworks typically work by providing a set of guidelines or standards that companies can follow to measure and report on their sustainability performance. These frameworks often include indicators or metrics that companies can use to track their performance over time. Companies typically conduct a sustainability assessment or audit to identify areas where they can improve their sustainability performance, and then use the reporting framework to report on their progress.

The Global Reporting Initiative (GRI) and the Science-Based Targets initiative (SBTi), for instance, are important tools for companies that want to demonstrate their commitment to sustainability. The GRI is a framework for sustainability reporting that provides guidance on the principles and indicators that organizations can use to report on their economic, environmental, and social sustainability impacts. The GRI Standards are widely used by organizations around the world to report on their sustainability performance and communicate with stakeholders.

The SBTi, on the other hand, is an initiative that helps companies set science-based targets (SBTs) for reducing greenhouse gas emissions. SBTs are targets that are aligned with the goals of the Paris Agreement, which aims to limit global warming to well below 2 degrees Celsius above pre-industrial levels. By setting SBTs, companies can demonstrate their commitment to reducing their carbon footprint and contributing to the fight against climate change.

The GRI provides a framework for sustainability reporting, the SBTi provides a framework for setting science-based targets for reducing greenhouse gas emissions. Both frameworks are important tools for companies that want to demonstrate their commitment to sustainability and contribute to the fight against climate change.

1. **Improved sustainability performance:** By using these frameworks, companies can identify areas where they can improve their sustainability performance and take action to reduce their environmental impact. This can help companies become more sustainable and contribute to the fight against climate change.
2. **Better risk management:** Sustainability reporting frameworks can help companies identify and manage sustainability risks, such as supply chain disruptions, regulatory changes, and reputational damage. By addressing these risks, companies can better protect their business and stakeholders.
3. **Increased stakeholder trust:** Using sustainability reporting frameworks can help companies build trust with their stakeholders, including customers, investors, and employees. By transparently reporting on their sustainability performance, companies can demonstrate their commitment to sustainability and enhance their reputation.

4. **Competitive advantage:** Companies that use sustainability reporting frameworks can differentiate themselves from competitors by demonstrating their commitment to sustainability. This can attract customers who prioritize sustainability and lead to long-term business success.
5. **Access to capital:** Investors are increasingly looking for companies that prioritize sustainability and demonstrate strong environmental, social, and governance (ESG) performance. By using sustainability reporting frameworks, companies can demonstrate their ESG performance and access capital from socially responsible investors.

Carbon credits are created through a regulatory process that sets limits on greenhouse gas emissions and allows companies to trade credits that represent reductions in their emissions. The regulatory framework governing carbon credits varies by jurisdiction, but typically involves government agencies and international bodies overseeing the carbon credit market. In some cases, companies may also work with third-party certification organizations to verify the carbon credits they purchase.

The Legal and Tax Implications.

Carbon credits are a type of intangible asset that can be recorded on a company's balance sheet and income statement. Carbon credits represent the right to emit a certain amount of greenhouse gases, and are used as a way to incentivize companies to reduce their carbon emissions.

On the balance sheet, carbon credits can be recorded as an intangible asset under the category of "other intangible assets". The value of the carbon credits will depend on the market price at the time of purchase, and will be amortized over the life of the credits. The value of the carbon credits may increase or decrease over time, depending on changes in the market price.

On the income statement, the value of carbon credits can be recorded as revenue or as a reduction in expenses. If a company has purchased carbon credits to offset its own carbon emissions, the cost of the credits can be recorded as an expense. Alternatively, if a company has sold carbon credits to another company, the revenue from the sale can be recorded as revenue on the income statement.

Treating carbon credits as intangible assets involves contractual arrangements that govern carbon credit transactions and how they impact legal rights and obligations. These arrangements may include provisions related to the ownership and transfer of carbon credits, as well as provisions related to the performance of the underlying emissions reductions. Companies must ensure that they have a clear understanding of the legal implications of treating carbon credits as intangible assets to avoid potential legal disputes.

The tax treatment of carbon credits as intangible assets varies by jurisdiction and may have significant implications for companies' financial statements and tax liabilities. Companies must consider the tax implications of carbon credits in determining their appropriate valuation, recognizing gains and losses from trading, and determining their tax obligations. Tax treatment may also vary depending on whether carbon credits are classified as capital assets or ordinary income.

The How.

Accountants can play a crucial role in helping companies to fight climate change by providing financial expertise and guidance on sustainability issues.

1. **Sustainability reporting:** Accountants can help companies to measure and report on their sustainability performance using frameworks such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD). By providing accurate and transparent reporting on environmental, social, and governance (ESG) issues, companies can identify areas where they can improve their sustainability performance and take action to reduce their environmental impact.
2. **Carbon accounting:** Accountants can help companies to track and manage their carbon emissions by calculating their carbon footprint and identifying opportunities to reduce emissions. By implementing carbon reduction strategies, companies can reduce their environmental impact and contribute to the fight against climate change.
3. **Green finance:** Accountants can help companies to access green finance by identifying opportunities for sustainable investment and helping companies to develop financial strategies that prioritize sustainability. By accessing green finance, companies can invest in sustainable projects and technologies that help reduce their environmental impact.
4. **Risk management:** Accountants can help companies to identify and manage sustainability risks, such as supply chain disruptions, regulatory changes, and reputational damage. By addressing these risks, companies can better protect their business and stakeholders.
5. **Compliance:** Accountants can help companies to comply with environmental regulations and reporting requirements, ensuring that they meet legal and regulatory obligations related to sustainability.

Some of the key skills and expertise that accountants can bring:

1. **Financial expertise:** Accountants are trained in financial management and analysis, which can help companies identify opportunities for sustainable investment and manage their sustainability risks. Accountants can provide guidance on financial strategies that prioritize sustainability, helping companies to access green finance and invest in sustainable projects and technologies.
2. **Data analysis:** Accountants are skilled at analyzing data, which can be useful in measuring and reporting on sustainability performance. By analyzing sustainability data, accountants can identify areas where companies can improve their sustainability performance and track progress over time.
3. **Compliance knowledge:** Accountants have knowledge of environmental regulations and reporting requirements, which can help companies comply with legal and regulatory obligations related to sustainability. This can include reporting on environmental impacts, managing carbon emissions, and complying with sustainability standards.
4. **Communication skills:** Accountants are skilled at communicating complex financial and sustainability information to stakeholders, which can help build trust and support for sustainability.

initiatives. Accountants can help companies communicate their sustainability performance to stakeholders, including customers, investors, and employees. By communicating the benefits of sustainability to stakeholders, companies can gain buy-in and support for their sustainability strategies.

5. Risk management: Accountants are skilled at identifying and managing risks, which can be useful in identifying and addressing sustainability risks. By identifying and managing sustainability risks, accountants can help companies protect their business and stakeholders.

In conclusion, accounting's role in measuring and reporting on corporate sustainability is an important one in the fight against climate change. As the importance of carbon credits as intangible assets continues to grow, it's essential that companies and investors understand the legal and accounting implications of treating them as such. Proper accounting and valuation of carbon credits can help companies demonstrate their commitment to sustainability while also enhancing their financial performance. By carefully considering the regulatory, legal, and tax considerations involved in carbon credit trading, companies can effectively manage their carbon credit portfolios and drive long-term value. Accountants can help drive meaningful change and contribute to a more sustainable future.