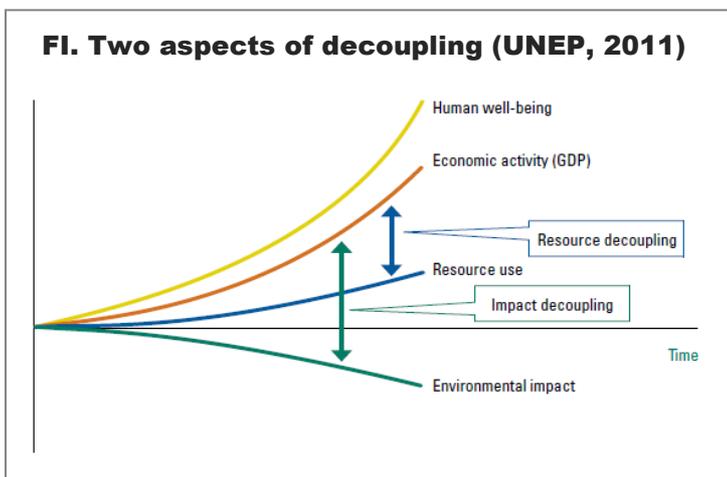


Clarity

CONFIDENCE
LIMIT
ACCOUNTING
+
RESOURCE
INFORMATION
=
TRUE
YIELD

Accounting for True-value

The transition for 9 billion people to live well, within the limits that one planet can provide, requires that Gross Domestic Product (GDP) is aligned with human well-being and that resource use and environmental impact are decoupled from GDP (F.I). The current *external* costs and benefits of human well-being, resource use and environmental impact will have been *internalised* into the value of the economy. This is a *True-value Economy*. We believe the transition is inevitable but the sooner it is started the least disruption will be caused. Already longer term investments would benefit from such a transition.



The World Business Council for Sustainable Development (WBCSD) in *Vision 2050* and *Action 2020* state that **achieving true-value in market structures is a critical 'must have' by 2020**. They highlight carbon, ecosystem services and water as priorities. Building on the work of the WBCSD and others, **CLARITY outlines the elements of a strategy for comprehensive true-value accounting, to incorporate resource use, environmental and social costs and benefits into the auditing of businesses and all other institutions that produce financial accounts.**

Accounting for True-value with Confidence

Awareness and use of resource accounting (RA) is growing, notably for carbon and water but it goes far deeper than this. It can produce as many lines of valuation for as many environmental and social issues as required. Essentially RA provides the tools to measure sustainable development.

Meanwhile a significant development is underway in financial accountancy, called Confidence Accounting (CA). Essentially CA means that accountancy incorporates a valuation range into company accounts instead of a single point value (F.II).

Following the 2008 financial crash, attention remains on how to bring greater resilience and stability to global capital markets. One issue is that company accounts - upon whose valuations, ratings and investments are made - assert a single value of worth, with value assumptions, at best, represented as footnotes. This point value asserts, as it did, that all of investment banks' risks are fully costed and covered, or, as it does, that all fossil fuel reserves valued in an energy company's accounts can with full certainty be burnt, regardless of global warming. Neither is true. Regulators now recognise the benefits of 'Confidence (Limit) Accounting' methodologies which communicate a **range of scenarios and value estimates**, yet do so with a minimum of disruption to the day to day production of accounts.

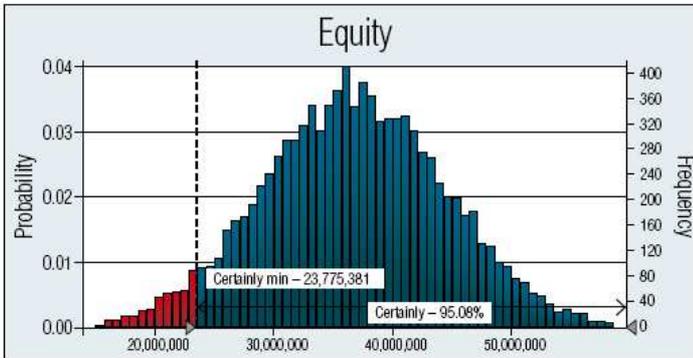
In parallel, resource accountants and statistical agencies have been working with range value information for years. The further significance of the CA framework is that it readily incorporates RA methodologies. With the event of large computers that can process huge data - resource use, environmental impact and human development and well-being indicators, as well as economic, fiscal and socio-political indicators - can be evaluated per country, region, municipality, company, sector, product and service invoice and standardised per unit \$GDP (F.III). It means that Resource Accounts have the data with which to populate the Confidence Accounts, whose ranges are currently largely theoretical.

F.II CA reflected in Company Balance Sheets

Key forecasts

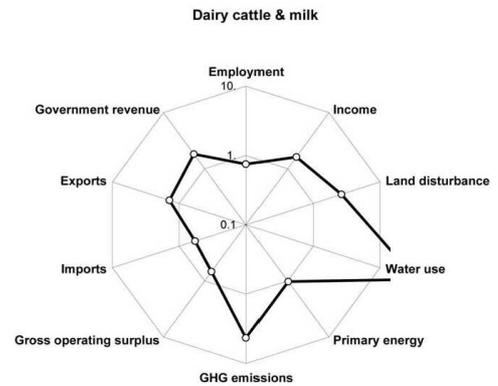
	Total assets (£bn)	Total liabilities (£bn)	Equity (£bn)
Mean	697	660	36
Minimum	666	633	6.5
Maximum	728	689	65
95th percentile	682	672	24

Source: Z/Yen Group Limited, 2011



F.III An amoeba diagram communicates true-value pressure points

This example, from the Australian National Accounts, represents 10 dimensions of the Dairy Sector of the Australian Economy. A value of 1 indicates the average score for all sectors of the economy. Each point actually has an associated range (see F.IV). Additional dimensions can be added.



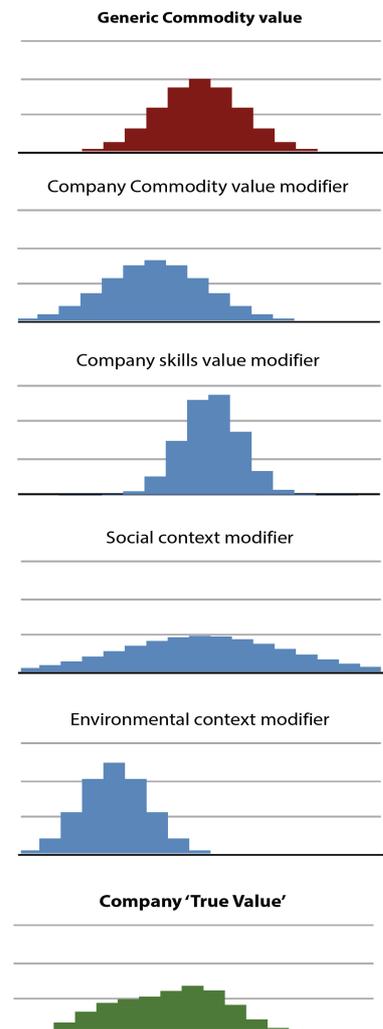
Balancing the books

CONFIDENCE
LIMIT
ACCOUNTING
+
RESOURCE
INFORMATION
=
TRUE
YIELD

When resource accounting F.III is integrated with financial accounts, the various resource dimensions are expressed per monetary unit, including the error range F. IV. The estimate of 'true-value' of the entity is then the overall product arising from these dimensions (bottom F.IV) which in turn is represented in financial accounts – cash flow, profit and loss and balance sheets.

WBCSD consider action a priority in a number of areas - energy and power; buildings; mobility; materials; governance; people: development, behaviour, values; agriculture and fisheries; forests; ecosystems and biodiversity. In practice few sectors would be unaffected by 'balancing the books' to true-value and then to true-cost. It would also have a profound effect on projections of future value and the risk-reward equation, most notably for long-term of investors such as the pension funds and insurance institutions.

F.IV CA Modifiers for True-value showing the spread of financial valuations from a company extracting a commodity, resulting from various dimensions and contributing to the overall 'True-value'.



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