

Brussels, 11 June 2001

## **Accounting: Commission issues Recommendation on environmental issues in companies' annual accounts and reports**

*The European Commission has adopted a Recommendation on recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of EU companies. The Recommendation clarifies existing EU accounting rules and provides guidance to improve the quality, transparency and comparability of environmental data available in companies' annual accounts and annual reports. The current lack of a common set of rules and definitions means that environmental information disclosed by companies is often inadequate and unreliable. This makes it difficult for investors and other users of financial statements to form a clear and accurate picture of the impact of environmental factors on a company's performance or to make comparisons between companies.*

Internal Market Commissioner Frits Bolkestein said: "This Recommendation will help and encourage companies to improve the environmental information available to regulatory authorities, investors, financial analysts and the public in general".

The Recommendation:

- Provides guidance on how to apply the provisions of the existing Accounting Directives (see below) as regards environmental information;
- Suggests closer coordination of separate environmental reports, statutory annual accounts and annual reports so as to reduce inconsistencies;
- Indicates that relevant, transparent disclosures should be incorporated into companies' annual accounts and annual reports in a way that complements the more detailed separate environmental reports.

Investors and users of financial statements need information about the impact of environmental risks and liabilities on the financial position of the company, as well as the company's attitude towards the environment and its environmental performance, to the extent that these factors may have consequences for the financial health and performance of the company. Regulatory authorities have an interest in monitoring the application of environmental regulations by companies and the costs incurred as a result. But companies' voluntary disclosure of environmental data in annual accounts and annual reports is low.

Users of annual reports have an interest in ascertaining to what extent environmental protection is an integral part of the company's policies and activities and what costs and benefits are associated. For example, the financial position of a company could be affected by policies and programmes that have been adopted by the company in respect of environmental protection measures, such as pollution prevention. Also, costs may be incurred as a result of fines and penalties for non-compliance with environmental regulations and compensations paid to third parties. On the other hand, benefits can also be realised, for example, from government financial incentives related to environmental protection that the company receives or is entitled to

Even when companies do report environmental information, the value of that information is diminished by the absence of a common and recognised set of definitions and concepts with regard to environmental issues and their associated costs. The lack of a common set of guidelines on the disclosure of environmental factors in financial reporting means it is very difficult to make meaningful comparisons between companies in this respect.

This Recommendation applies to all companies covered by EU Accounting Directives (namely the 4th Company Law Directive on annual accounts (78/660/EEC) and the 7th Company Law Directive on consolidated accounts (83/349/EEC)), allowing for exemptions that Member States are permitted to introduce for small and medium-sized companies in accordance with these Directives. Because environmental issues also have financial implications for banks, other financial institutions and insurance companies, the Recommendation also applies to them, even though they are subject to specific accounting requirements laid down in Directive 86/635/EEC for banks and other financial institutions and Directive 91/674/EEC for insurance companies.

As part of its 1995 Accounting Strategy, the Commission seeks to integrate European harmonisation in the accounting field within the broader context of international accounting harmonisation. The Recommendation has been prepared taking into account relevant requirements in International Accounting Standards (IAS) that deal with environment related information. Therefore it is consistent with and supports both the EU Financial Reporting Strategy (see IP/00/606), which requires the application of International Accounting Standards (IAS) by listed EU companies from 2005 onwards, and the recent Commission proposal for a Regulation on the application of International Accounting Standards (see IP/01/200). However, there exists little guidance directly related to environmental issues in IAS and no specific IAS is solely focused on these issues.

The Recommendation reinforces European Union initiatives in the area of environmental protection. It was foreseen in the Commission's 1999 Communication on the 'Single Market and the Environment' (see IP/99/382).

The full text of the Recommendation is available on the Europa internet site:  
[http://europa.eu.int/comm/internal\\_market](http://europa.eu.int/comm/internal_market)