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Accounting and Financial Reporting for Environmental Costs and Liabilities

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INTRODUCTION

Accounting for the environment has become increasingly relevant to enterprises (whether they be businesses, non-profit organizations or government enterprises such as municipalities and public corporations) because issues such as pollution of the environment have become a more prominent economic, social and political problem throughout the world. Since the late 1980s, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has given extensive attention to issues relating to environmental accounting, and has undertaken a number of surveys at the national level as well as at the enterprise level identifying deficiencies in environmental disclosure and developing detailed guidance to remedy them.

How an enterprise's environmental performance affects its financial health and how financial information relating to performance can be used to assess environmental risk, as well as that management of the latter, are often matters of concern to investors and their advisers. Creditors have similar needs, but an added factor is the possibility of having to assume the responsibility for rectifying environmental damage should a debtor default on a loan for which it has pledged land as security. The amount involved may be significantly greater than that of the original loan. Owners and shareholders are particularly interested because of the potential impact which environmental costs may have on the financial return on their investment in the enterprise. Other interested parties would include customers, suppliers, regulators, the general public and those acting on their behalf.

ISAR discovered in its first survey (1990) that there were no national accounting standards specific to environmental information disclosure in the financial statements in annual reports. Furthermore, some corporate heads believed that environmental information was not necessary for a true and fair view of the company's performance or that it was not possible to distinguish environmental expenses from other expenses. To rectify this situation, ISAR formulated detailed guidance in 1991 for a number of environmental items that it felt could be considered by the board of directors for disclosure in its report or management discussion. This guidance was well received and one expert advised companies seeking to develop their environmental reporting to use this guidance as the backbone of their efforts because "these [recommendations] represent current interpretations of best practice, fall comfortably within the current financial reporting framework, and importantly have been shown to be practicable and unlikely to be price-sensitive".

ISAR then monitored the impact of its guidance on the annual statements of transnational corporations in 1992 and 1994. The surveys revealed that disclosures remained qualitative, descriptive, partial and difficult to compare. These surveys and subsequent ones consistently demonstrated a reluctance by companies to disclose voluntarily, pointing to the need for more comprehensive international and national guidance. Many companies were and are clearly waiting until their national governments take a firm lead and provide guidance on the treatment of these environmentally related accounting questions.

In 1995 ISAR reviewed developments at the national standard-setting level and discovered that although considerable research was already under way at the national level, a significant effort was still required to study and evaluate the information being produced, so as to identify the most appropriate guidance that should be given to governments and other interested parties. It concluded that providing such guidance was important. Without its prompt development, ISAR felt that differences would arise, and member States would subsequently find themselves in the position of having to reconcile their independent standards and procedures with those of other member States.

Therefore, with the financial assistance of the World Bank and the technical assistance of experts serving in their private capacities from the Association of Chartered Certified Accountants and the Canadian Institute of Chartered Accountants, ISAR deepened and made more explicit its initial guidance, taking into consideration the best practices at the national level.

This revised guidance is contained in the present booklet. Its purpose is to provide assistance to enterprises, regulators and standard-setting bodies regarding what is considered best practice in accounting for environmental transactions and events in the financial statements and associated notes. The sections on measurement and presentation are based on a synthesis of positions developed, or being developed, by standard-setting and other organizations, and include extracts from some of the related documents. The section on disclosure is more extensive than that included in the documents referred to, and includes some of the disclosures previously recommended by ISAR.

I. PURPOSE AND FOCUS OF THE POSITION PAPER

1. Since the late 1980s, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has given extensive attention to issues relating to environmental accounting, and has undertaken a number of surveys at the national as well as at the enterprise level. In 1991, it reached agreement on a number of items that it felt could be considered by the board of directors for disclosure in its report or management discussion, in order to deal with relevant environmental issues. In 1995, its thirteenth session was devoted exclusively to the subject of environmental accounting. During that session, ISAR noted that, although considerable research was already under way, a significant effort was still required to study and evaluate the information being produced, so as to identify the most appropriate guidance that should be given to governments and other interested parties. It concluded that providing such guidance was important. Without its prompt development, ISAR felt that differences would arise, and member States would subsequently find themselves in the position of having to reconcile their independent standards and procedures with those of other member States.

2. The purpose of this *Position Paper on Accounting and Financial Reporting for Environmental Costs and Liabilities* is to provide assistance to enterprises, regulators and standard-setting bodies on what is considered best practice in accounting for environmental transactions and events in the financial statements and associated notes. The sections on measurement and presentation are based on a synthesis of positions developed, or being developed, by standard-setting and other organizations, and includes extracts taken from some of the related documents. The section on disclosure is more extensive than that included in the documents referred to, and includes some of the disclosures previously proposed by ISAR.

3. ISAR recognizes that a number of these issues are under consideration by the International Accounting Standards Committee (IASC). This position paper attempts to bring together in one place most of the issues which have been raised in corporate accounting and reporting of environmental impacts. It is unlikely that the IASC will issue such a comprehensive statement in the near future. It is more likely that it will incorporate environmental issues in each of its individual standards, as appropriate. This approach could take a number of years.

4. *The focus of this* Position Paper *is on the accountability of the management of an enterprise for financial implications of managing the environmental resources entrusted to it and that are linked to the enterprise's activity*.

5. The stated objective of financial statements as contained in the *Objectives of Financial Statements* issued by ISAR (1989) is to provide information about the financial position of an enterprise, which is useful to a wide range of users in making decisions and is necessary for the accountability of management for resources entrusted to it. The environment is a resource that is significant to many enterprises, and it must be managed efficiently for the benefit of both the enterprise and society.

II. NEED TO ACCOUNT FOR ENVIRONMENTAL COSTS AND LIABILITIES

6. Accounting for the environment has become increasingly relevant to enterprises (whether they be businesses, non-profit organizations or government enterprises, such as municipalities and crown corporations) because issues such as the pollution of the environment have become a more prominent economic, social and political problem throughout the world. Steps are being taken at the national and international level to protect the environment and to reduce, prevent and mitigate the effects of pollution. As a consequence, there is a trend for enterprises to disclose to the community at large information about their environmental policies, environmental objectives, and programmes undertaken, and the costs and benefits related to these policies, objectives and programmes, and to disclose and provide for environmental risks.

7. How an enterprise's environmental performance affects its financial health and how financial information relating to such performance can be used to assess environmental risk, and the management of such risk, are often matters of concern to investors and their advisers. Creditors have similar needs, but an added factor is the possibility of having to take on the responsibility for rectifying environmental damage should a debtor default on a loan for which it has pledged land as security; the amount involved may be significantly greater than that of the original loan. Owners and shareholders are particularly interested because of the potential impact environmental costs may have on the financial return on their investment in the enterprise. Other interested parties would include customers, suppliers, regulators, the general public, and those acting on their behalf. The information provided should be presented in such a manner so as not to jeopardise business confidentiality in sensitive areas or the competitive position of the enterprise.

III. SCOPE

8. This *Position Paper* deals with accounting for and reporting of environmental costs and liabilities arising from transactions and events that affect, or will likely affect, the financial position and results of an enterprise and, as such, should be reported in an enterprise's financial statements. The recognition and measurement of costs or events that are not absorbed by the enterprise are not covered. Examples of such costs (often referred to as external costs) can include those relating to the negative impacts of air pollution and water pollution on the environment which are borne by society at large rather than the enterprise.

IV. DEFINITIONS

9. The following terms are used in this *Position Paper* with the meanings specified:

The *environment* comprises our natural physical surroundings and includes air, water, land, flora, fauna and non-renewable resources, such as fossil fuels and minerals.

An *asset* is a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

A *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

A *contingent liability* is a potential obligation arising from past events that exists at the balance sheet date, but whose outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events that are outside the control of the enterprise.

Environmental costs comprise the costs of steps taken, or required to be taken, to manage the environmental impacts of an enterprise's activity in an environmentally responsible manner, as well as other costs driven by the environmental objectives and requirements of the enterprise.[1]

[1] Examples include costs of disposal and avoidance of waste, preserving or improving air quality, cleaning up oil spills, removing asbestos from buildings, researching for more environmentally friendly products, carrying out environmental audits and inspections, etc. As noted in paragraph 45, what is included as an environmental cost will require judgement.

Environmental assets are environmental costs that are capitalized because they satisfy the criteria for recognition as an asset.

Environmental liabilities are obligations relating to environmental costs that are incurred by an enterprise and that meet the criteria for recognition as a liability. When the amount or timing of the expenditure that will be incurred to settle the liability is uncertain, "environmental liabilities" are referred to in some countries as "provisions for environmental liabilities".

To *capitalize* is to record an environmental cost as an integral part of a related asset, or as a separate asset, as appropriate.

An *obligation* is a duty or responsibility to others that entails settlement, by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand.

Fines, penalties and compensation would be regarded as environmentally related costs, and would not be included in this definition of environmental costs, but would be disclosed separately.

A *legal obligation* is a statutory, regulatory or contractually based obligation. A *constructive obligation* is one that can be created, inferred or construed from the facts in a particular situation, rather than being legally based [2] or that arises from ethical or moral considerations[3] and that an enterprise has little or no discretion to avoid.

10. Accounting for environmental costs and liabilities is covered by various basic concepts of accounting that have evolved. Of particular relevance are the definitions of "liabilities" and "assets". Additional disclosures may, however, be necessary or desirable to fully reflect various environmental impacts arising from the activities of a particular enterprise or industry.

[2] For example, there may not be any legal obligation for an enterprise to clean up an oil spill in a particular jurisdiction, but the enterprise's reputation, and its future ability to operate in that jurisdiction, may be significantly at risk if it fails to do so.

[3] Sometimes referred to as an equitable obligation.

V. RECOGNITION OF ENVIRONMENTAL COSTS

11. *Environmental costs should be recognized in the period in which they are first identified. If the criteria for recognition as an asset have been met, they should be capitalized and amortized to the income statement over the current and appropriate future periods; otherwise they should be charged to the income statement immediately.*

12. Issues relating to environmental costs centre on the period or periods in which costs should be recognized, and whether they should be capitalized or charged to income.

13. In some cases, an environmental cost may relate to damage that has taken place in a prior period. Examples include environmental damage to property that occurred prior to acquisition, an accident or other activities in a prior period that now require clean up, clean up of property disposed of in a prior period, and costs of disposing or treating hazardous waste created in a prior period. Accounting standards, however, generally preclude environmental costs being treated as a prior period adjustment unless there is a change in accounting policy or unless there was a fundamental error. The examples referred to above would, therefore, generally not qualify as prior period adjustments.

14. Environmental costs should be capitalized if they relate, directly or indirectly, to future economic benefits that will flow to the enterprise through:

- *(a) increasing the capacity, or improving the safety or efficiency of other assets owned by the enterprise;*
- *(b) reducing or preventing environmental contamination likely to occur as a result of future operations; or*

(c) conserving the environment.

15. The definition of an asset indicates that where a cost incurred by an enterprise will result in future economic benefits, it would be capitalized and charged to income in the periods in which those benefits are expected to be realized. Environmental costs that comply with such a criterion would, therefore, be capitalized. Capitalization is also considered appropriate when environmental costs are incurred for safety or environmental reasons, or where they reduce or prevent potential contamination, or conserve the environment for the future. While they may not directly increase economic benefits, incurring such costs may be necessary if the enterprise is to obtain, or continue to obtain, future economic benefits from its other assets.

16. Many environmental costs do not result in a future benefit, or are not sufficiently closely related to future benefits to enable them to be capitalized. Examples would include treatment of waste products, clean up costs relating to current operating activities, clean up of damage incurred by the reporting enterprise itself in a prior period, ongoing environmental administration, and environmental audits. Fines and penalties for non-compliance with environmental regulations, and compensation to third parties for environmental damage are regarded as environmentally related costs, and are also instances of costs incurred that do not result in future benefits. Such costs would therefore be charged to the income statement immediately.

17. *When an environmental cost that is recognized as an asset is related to another asset, it should be included as an integral part of that asset, and not recognized separately.*

18. In most instances, environmental costs that are capitalized are related to another capital asset. There is no specific or separate future benefit that results from incurring the environmental costs themselves. The future benefit of such costs lies in another productive asset that is used in the enterprise's operations. For example, the removal of asbestos from a building does not in itself result in a future economic or environmental benefit. It is the building that receives the benefit. It would therefore be inappropriate to recognize such asbestos removal as a separate asset. A piece of machinery that removes pollution from the water or atmosphere, on the other hand, could have a specific or separate future benefit and could, therefore, be recognized separately.

19. *When an environmental cost is capitalized and included as an integral part of*

another asset, the combined asset should be tested for impairment and, where appropriate, written down to its recoverable amount.

20. The integration of capitalized environmental costs with the related asset could, in some instances, result in the combined asset being recorded above recoverable amount. Consequently, the combined asset should be tested for impairment. Similarly, capitalized environmental costs recognized as a separate asset should also be tested for impairment.[4] Whilst the recognition and measurement of environmental impairment involves the same principles as other forms of impairment, the uncertainties may be greater. In particular, the "stigma" effect of environmental pollution on the value of neighbouring properties has to be considered.

[4] Refer to the work being undertaken by the IASC on "Impairment of Assets" for further guidance on this subject.

VI. RECOGNITION OF ENVIRONMENTAL LIABILITIES

21. *An environmental liability would normally be recognized when there is an obligation on the part of the enterprise to incur an environmental cost.*

22. An obligation does not have to be legally enforceable for an environmental liability to be recognized. There may be cases where an enterprise has a constructive obligation, either in the absence of a legal obligation or that expands on the legal obligation. For example, it may be the enterprise's established policy to clean up contamination to a higher standard than that required by law, because its business reputation would be affected if it did not live up to this commitment, or because it is the right and proper thing to do. For an environmental liability to be recognized in such situations, however, there has be a commitment on the part of management of an enterprise to incur the related environmental costs (for example, a board decision recorded in minutes that are publicly available, or communicated by way of a public announcement). At the same time, an enterprise should not be precluded from recognizing an environmental liability simply because its management, at a later date, is unable to meet the commitment. If this eventuality does occur, there should be disclosure of that fact in the notes to the financial statements, together with the reason why the enterprise's management is unable to meet the commitment.

23. In rare situations, it may not be possible to estimate, in whole or in part, the amount of an environmental liability. This does not exempt an enterprise from disclosing the fact that there is an environmental liability. In such a situation, the fact that no estimate can be made, together with the reason therefor, should be disclosed in the notes to the financial statements.

24. *When environmental damage relates to the enterprise's own property, or is caused by the enterprise's operations and activities to other property for which there is no obligation on the enterprise's part to rectify, consideration should be given to disclosing the extent of the damage in the notes to the financial statements or in a section of the report outside the financial statements themselves. When there is a reasonable possibility that such damage may have to be rectified in some future period, a contingent liability may have to be disclosed.*

25. Although there may not be an obligation at the balance sheet date for an enterprise to rectify environmental damage, the situation may change in future periods, for example, due to new legislation or due to a decision by the enterprise to dispose of its property, in which case there will then be an obligation. In any event, owners and shareholders are entitled to know the extent to which there is environmental damage to the enterprise's own property, as well as to the property of others.

26. *Costs relating to site restoration or the closure or removal of long-lived assets which the enterprise is under an obligation to incur should be recognized as an environmental liability at the time of identifying the need to undertake the remedial action relating to such site restoration, closure or removal. In the case of long-term decommissioning costs, however, an enterprise may choose to provide for such costs over the life of the related operations.*

27. Since the obligation relating to future site restoration or closure or removal of long-lived assets arises when the related damage to the environment originally takes place, an environmental liability would be recognized at that time, and not deferred until the activity is completed or the site is closed. Because of their nature, however, an enterprise may choose to recognize decommissioning costs over the life of the related operations (see paragraph 40).

28. *Future site restoration costs that relate to damage incurred in prior periods to prepare an asset or activity for operation, and that are recognized as an environmental liability at the time the related damage is incurred, should be capitalized.*

29. In many situations, environmental damage has to be incurred before an enterprise can commence a particular activity and also throughout the life of that activity. For example, mining operations could not be commenced without related excavation work being undertaken. Enterprises are frequently required to undertake site restoration once the

activity has been completed. Such restoration costs would be accrued when the environmental damage to which they relate is incurred (see paragraphs 26 and 27). The amount would also be capitalized and amortized to the income statement over the life of the related operations.

VII. RECOGNITION OF RECOVERIES

30. *An expected recovery from a third party should not be netted against the environmental liability, but should be separately recorded as an asset, unless there is a legal right of set off. Where the amount is netted because there is a legal right of set off, the gross amounts of both the environmental liability and the recovery should be disclosed.*

31. In most cases, an enterprise will remain primarily liable for the whole of the environmental liability in question such that, if the third party fails to pay for any reason, the entity would have to meet the full cost. If the enterprise is not responsible for the third party's portion should it default, only the enterprise's portion would be recorded as an environmental liability.

32. *Expected proceeds from the sale of related property and salvage proceeds should not be netted against an environmental liability.*

33. For an asset with limited life, salvage and residual values are normally taken into consideration in arriving at the amount to be amortized. It would be double counting to reduce an environmental liability by such amounts.

VIII. MEASUREMENT OF ENVIRONMENTAL LIABILITIES

34. *When there is difficulty in estimating an environmental liability, the best possible estimate should be provided. Details on how the estimate was arrived at should be disclosed in the notes to the financial statements. In those rare situations where no estimate can be provided, this fact and the reasons therefor should be disclosed in the notes to the financial statements.*

35. In some situations, an estimate of an environmental liability may be difficult to determine because of the uncertainty about a number of factors. Such factors include the extent and type of hazardous substances at a site, the range of technologies that can be used, and evolving standards as to what constitutes acceptable remediation. Even though it may not be practical to estimate the actual liability, it will often be possible to estimate a "range of loss". In such an instance, the best estimate within the range should be provided. Where it is not possible to arrive at a "best estimate", at least the minimum estimate should be recognized. It would be a rare situation when no estimate can be made. In such a case, note disclosure should be provided.

36. For environmental liabilities that will not be settled in the near term, ISAR expresses a preference for measuring the liability at the present value of the estimated future expenditures that will be needed, based on the current cost of performing the required activities and existing legal and other requirements. Measuring the liability at the full current cost amount is also considered acceptable. For long-term decommissioning costs, providing for the anticipated future expenditures over the life of the related operations is also considered acceptable. The approach used should be disclosed. Where the provisioning approach is used, the estimated amount of the full provision needed to cover the long-term decommissioning costs should also be disclosed.

37. A number of approaches have been proposed for measuring liabilities relating to future site restoration, or closure and removal, costs and for other situations where expenditures relating to the settlement of the liability are not expected to be incurred for a considerable period of time. They include the following:

(a) the "present value" approach;
(b) the "current cost" approach;
(c) providing for the anticipated expenditures over the life of the related operations.

Both the present value approach and the current cost approach require the determination of the estimated cost to perform the site restoration, closure or removal activities in the current period based on existing conditions and legal requirements (the current cost estimate). Under the current cost approach, this amount would be reflected as the environmental liability. Under the present value approach, however, the measurement of the environmental liability would be based on the present value of the estimated future cash outflows required to satisfy the obligations. Providing for the anticipated expenditures over the life of the related operations would be based on an estimate of the cash outflows that would eventually be required, rather than the amount that would currently be required.

38. The present value approach requires additional information about the time value of money and the factors that may affect the timing and amount of the estimated cash flows required to satisfy the obligations. Those latter items attempt to estimate the outcome of future events and, consequently, increase the level of uncertainty about that approach. As a result, some believe that the reliability of the present value approach is not sufficient to require recognition of a liability in the financial statements. They believe that the current cost approach is inherently more reliable than the present value approach because of the absence of uncertainties about future events.

39. Others believe, however, that the decision usefulness of the current cost approach decreases with increases in the length of time between the initial recognition of the liability and its eventual settlement, and that the relevance of the present value approach outweighs the perceived reliability of the current cost approach.

40. In some industries, it is acceptable practice to provide for long-term

decommissioning costs over the life of the related operations, for example, with respect to the decommissioning of drilling platforms or nuclear power plants. The reasons for applying this practice are often pragmatic, in that it may avoid what some see as excessive volatility in reported income and financial position brought about by changes in the estimates of such costs.

41. In measuring an environmental liability based on the present value approach, the discount rate used to measure present value would normally be a risk-free rate, such as that used for a government security that has a similar term. Advances in technologies that are expected to take place in the near term would be taken into consideration, but those of a longer-term nature would not be considered. Expected inflation that will affect the costs to be incurred would also be taken into consideration. Further, the amount of the environmental liability would be reviewed each year, and adjusted for any changes made in the assumptions used in arriving at the estimated future expenditures. Measurement of a new or additional obligation will be based on factors relevant to the period in which that obligation arises.

42. For environmental liabilities that will be settled in the near-term, the current cost approach would normally be used.

IX. DISCLOSURE[5]

43. Disclosure of information relating to environmental costs and liabilities is important for the purpose of clarifying or providing further explanation of the items included in the balance sheet or the income statement. Such disclosures can either be included in those financial statements, in the notes to the financial statements or, in certain cases, in a section of the report outside the financial statements themselves. In deciding on whether an item of information, or an aggregate of such items, should be disclosed, consideration should be given as to whether the item is material. In determining materiality, consideration would be given not only to the significance of the amount, but also to the

[5] ISAR acknowledges that the disclosure proposed goes beyond that advocated by standard setting organizations. On the other hand, minimal disclosure is currently being provided by most enterprises.

significance of the nature of the item.

Environmental costs

44. *The types of items that an enterprise has identified as environmental costs should be disclosed.*

45. Environmental costs arise in a number of ways. Costs incurred by an enterprise may improve the operational efficiency of the enterprise, as well as its environmental efficiency. What is included as an environmental cost will require judgment. Some enterprises may choose to include only those costs that are "wholly and exclusively" attributable to environmental measures. Others may choose to make an arbitrary allocation when a cost is only partly environmental. Disclosure of what has been included as an environmental cost should, therefore, be provided.

46. *The amount of environmental costs charged to income, distinguished between operating and non-operating costs and analysed in a manner appropriate to the nature and size of the business and/or the types of environmental issues relevant to the enterprise, and the amount of environmental costs capitalized during the period, should be disclosed in the notes to the financial statements.*

47. The types of items identified could include, but would not necessarily be restricted to: liquid effluent treatment; waste, gas and air treatment; solid waste treatment; site restoration; remediation; recycling; and analysis, control and compliance.

48. *Environmentally related costs incurred as a result of fines and penalties for non-compliance with environmental regulations and compensation to third parties as a result of loss or injury caused by past environmental pollution and damage should be separately disclosed.*

49. Fines, penalties and compensation are different from other types of environmental costs in that they provide no benefit or return to the enterprise. Separate disclosure is therefore appropriate.

50. *An environmental cost recorded as an extraordinary item should be separately disclosed.*

Environmental Liabilities

51. *Environmental liabilities should be separately disclosed either in the balance sheet or in the notes to the financial statements.*

52. *The basis used to measure environmental liabilities (the present value approach, or the current cost approach) should be disclosed.*

53. *For each material class of liabilities, the following should be disclosed:*

- *a. a brief description of the nature of the liabilities;*
- *b. a general indication of the timing and terms of their settlement.*

When there is significant uncertainty over the amounts of the liabilities, or the timing of settlement, this fact should be disclosed.

54. *Any significant measurement uncertainties relating to a recognized environmental liability and the range of possible outcomes should be disclosed.*

55. Where the present value approach has been used as the basis of measurement, consideration would be given to disclosing all assumptions critical to estimating the future cash outflows and the environmental liability recognized in the financial statements, including:

- (a) the current cost estimate of settling the environmental liability;
- (b) the estimated long-term rate of inflation used in computing the environmental liability;

(c) the estimated future cost of settlement;

(d) the discount rate(s).

56. The disclosure called for in paragraphs 51 to 55 will assist users of the information in their assessment of the nature, timing and an enterprise's commitment of its future financial resources.

Accounting policies

57. *Any accounting policies that specifically relate to environmental liabilities and costs should be disclosed.*

General

58. *The nature of environmental liabilities and costs recognized in the financial statements should be disclosed, including,* inter alia*, a brief description of any environmental damage, any laws or regulations that require its remediation, and any reasonably expected changes to these laws or to existing technology that are reflected in the amount provided for.*

59. *The type of environmental issues that are pertinent to an entity and its industry should be disclosed, including*

- *(i) the formal policy and programmes that have been adopted by the entity;*
- *(ii) in cases where no such policy and programmes exist, this fact should be stated;*
- *(iii) the improvements in key areas that have been made since the introduction of the policy, or over the past five years, whatever is shorter,*
- *(iv) the extent to which environmental protection measures have been undertaken due to governmental legislation, and the extent to which governmental requirements (for example, a timetable for the reduction of emissions) have been achieved;*
- *(v) any material proceedings under environmental laws.*[6]

60. It would be desirable to disclose any government incentives, such as grants and tax concessions, provided with respect to environmental protection measures.

[6] This is taken from ISAR's Conclusions on Accounting and Reporting by Transnational Corporations,(United Nations publication, Sales No.E.94.II.A.),New York, paragraph 209.

61. The disclosure advocated in paragraphs 58 to 60 could be provided either in the notes to the financial statements or in a separate section outside the financial statements. It enables users of the information to assess an enterprise's current and future prospects regarding the impact of environmental performance on the financial position of the enterprise.