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ACCOUNTING FOR SUSTAINABLE FINANCE: DOES FAIR VALUE MEASUREMENT FIT FOR LONG-TERM EQUITY INVESTMENTS?

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Accounting for Sustainable Finance: Does Fair Value Measurement Fit for Long-term Equity Investments?

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ABSTRACT

In the Action Plan on Sustainable Finance, the European Commission has called for a fitness check of fair value accounting for long-term equity investments, which are considered crucial for retooling the European economy toward sustainable development. Sustainable development is a founding value of the European Union as well as the objective of the Paris Agreement on climate change and the UN 2030 Agenda. This study shows that there is a good reason for the European Commission's request, as fair value accounting can significantly contribute to asset reallocation away from equities. In tackling this issue, the study grounds itself in Habermas' theories, which provide a helpful toolkit, both for developing the methodological approach and making policy recommendations. This study proposes a dual measurement system for long-term equity investments based on historical cost as a recognized amount on the balance sheet and fair value in the disclosure notes. Such a system would create more favorable conditions for long-term investing while still being consistent with the overall IFRS Conceptual Framework. It could be implemented in a short time and could strategically open the way for the European Union to regain control of the standards-setting process, bringing it back to more democratic procedures.

Keywords: Sustainability, Long-term Investing, Equity, Fair Value Accounting, European Union

JEL classification: M41, P16, K22

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