CHAPTER – 4
REGULATORY FRAMEWORK FOR ENVIRONMENTAL REPORTING
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4.1 INTRODUCTION

The earth is finite and its resources are also limited. Due to fast industrialization and increase in population not only natural resources are depleting very fast but it is also posing a threat for our environment. Various issues like pollution, depletion of ozone layer and biodiversity are becoming more and more complicated. Business and industry are major contributors of pollution, so there is a need to change the way business is managed at present. Business must act in more responsible manner for environmental protection. As accounting is the language of business and reports about various activities of business, it must also report for environment related activities of the business. At present accounting is reporting mainly financial information of the business, but now there is a need of integrating non-financial information (like social and environmental contribution) with the financial information. However, not much development has taken place in this regard. A few big business firms are reporting environmental activities in their annual reports at present. Medium and small firms hardly disclose any environmental information and even if some information is reported, that is not appropriate.

There is debate going on among accountants, managers, policy makers and legal experts whether environmental reporting should be done on voluntary basis or on mandatory basis. Whereas business firms want that environmental reporting must be done on voluntary basis, environmental groups want that environmental disclosures must be made mandatory. The persons who are in favour of mandatory disclosures believe that the progress of voluntary non-financial disclosures is very slow and the corporations which disclose information is very less. Moreover, the information is not disclosed in objective manner and there is lack of transparency and consistency. As all firms don’t go for voluntary disclosure, it only adds up as burden for those who disclose the information. As disclosures are not done by all the firms in
the absence of mandatory requirements, it makes the reports incomparable. Stocken [2000] argues that if mandatory mechanism is absent, market ignores the voluntary disclosures as these are not credible. Mandatory mechanism makes the reports verifiable and gives it credibility. Normally voluntary disclosures are in the form of short statements and reflect only the positive information about contribution of firm towards environment.

However mandatory reporting also suffers from many limitations. Though regulatory pressure makes certainty and comparability, but it restricts creativity of firms. It ensures the quantity but not the quality i.e. it may increase the number of firms making environmental disclosures but cannot ensure that firms act in more responsible manner.

**Table 4.1**

**Reasons for Reporting and Reasons against Reporting**

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<th>Mandatory approaches to reporting</th>
<th>Reasons for Reporting</th>
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<td>• Changing the corporate culture – leaders will continue to innovate above minimum requirements</td>
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<td>• Incompleteness of voluntary reports</td>
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<td>• Comparability</td>
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<td>• Non-disclosure of negative performance</td>
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<td>• Legal certainty</td>
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<td>• Market failures – theory of regulation</td>
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<td>• Reduction of non-diversifiable market risk free rider problem</td>
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<td>• Cost savings</td>
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<td>• Standardization</td>
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<td>• Equal treatment of investors</td>
<td>• Knowledge gap between regulators and industry</td>
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<td>• One size does not fit all</td>
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<td>• Inflexibility in the face of change and complexity</td>
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<td>• Lack of incentive for innovation</td>
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<td>• Constraints on efficiency and competitiveness</td>
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On the basis of above discussion, we can conclude that neither mandatory disclosures nor voluntary disclosures are complete in it. Both have their own merits but at the same time both suffer from many limitations. We should not take these as competitive; rather these are complimentary in nature. Evidence shows that in a country like France, where disclosures are mandatory and extensive in nature, the quality of disclosures in not good. So there is a need that governments must fix some disclosure requirements to ensure at least some disclosure on important environmental issues but at the same time it must also promote voluntary disclosures to ensure creativity, flexibility and self-regulation as shown in the figure.

Source: https://www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainbability.pdf

Figure 4.1 – Regulatory and Voluntary sphere of reporting
4.2 ENVIRONMENTAL REPORTING AND ACCOUNTING STANDARDS

Over a period of time world has become small village. Business has become more globalized in nature. Now a days, companies of one country raise funds in market of other countries. So, financial statements prepared in one country are used in other country for determining financial position of the business. In such a scenario, there is need of harmonizing accounting policies of different countries of the world. However, different accounting regulations in different countries not only create confusion but also make the financial reports incomparable. Recognizing the need of harmonizing accounting policies at international level, the International Accounting Standards Committee (IASC) was established in 1973. IASC issued different accounting standards between 1973 and 2000. These standards are known as International Accounting Standards (IAS) and serially numbered from 1 to 41. Different IASs deal with different aspects of accounting. In 2001, IASC was replaced by another body known as International Accounting Standards Board (IASB). IASB adopted all the standards issued by IASC but decided that all the future standards issued by it will be termed as International Financial Reporting Standards (IFRS). The objective of IASB is to promote IAS/IFRS throughout the world so that the accounting practices followed by different countries can be harmonized. Though IASC and IASB has issued a number of accounting standards related to different aspects of accounting but there is no exclusive international standard which particularly deals with environmental matters reporting in the annual reports of companies. However, when we go through different IAS/IFRS there are some direct or indirect references, which affect reporting of environmental matters in corporate annual reports. Following is the summary of various IAS/IFRS which deals with environmental matters in the corporate reports.

- IAS 1 deals with information that an enterprise must present in their financial statements to make these useful for the purpose of economic decision making. It ensures that information is provided in the financial statements in such a way so as to make these comparable not only with the previous years of the entity but also with the financial statements of the other entities. Though there
is no fix format for preparing financial statements prescribed by IAS 1, but it deals with the minimum disclosures which an entity should provide in their annual reports. IAS 1 provides that an entity must disclose its all financial risks. Environmental risks are no exception and shall be handled in the same way as all other revenues, costs, assets and liabilities. IAS 1 encourages entities to provide non-financial information in the statements besides the financial information. It states that firms must present such additional statements which can be useful for the economic decision making by stakeholders. So, firm can provide separate environmental report for furnishing environmental disclosures.

- IAS 8 deals with the criteria which a firm must adopt in selection of accounting policies. It also provides guidelines for accounting treatment of dealing with change in accounting policies and the disclosures an enterprise should make at the time of change in accounting policy. It also provides for any change in accounting estimate and any correction of error earlier made in the financial statements. Many a times business enterprises have to make estimation of various accounting items due to uncertainties related to business, these estimates may not be precise and some changes may be required later on due to some latest reliable information. These estimates may be related to any item including clean-up costs related to different types of pollution like air pollution, water pollution, release of toxic inventory, disposal of hazardous waste and other environmental related costs.

- IAS 10 deals with events occurring after the reporting date. Events occurring after the reporting date are those favourable or unfavourable events which occur after the reporting date but before financial statements are authorized for issue. IAS 10 guides the business concerns whether or not to include such events in financial statements of the entity. According to IAS 10, such events can be divided into two categories.

  - Those events that provide evidence that condition of such event existed at the end of reporting period. These are known as adjusted events.
Those events which have no evidence of condition existed at end of reporting date, rather indicate those conditions which occurred after the end of reporting date. These events are known as non-adjusting events.

According to IAS 10, all adjusting events must be adjusted in financial statements of the concern if financial implications can be ascertained. Such events may be related to environment aspect, that is, if a concern comes to know about some penalty shortly after reporting date regarding some pollution incident, such as emission of chemical into water that is taking place from past few months, it must be adjusted in financial reports of the period as it is related to conditions those existed before reporting date. On the other hand, if there is some incidence like offshore spillage of oil after reporting date, such must not be adjusted in financial statement even if amount is significant, as conditions do not exist on the reporting date. However, if amount is material and could have bearing on decision making of stakeholders, disclosure can be made in the financial statements of the entity.

- IAS 16 deals with property, plants and equipment. It guides the concern about recognition of such items, determination of their carrying amounts and the depreciation to be charged on such assets. According to this standard, property, plant or equipment are those tangible items which are held for the purpose of production, supply of goods and services, administration purpose or for giving on rental to the others and are expected to be used for more than one year. Such assets can be recognized in the books of accounts only if the cost of such items can be measured reliably and future economic benefits are expected to flow from such assets. If a company purchases certain asset for meeting the legal provisions related to environmental emissions or effluents treatment, question arises whether to recognize such item as asset or not. If we go as per the condition of additional economic benefits arising to the concern, such asset cannot be treated as asset as it is not resulting in any additional cash flow to the concern. However, as per provisions of IAS 16 we can treat such item as asset because in absence of this item it will not be possible for the business to carry on the operations and in that case the profit of the firm will
be nil, and with the purchase of this item, firm is able to continue the operation thus resulting into profits. So, such asset in a way is resulting into additional economic benefits and hence can be treated as asset.

- IAS 20 deals with accounting for government grants and disclosure of government assistance. Government grants are transfer of resources by government to the business entity in return of past or future compliance with certain conditions. Government assistance is economic benefit by government to a concern or group of concerns qualifying under certain criteria for such assistance. Any initial distribution of emission rights by government is also covered under such assistance and must be treated accordingly. According to provisions of IAS 20, any monetary or non-monetary grant received from government must be recognized only if there is reasonable assurance that:
  
  (a) the entity will comply with the conditions attaching to them; and
  
  (b) the grants will be received.

- IAS 36 deals with impairment of assets. Impairment is a situation when the carrying value of asset is more than its recoverable amount. Recoverable amount is that value which firm expects to generate from use of asset over a period of time or from sale of such asset. IAS 36 ensures that no asset is carried at impaired value and business must carry assets in financial statements at its recoverable cost. There can be a number of reasons for impairment of assets including some environmental incident or change in legislation related to environment. Any loss arising out of impairment of asset must be recognized in the income statement of the concern. In case amount of such impairment is material, separate note in the income statement is required for the amount.

- IAS 37 deals with rules regarding recognition of Provisions, Contingent Liabilities and Contingent Assets. According to this standard, provision is a liability of uncertain timing or amount which fulfills following conditions:
- The entity has a present obligation as a result of a past event.

- It is probable that a transfer of economic benefits will be required to settle the obligation.

- A reliable estimate can be made of the amount of the obligation.

Such provisions can be further classified into two categories i.e. legal obligations and constructive obligations. Legal obligations are those which arise from some contract, legislation or operation of law. On the other hand, constructive obligations are those which arise out of established practices, published policies or some current statement. IAS 37 allows provisions for both legal as well as constructive obligation. For example, if a company is engaged in exploration of oil off the shore of some Island and despite all efforts, there is a major oil spill that has grabbed the attention of the media. As the law of the Island does not require any payment for such spillage, there is no legal obligation for the company for such incident. However, in its television advertisements and promotional brochures, company often has clearly stated that it is very conscious of its responsibilities toward the environment and will make good any losses that may result for its exploration. This policy has been widely publicized and the CEO has acknowledged this policy in official meetings. In such case it is a constructive obligation for the company to create provision for such incidence as it has created an expectation in the minds of the public at large that it will honour its environmental obligations.

- IAS 38 deals with recognition and treatment of intangible asset. An intangible asset is an identifiable non-monetary asset without physical substance. IAS 38 has some environmental reporting implications also. Under the Kyoto Treaty, in order to reduce the emission of greenhouse gases, the European Union (EU) has established a market based cap and trade emissions program. Under this programme, with effect from January 1, 2005, all the carbon-emitting entities were allocated allowances through a complex allocation process. Companies are required to maintain their overall emissions as per these initial allocations.
Any company emitting more than their allotted allowance either must purchase additional amount by making some payment under EU Emissions Trading Scheme (ETS) or must pay a fine. Companies emitting less than their allotted allowance may sell their excess allowances. This provides companies with a direct financial incentive to curtail emissions levels. As a result of these provisions, ETS has become an active market for buying and selling emission allowances. IAS 38 dealing with intangible assets considers recognition and measurement of such emission rights. Companies must record purchased allowance at cost and in case these are received from government at less than fair market value, these can be shown at fair market value and as per IAS 38, increases in fair value are reported in stockholders’ equity and decreases in fair value are recognized in profit and loss to the extent they exceed the revaluation surplus.

- IFRS 3 deals with business combinations. The objective of this standard is to enhance the relevance, reliability and comparability of the information that a reporting entity provide in its financial statements about a business combination and its effects. The IFRS establishes principles for recognition and measurement of identifiable assets acquired and the liabilities (including contingent liabilities) assumed by the concern. It provides that all identifiable assets and liabilities acquired in a business combination should be evaluated at their fair value. Fair value is the value which exists in market for the same asset or liability, or the value as determined by neutral third party taking into consideration nature of such asset or liability. Such liability may be related to environmental impact of the business. However, only those contingent liabilities must be disclosed, which are related to present obligation and can be measured reliably. So, as per provisions of IFRS 3, a business concern must recognize any provision related to any remediation work in respect of environmental matters in respect of acquired property.

- IFRS 6 deals with Exploration for and Evaluation of Mineral Resources. It is a highly environmental sensitive industry as it is linked with extractive activities. Paragraph 11 of IFRS 6 states that “In accordance with IAS
Provisions, contingent liabilities and contingent assets, an entity recognizes any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources”. IFRS 6 gives options to the business concerns to treat any expenditure incurred on exploration and evaluation activity as revenue expenditure or capital expenditure. So, there is no obligation on business to treat such expenditure in a specific manner and business can treat such item according to country specific regulations. However, IFRS 6 ensures that there is consistency in such treatment over a period of time. Further, IFRS 6 does not give any guidelines regarding any expenditure incurred before or after the exploration and evaluation phase. So organization can follow policies for pre exploration and post exploration expenditures in consistence with local regulations and other IAS and IFRS.

- IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments that meet specified criteria. IFRS 8 also requires firms to disclose their products, services and the geographical areas in which they are operating. IFRS 8 requires firms to report operating segment that earns 10% or more of the combined revenue. These provisions of IFRS 8 has implications for the firms having operating segments related with environmental service and environmental protection such as recycling, green technology and clean energy etc.

4.3 REGULATORY ENVIRONMENT - OVERSEAS PRACTICES

The importance of corporate environmental disclosures in annual reports is increasing over a period of time. With the passage of time, more and more concerns are disclosing environmental information in their annual reports. However, still the level of reporting is not satisfactory in different countries specially developing
countries. Though many large companies are disclosing environmental facts in their annual reports but disclosures by small and medium concerns is not satisfactory. Many voluntary organizations all over the world are making efforts for development and promotion of disclosures related to environmental information, but these efforts have not produced many results. Still government rules and regulations is the main force behind the corporate environmental disclosures. Government can not only make laws related to environmental disclosures but can also provide some incentives in the form of tax incentives or subsidies for the concerns showing good environmental performance. Government can ensure environmental disclosures mandatory by making changes in laws related to corporate reporting. Campbell comments on the institutional pressure of governments, stating “corporations will be more likely to act in socially responsible ways if there are strong and well enforced stated regulations in place to ensure such behavior, particularly if the process by which these regulations and enforcement capacities were developed was based on negotiation and consensus building among corporations, government, and the other relevant stakeholders” (2006). World Bank has identified five key roles which government could play for environmental initiatives which are: mandating, facilitating, partnering, endorsing, and demonstrating.

a) Mandating – This is the most important role of Government in promoting environmental reporting. Government can promote corporate environmental disclosures by mandating the companies to prepare environment reports along with financial reports. Governments of many countries have made provisions in this regard. Government can make mandatory environmental disclosure requirements for corporate listing, annual reporting etc. For example, Government of Norway made it mandatory for the companies to disclose environmental information in annual reports in 1998. Similarly Sweden government has also mandated companies to disclose some environmental information in the corporate reports in 1999.

b) Facilitating – The non-existence of prescribed framework for environmental reporting is one of the main hurdle in preparation of environmental reports by the companies. Government can play the role of facilitator in development and promotion of corporate environment disclosures. Government can
develop various standards which can provide a framework for disclosure of environmental information. It will not only make reporting easy but will also result in standardization of environmental reports.

c) Partnering – Government can be a partner in development and promotion of environmental reporting. There is lot of disparity in level of environmental disclosure in developed countries and developing countries. Governments in the developed countries can help government of developing countries in promotion of environmental reporting by providing required resources.

d) Endorsing – The government can play very important role in endorsement of corporate environmental reports. Government voice and actions are very influential. Any suggestion by government is normally taken very seriously by the corporate sector due to many reasons like fear of strict government regulations etc. Government can endorse environmental reporting in many ways such as by giving award to the company making good environmental reports, providing tax concessions for environmentally responsible firms, endorsing some good environmental standards of international level like ISO 14000 etc.

e) Demonstrating – Actions speaks louder than words. So, government can be a good role model in promotion of environmental reporting by asking its own companies and various departments to prepare environmental reports. This, on one hand, will enhance the image of the government and on the other hand, will promote reporting among the companies.

United Nations Conference on Trade and Development (UNCTAD) conducted a research programme in 1996 for the review of accounting and reporting practices at corporate level. Review of environmental reporting practices was also part of this programme. The findings of the research programme reveal that though there was progress in environmental reporting practices over a period of time but there were no national disclosure requirements for environmental reporting except Denmark. Different studies reveal that as far as environmental reporting practices are concerned in most of the countries such as US, Canada, Australia, UK, New Zealand etc., these practices are mostly voluntary in nature. But, in European countries such as France,
Germany, Holland, Sweden and Belgium etc. there are some laws governing such disclosure practices. Following is the summary of environmental disclosure practices of some of the countries of the world.

**Australia:** There are many laws in Australia which directly or indirectly govern environmental disclosure practices. Under National Pollutant Inventory 1998, companies are under obligation to report emission levels of specific substances and these emissions are included in public database of the country. Under Corporations Act 2001, companies are mandated to prepare Director’s Report and in such report they are required to disclose information showing their environmental performance. Similarly, Energy Efficiency Opportunities Act, 2006 requires companies to use technology which consumes less technology. Further companies are required to report their consumption of energy under this act. Not only this, large energy consuming companies are required to undertake audit of energy efficiency and make public such audit report.

**Belgium:** There are no particular environmental reporting requirements for companies at large in Belgium. However, under Social Balance Sheet, 2003 companies are required to prepare social balance sheet showing the effect of company’s activities on society. This act also covers production of some environmental information. Similarly some regional laws passed in 1995 require companies involved in hazardous activities to prepare annual environment reports.

**Brazil:** Environment Reporting is not mandatory in Brazil, rather under Brazilian laws there is hardly any requirement of reporting of environmental related information. However, some indirect references are there under some laws like Environmental NBC, 2009 issued by the Federal Accounting Council requires companies to prepare annual financial statements and include environmental assets and liabilities in such statements. Similarly, companies are under obligation to provide data related to creation of economic value added. This not only helps in preservation of scarce resources but also ensures proper utilization of resources.

**Canada:** The environmental reporting practices are more voluntary in nature than obligatory In Canada. There are a number of organizations in Canada which promote
environmental reporting on voluntary basis but at government level there are not much mandatory requirements related to this. Under Canadian Environmental Protection Act 1999, certain companies are required to report emission levels related to certain items and such emission levels are then included in National Pollutant Release Inventory (NPRI). Further, Security Commission of Canada requires companies to show any effect of their activities on environment.

**China:** Position of environmental reporting is quite encouraging in China. There are several laws in China requiring companies to produce environmental report. Under article 11 of Environmental Protection Law 1979, companies are under obligation to produce regular bulletin on status of environmental protection of company. State Environmental Protection Administration of China has issued Environmental Information Disclosure Act in 2007. Under this act, companies are required to report environmental protection policy, any expenditure incurred on environmental protection, annual targets related to environment, emission level of the corporate, annual utilization of various resources, use and development of technology, methods and technology used for disposal of waste and implementation of corporate social responsibility etc. Similarly, there are a number of clauses related to environmental information in listing agreement of Shanghai Stock Exchange. These include statement of environmental protection policy of the company, annual total use of energy by the company, investment made by the company on environmental protection, type and quantity of environmental pollutants released by the company, investment on development of clean technology, production and treatment of waste material and other information related to environmental matters of the company.

**Denmark:** Denmark is pioneer in promoting environmental reporting practices in the world. It was the first country which makes environmental reporting mandatory. In June 1995, Danish Parliament amended its Environmental Protection Act and passed a new Green Accounts Act, 1995. This act requires companies to prepare stand-alone environmental reports. This act recognized nine environmental sensitive areas like iron and steel, chemicals, oil and gas, power generation etc. and any company operating in any of these nine areas is required to produce green accounts. As required under the law, this report generally consists of three parts i.e. information related to the company, director’s report and the quantum of resources consumed by the
company. Under the resource consumption report, company has to disclose consumption of material, water, energy and other substances which are of polluting nature. Company must also disclose the steps taken by it in disposal of waste generated from these substances. In addition to this, companies are also required to give some environmental information in their annual reports. According to Danish Financial Statements Act (2001), listed companies, public sector companies and other big companies are required to disclose prescribed environmental information in the management review section of the annual reports.

**France:** There is on mandatory requirement for preparing separate environmental disclosure report in France. However, Law No. 2001-420 related to New Economic Regulations makes it mandatory for the listed companies to disclose environmental and social information under the management report section in their annual report. Following is some information which companies must disclose in their annual report:

- Consumption of material, water and energy by the concern. Company must also disclose the use of renewable energy and the various steps taken by it for improving the efficiency in consumption of energy.

- Company must disclose the level of air, water and soil emission from its activities and the effect of such emissions on the environment of the country.

- Company must also disclose various steps taken by it for conservation of ecological balance, protection of wildlife and other endangered species.

- Company must also disclose various steps taken for environmental certification.

- Company must report the compliance of all environmental regulations.

- Company must separately report any expenditure incurred on protection of environment in the annual report.

- Company must disclose its environment policy and all the steps taken by it for meeting with some emergency situation like some accident having negative effect for the environment.
• In the Balance Sheet, company must disclose and provision made by it for any 
environmental risk or for meeting any penalty due to lawsuit related to 
environmental matter.

• Company must also separately report the amount of any compensation paid 
during the year for meeting liability arising out of judicial decision for matter 
related to environment.

**Germany:** Non-financial reporting is covered under the German Accounting Standard 
number 20 which is applicable after 31 December, 2012. Earlier German Accounting 
Standard number 15 was dealing with this issue. Under the new standard, companies 
are not only required to give certain information in their management report but also 
required to mention certain indicators in quantitative terms. Besides this, German 
Commercial Code no. 315 puts obligation on the companies to report any target fixed 
for the sustainability and level of performance achieved by concern against these 
targets, risk reporting and chances of future developments.

**Indonesia:** In Indonesia there is no separate law which deals with sustainability 
reporting. However, under the companies law, companies are required to disclose 
certain information relating to environmental performance. Under Article 66 of the 
Companies Act, companies are required to disclose all the social and environmental 
initiatives taken by it. Besides this companies are required to include corporate social 
responsibility statement in the annual report under capital market regulation and 
environmental issues are part of such social responsibility statement.

**Japan:** Japan is the only country in Asia where preparation of stand-alone 
environmental reports is mandatory under the law. In Japan Law related to the 
Promotion of Business Activities with Environmental Consideration, 2005 makes 
mandatory for certain companies to prepare sustainability report every year and show 
their environmental performance in that report. Besides this under the Pollutant 
Release and Transfer Register Law, 2001 companies are mandated to report to the 
government regarding quantum of emission of certain chemical substances. In 2007 
Japanese government issued Environment Reporting Guidelines. These guidelines 
deal with the indicators to be included in environmental report, method of calculating
such indicators and the format for preparing the report. Under these guidelines companies are required to report environmental emissions, contribution made towards ecosystems and biodiversity and amount of environmental conscious investment made during the year.

**The Netherlands:** The *Environmental Management Act 1993*, and amended in 1997, requires companies with more environmental implications such as chemicals, base metals, food processing, textile, oil and gas, cement etc. to report certain information related to levels of emission. Besides this, Dutch Civil Code, 1838 (Section 2) makes mandatory for the companies to include some financial and non-financial information related to environment in their annual reports. The Dutch State Holding Act 2009 asks public sector companies to prepare reports according to GRI guidelines. In 2010, Assurance Standard Committee issued certain guidelines which ensure integration of social and environmental activities in the financial reporting of the companies.

**New Zealand:** In New Zealand, environmental reporting is more voluntary in nature. There is no specific legal requirement for companies at national level relating to environment reporting. In 2006, the Cabinet agreed a framework for environmental reporting which provided for preparation of reports on every five years basis with updates on specific topics on yearly basis. Another initiative was New Zealand’s Environment Strategy 2010, which aims at setting up a database for information on environmental indicators and improvement made over a period of time regarding such indicators.

**Norway:** Norway has no mandatory requirement for separate corporate environment reports. The Norwegian Accounting Act, 1998 makes it compulsory for national and international companies operating in Norway to include information related to emission levels and various measures adopted by company for cleaning up the environment in the Director Report included in the annual report of the company. Norwegian Accounting Act 2013 makes it mandatory for certain large companies to prepare Social Responsibility report and include in that report, all the steps taken by company for protection of human rights, labour rights and social issues, the environment and anti-corruption measures adopted by them.
**South Africa:** Johannesburg Stock Exchange Listing Requirement, 2010 makes it mandatory for all the listed companies in the Johannesburg Stock Exchange (JSE) to prepare an integrated report in lieu of their annual financial and sustainability reports. Such reports are prepared according to the guidelines given under international framework of reporting i.e. King III Code. Integrated report provides information to stakeholders not only related to financial performance of the company but also related to social and environmental performance. Further under the Companies Act, 2008 directors are held personally liable for poor public disclosure of information. The Consumer Protection Bill, 2009 also has a chapter on the “right to disclosure and information” but this chapter focuses mainly on product labeling and not on environmental reporting.

**South Korea:** South Korea has strong environmental laws comparing other Asian countries. Environmental Reporting Guidelines, 2004 were addressed by the Ministry of the Environment; include Environmental Risk Evaluation guidelines, Environmental Performance Evaluation guidelines and Environmental Accounting guidelines. Sustainability Management report guidelines, 2006 give direction to the companies for more sustainable management of business operations.

**Spain:** Standalone environmental reporting is a voluntary practice in Spain. The Resolution passed on 25th March 2002 by the Institute of Auditing and Accounting states that organisations are obliged to include environmental assets, provisions, investments and expenses in their financial statements. In addition, the National Accounting Plan, 2007 for the electricity sector specifies environmental issues in more detail. The Spanish Inventory System (SEI) for air quality and protection of the atmosphere contains accumulated greenhouse gas emissions (GHG) and other atmospheric contaminants. However, in relation to the annual reports and accounts, Spanish law was amended with effect from 1998 to require certain environmental disclosures in the notes to the financial statements of all Spanish companies and covers the following areas of accounting:

- environmental expenses, environmental assets, environmental liabilities and contingent liabilities;
• compensation due from third parties;
• long term obligations in relation to environmental remediation.

**Sweden:** There are no laws requiring stand-alone environment reports at corporate level. However, the amendment to the Annual Accounts Act, 1999 states that certain companies have an obligation to include a brief disclosure of environmental and social information in the Board of Directors Report section of the annual report. The Annual Accounts Act was updated in 2005 to include that certain companies have to include even more non-financial information in the Board of Directors Report section of the annual report. Guidelines for external reporting by state-owned companies, 2007 state that the companies shall present a sustainability report in accordance with the GRI G3’s guidelines. Under an amendment introduced in 1989 to the Swedish *Environmental Protection Act 1969*, all operations (i.e. production sites, factories, etc.) that require special permits because of environmental hazards must submit an annual environment report to the authorities.

**UK:** The British Companies Act, 2006 requires all UK listed companies to provide a narrative within their annual report on the company’s strategies, performance and risks. Companies listed on the London Stock Exchange should disclose in their annual review information on environmental, workplace, social and community matters. The Climate Change Act, 2008 was introduced to ensure that the firms in UK accounts for all six Kyoto gases. Additionally the government is empowered to exercise powers under the Companies Act to require the inclusion of Green House Gases (GHG) reporting in a company’s Directors Report. The Carbon Reduction Commitment (CRC), 2010 requires companies to measure and report on all their emissions related to energy.

**U.S.A.** - The Sarbanes-Oxley Act imposed several reporting requirements for US-listed companies to increase corporate transparency. The Securities & Exchange Commission (SEC) requires “appropriate disclosure...as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise
relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.” In addition, disclosure is required for any material estimated capital expenditure for environmental control facilities and for select legal proceedings on environmental matters. The Toxic Release Inventory (TRI), 1988 requires companies with more than 10 full-time employees to submit data on emissions of specified toxic chemicals to the Environmental Protection Agency.

Thus, from a global perspective, European countries are leading in respect of environmental reporting as compared to other parts of the world. Steps taken by countries such as Denmark, France, the Netherlands, Norway, Spain and Sweden place Europe ahead in terms of standards of corporate environmental disclosure. However, the environmental reporting practices still largely remains voluntary among the companies in most part of the world.

4.4 ENVIRONMENTAL REPORTING - REGULATORY FRAMEWORK IN INDIA

The whole business regime in India took paradigm shift in 1991, from strictly licensed and regulated businesses to liberalization and privatization. As a result the whole scenario of business changed in India. Due to these changes now companies are facing stiff competition not only from the companies within the country but also from companies outside the country. New Industrial Policy (NIP) was introduced in 1991, and the promotion of foreign direct investment was seen as an important vehicle to globalization, improved competitiveness and for promoting an optimal utilization of natural and human resources. The new industrial policy brings a lot of change in the way business is managed in the country. Though still family business dominates the industrial scene of the country but a corporate culture is taking place which is based on professional management, global practices and scientific thinking. These changes, on one side, have provided lot of opportunities to the Indian firms, but on other side it has presented lot of challenges also. Now companies are required to raise their
business standard to global level. But poor legislative enforcement and non-existence of mandatory requirements on environmental issues make the ecological position worse in the country. India’s economic development propelled by rapid industrial growth and urbanization is causing severe environmental problems that have local, regional and global significance. Deforestation, soil erosion, water pollution and land degradation continue to worsen and are hindering economic development in India. The challenge, therefore, is to maintain the quality of air, water and land and protect the environment by reconciling environmental, social and economic imperatives. Government of India framed National Environment Policy in 2006 which is a guide to the government not only in designing environmental regulations but also in bringing certain environmental reforms.

4.4.1 NATIONAL ENVIRONMENT POLICY, 2006.

National Environment Policy (NEP), 2006 a guiding document to the government for improving environmental conditions. The NEP’s key environmental objectives include conservation of critical environmental resources, intra-generational equity, livelihood security for poor, integration of environment in economic and social development, efficiency in environment resource use, environmental governance, and enhancement of resources for environmental conservation. This policy promotes mainstreaming of environmental concerns into all development activities, advocating important environmental principles and identifying regulatory and substantive reforms. With respect to regulatory reforms, the NEP recommends revisiting the policy and legislative framework to “develop synergies among relevant statues and regulations, eliminate obsolescence, and amalgamate provisions with similar objectives.” The NEP identifies a new framework for legal action that includes application of a mix of civil and criminal sanctions, adoption of innovative economic instruments and public-private partnership in strengthening environmental compliance and enforcement.
4.4.2 ENVIRONMENTAL REPORTING GUIDELINES UNDER DIFFERENT LEGISLATIONS

According to the “Indian Constitution” (Article 51A of Directive Principles), “It shall be the duty of every citizen of India, to protect and improve the natural environment (including forests, lakes, rivers, and wildlife) and to have compassion for living creatures.” The same view is expressed directly or indirectly by other laws and regulations passed in the country over a period of time. Corporate sector is also part of the society and hence it is also responsible for the same. There are many laws and regulations in the country which deal with disclosure of environmental information by the companies in their annual reports. In India, financial accounting and disclosure requirements are mainly guided by the Institute of Chartered Accountants of India (ICAI). However, according to Companies Act, all the companies are under obligation to prepare annual accounts in accordance with the Accounting Standards issued by the ICAI. In India, there is no obligation of preparation of stand-alone environmental statements by the companies under the corporate laws or under the accounting standards. Further, there are no mandatory requirements for companies to disclose environmental information in quantitative or financial terms by the companies in their annual reports. Though there is no law which makes it compulsory for companies to prepare stand-alone environmental report, but there are many provisions in the different laws under which companies are under compulsion for including environmental disclosures in their corporate annual reports. Following is the glimpse of such regulations.

Disclosure under Companies Act, 2013: Companies Act, 1956 governs the overall regulation of companies in the country and there are many provisions in the Act which deal with disclosure and reporting of various items having impact on environment or sustainability. Under section 134(3), companies are required to include prescribed information in respect of – (i) conservation of energy, and (ii) technology absorption in the Directors Report section of their annual report. Under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, every Company is required to disclose particulars relating to –
(a) Energy conservation measures taken;

(b) Additional investments and proposals, if any, being implemented for conservation of energy;

(c) Impact of the measures at (a) and (b) above, for reduction of energy consumption and consequent impact on the cost of production of goods;

(d) Total energy consumption and energy consumption per unit of production as per Form A.

Further section 166(2) of the Companies Act, 2013 requires directors of companies must act in environmentally responsible manner. There are many provisions in companies Act which deal with corporate social responsibility. According to schedule VII, companies must incorporate all activities related to environment in their Corporate Social Responsibility Policy. Section134 (3) (o) requires that Director should report companies policy on social responsibility and initiatives taken by it during the year. Further, according to section 135, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more, shall ensure that it spends at least two percent of its average net profits of last three years on activities related to social responsibility. In case company fails to do so, they must report the reasons for not spending such amount.

Business Responsibility Reports, 2012. The Board of the Securities and Exchange Board (SEBI) make it compulsory for the top 100 companies (in terms of market capitalization) of India to prepare and submit Business Responsibility Reports, describing measures taken by the company for benefit of society, environment and economy. This report is to be prepared according to the principles enunciated in the ‘National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business’ framed by the Ministry of Corporate Affairs (MCA). Initially, only top 100 companies are under obligation of making such report. However, there is no restriction on other companies on preparing the report. They can also prepare the report but there is no obligation on them.
**DPE Guidelines on CSR and Sustainability, 2013** Under these guidelines, a Memorandum of Understanding (MoU) is entered between Central Public Sector Enterprises (CPSEs) and Government Ministries. Under this memorandum, targets are defined for Central Public Sector Enterprises and a fix percentage of revenue is kept for social and sustainable development.

**SEBI Committee on Corporate Governance, 2003** mandates all the listed companies to submit a quarterly compliance report, including a corporate governance report to the SEBI within 15 days of the end of each financial reporting quarter. Though no particular environmental information is mentioned in this report, yet SEBI Committee on Corporate Governance’s discussion indicated that a broader set of stakeholders should be considered, while taking into account societal concerns about labor and the environment.

**Annual ‘environmental audit report’. The Environment (Protection) Act of 1986** makes it compulsory for all relevant organisations to submit environmental audit report in the prescribed format to State Pollution Control Board (SPCB). Such report must disclose the details regarding consumption of materials and water, level of emissions generated by the concern, discharge of effluents, generation of solid waste, pollution control measures adopted by the concern, efforts put by concern on conservation of natural resources and investment made by the concern for the benefit of environment.

**Reserve Bank of India (RBI)** In 2007, RBI issued a notice to all commercial banks in the country asking them to follow concepts of corporate social responsibility (CSR) and sustainable development. RBI feels that there is lack of awareness among the Indian public relating to sustainability issues and commercial banks can play important role in making public aware regarding environmental issues and human rights.

**Corporate Responsibility for Environmental Protection (CREP), 2003** It is an initiative taken by Central Pollution Control Board of India. The objective of this charter is to ensure that as far as pollution control measures are concerned, companies must not restrict themselves to regulatory norms rather they must go beyond that. This
charter encourages companies to adopt clean technology, energy efficient equipment and control of pollution. 17 highest polluting industrial sectors in the country are under obligation to follow CREP 2003 requirements.

**Guidance Note on Non-Financial Disclosures, 2011** For ensuring detailed disclosures to the stakeholders, integrated reporting or non-financial reporting is need of the hour. Keeping this in mind, Institute of Company Secretaries of India brought out a Guidance Note on Non-Financial Disclosures. This note gives guidelines to companies how they can make non-financial disclosures in their annual reports besides the financial disclosures. Non-financial disclosures not only satisfy the information needs of various stakeholders but also ensure that company functions in a responsible manner. All companies irrespective of their nature or size are encouraged to follow the note while making their non-financial disclosures.

So, it is clear from the above discussion that Indian companies are not under obligation to give specific or quantitative information related to environmental aspects in their annual reports. However, some regulations put obligation on the companies to disclose some environmental information but such disclosures are more descriptive in nature than quantitative or financial. Therefore, any information on the environment provided by Indian companies is voluntary. However, some legislations have been passed since mid-70’s which deal with protection of environment. In 1974, the Water (Prevention and Control of Pollution) Act 1974 was passed to protect surface and underground water from pollution. Air (Prevention and Control of Pollution) Act was passed for controlling air pollution in 1981. The Bhopal disaster brought the issue of environment and safety into limelight and disclosed various weaknesses in our environmental laws. As a result, government came up with more comprehensive and well-knitted act known as Environmental (Protection) Act, 1986. Similarly there are a number of other rules and guidelines which deal with control of pollution. These include:

- The Water (Prevention and Control of Pollution) Rules, 1975;
- The Water (Prevention and Control of Pollution) Cess Rules, 1978;
- The Environment (Protection) Rules, 1986;
• The Manufacture, Storage and Import of Hazardous Chemical Rules, 1989;

• The Public Utility Insurance Rules 1991;

• The Environment Impact assessment Notification, 1994;

• The Environment Import assessment (Public Hearing) Notification Rules, 1998;

• Noise Pollution (Regulation & Control) Rules, 2000.

Finally, if sustainable development has to move from mere wishful thinking and slogan-mongering into a reality, two portfolios of strategies are needed. First preventive strategy, by which people and government have to make a firm resolve that, there shall not be any addition to the present levels of pollution and eco-degradation. In this case, environmental impact assessment has to be a statutory obligation. Secondly, restorative strategies are needed where the backlog of environmental drag created on account of the past damage due to unsustainable development must be corrected. In short, to sustain environment and growth, policies and regulations need to be established that will induce environmentally rational behaviour among corporates.