

WHITEPAPER

The carbon-adjusted balance sheet: why carbon is now a board-owned capital decision, not just a disclosure

Christian Honoré & Christian Boserup

Founding partners, Priced Advisory

In June 2026 the European Central Bank began writing down the value of collateral for transition risk. That decision changed what an emissions figure is – from something a company discloses to something its lenders price, and therefore something its capital plan has to answer.

The moment the ECB began reducing collateral values for transition risk, carbon stopped being just a reporting topic and became a balance-sheet item too. The gap between the equity a company reports and its carbon-adjusted equity is no longer a thesis to debate – it can be computed from public filings. And what a board now owns is a decision, not the number itself: whether capital moves toward abatement that will actually be executed, on its own timetable, or whether a lender prices the gap first.

That is a strong claim to make about a figure that has never appeared on a balance sheet. It rests on a date rather than a conviction – one dated fact, and two consequences that follow from it.

The repricing has started - at the most conservative desk in Europe

Every large company now measures, reports and audits its emissions. In most boardrooms the number arrives as a compliance artefact: owned by the sustainability function or finance, reviewed annually, filed. Nothing on the balance sheet moves when it changes.

The ECB no longer treats it that way. In July 2025 its Governing Council decided to introduce a climate factor in the Eurosystem collateral framework – a reduction applied to the collateral value of corporate bonds that banks pledge to obtain central-bank liquidity, sized by the issuer's exposure to transition risk. On 15 June 2026 it came into force. And on 24 July 2026 the ECB decided to extend the same logic to ordinary corporate loans pledged as collateral, expected from end-2027. Three dated decisions, two years from approval to live operation to extension.

The mechanics matter less than what feeds them, but both are instructive. The factor is built from the issuer's sector, its firm-level transition exposure – greenhouse gas emissions, decarbonisation targets and the quality of climate disclosures – and the maturity of the asset. It is applied on top of the ordinary valuation haircut. In the ECB's own worked example, a €100 corporate bond that previously yielded €90 of borrowing capacity now yields around €88. Utilities, materials and transportation score worst; the dispersion within sectors is substantial.

Two honest qualifications belong here, because they make the point sharper rather than weaker. The immediate effect is deliberately modest – the additional reduction is capped, and the ECB itself expects the near-term impact on banks to be limited. And Denmark sits outside the euro area: Danish banks pledge to Danmarks Nationalbank under its own framework, and no equivalent has been announced. Neither qualification changes the signal. This is not a campaign position or a scenario exercise; it is the most conservative balance sheet in Europe operationally writing down asset values for transition risk. And the supervisory layer beneath it has already moved: since January 2026, the European Banking Authority's guidelines on the management of ESG risks require banks across the EU – Danish and Swedish banks included – to identify, measure and manage transition risk in their credit books, and to hold credible transition plans of their own. The collateral factor touches the euro-area banks; the supervisory requirement reaches nearly every bank a Danish company borrows from. Different plumbing, same direction, within the same year. Banks do not stay behind their supervisors for long, and markets do not stay behind banks.

For a CFO, the translation is direct: high-transition-risk exposures in a pledged pool now yield less liquidity per euro lent. Somewhere between the central bank and your margin, someone absorbs that – and banks are not in the business of absorbing.

The gap between reported and carbon-adjusted equity is computable

If the institutions that hold your debt are pricing what carbon does to asset values, the obvious question is what the same logic does to your own balance sheet. The uncomfortable answer is that this is not a philosophical question.

It is arithmetic – and it can be done from documents you have already published.

The logic is simple to state. Emissions that no one currently pays for are not free; they are a liability waiting for a price. As carbon costs internalise – through regulation, through lenders, through customers passing requirements down the chain – the waiting ends, on someone else's schedule. What internalisation would do to equity can be computed from a company's own disclosures: reported emissions, stated transition plans, the capital actually allocated behind them.

We have begun that arithmetic for Denmark's largest listed companies. Our preliminary analysis indicates that the non-financial constituents of the C25, taken together, carry unpriced carbon exposure equivalent to roughly 20 per cent of their combined book equity under a mid-range carbon-price scenario. That figure describes the index, not the typical company: the median company carries under 5 per cent of its own equity, roughly a third carry more than 20 per cent, and for the most exposed the unpriced exposure exceeds book equity in full. The full analysis publishes this autumn.

The spread is the finding. Exposure on these balance sheets is concentrated rather than systemic – and it does not track sector labels, ESG ratings or disclosure quality. It tracks where a company's emissions physically occur. The most exposed are those whose emissions arise in their customers' operations rather than their own, which is exactly the exposure a company reviewing only its direct emissions will not see. No board can infer from its industry or its ratings which side of that distribution it sits on. It has to be computed.

To be precise about what such a number is: a structured financial stress test under stated carbon-price scenarios – not a valuation opinion, not an investment recommendation, not a forecast. Its value is not prophecy. Its value is that it exists at all: a computed figure where most boards currently have a feeling.

The scenarios are three prices, none of them ours: roughly €105 a tonne, which is where EU emissions trading and carbon border pricing are heading by 2027–28; \$185, or about €157, the peer-reviewed social cost of carbon; and \$300, about €255, the delayed-transition case the central banks' own scenario network publishes for stress testing. The figures above use the middle price – the science-based one, above what regulation is currently expected to deliver and below the severe case.

One more feature of the arithmetic deserves a board's attention. Declarations do not close the gap. Targets, ratings and disclosure quality are statements about intent; the gap closes only when reductions are actually executed. A company can be well-rated, well-disclosed, target-rich – and carry the same

unpriced exposure it carried before the targets were announced. The repricing already under way prices that gap – not the declaration.

Direction is settled. Timing and authorship are the only decisions left

Here is the practical situation. The number – your carbon-adjusted equity, your covenant headroom under a carbon price – will surface. It surfaces at the next refinancing, when the bank builds its view of your transition risk. It surfaces at the covenant review, at the audit conversation about asset lives and provisions, at the investor screen run by a fund you may never meet. The direction is settled by the institutions described above. What is not settled is when it surfaces, and on whose assumptions.

The asymmetry between those two variables is the whole argument. Computed early, by you, the number is cheap and private. It arrives as management information: with time to test it, challenge it, and act on what it shows – to re-sequence the transition plan toward the levers that actually move it, before anyone outside the building has formed a view. Computed late, by others, the number is expensive and public. It arrives as a margin, a haircut, a qualification – or as a question in a room where you are not present. The ECB, notably, does not disclose individual climate factors: a bank cannot tell you your score, forecast it, or explain what would improve it. That is the shape of things when someone else owns your number – priced on assumptions you will never see.

Owning the number means the opposite: arriving at your lender with your own figure and a costed, capital-backed transition plan, before the lender builds its own view of your risk. Companies that do this are not doing sustainability. They are doing what treasurers have always done with every other material exposure on the balance sheet.

Five questions for the next board meeting

The test of everything above is whether it can be asked, plainly, in your own boardroom. It can.

1. If our lender applied the ECB's logic to our balance sheet tomorrow, which of our assets reprice – and by how much?
2. What is our covenant headroom under a credible range of carbon prices – and who has computed it?
3. How much of our stated transition plan is backed by allocated capital, rather than by targets?
4. How much of our reported emissions reduction would survive independent verification of actual execution?

5. When we next refinance: do we arrive with our own number, or wait for the bank's?

A board that can answer these owns its number. A board that cannot is waiting to be told it – by an institution with no obligation to explain its assumptions.

The implication

For a CFO, none of this asks for a view on climate. It asks for the same discipline applied to every other material exposure: compute it, size it, and move capital against what it shows – before someone with pricing power computes it for you. For a sustainability lead, it is the argument you have been trying to make for years, finally speaking the language the business decides in: not *this matters*, but *this is what it does to equity, and this is where the capital should go*.

There is a method behind this number, and we publish the full analysis of Denmark's largest listed companies this autumn. If the five questions above are not comfortable ones, that is worth a conversation before your next refinancing – not after.

The authors

This paper was written by **Christian Honoré** and **Christian Boserup**, Founding Partners of **Priced Advisory** (formerly ESG Implementation) – a Danish advisory firm that helps companies work out what changes in their business conditions are worth in money and risk.

Business conditions. Priced into decisions.

Christian Honoré · honore@pricedadvisory.com

Christian Boserup · boserup@pricedadvisory.com

Start a conversation → pricedadvisory.com/#contact