DOES IFRS DETRACT FROM SOCIAL DISCLOSURE IN CORPORATE ANNUAL REPORTS AND ACCOUNT? EVIDENCE FROM NIGERIA

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ABSTRACT
This study examines compliance with the corporate social disclosure requirement of the United Nations and whether their voluntary declaration by the International Accounting Standards Board detracts from compliance. Qualitative, financial and non-financial disclosures, based on core indicators developed by the United Nations Conference on Trade, Aid and Development, were garnered from financial statements prepared before and after IFRS adoption. Overall, corporate social disclosure on employment creation and labour practices; welfare, health and safety; and environment, improve during the IFRS regime. This improvement is associated with size of the firm, not audit identity, ownership or capital structure. This finding provides evidence to clinch anecdotal claims that even in the absence of laws some agents would still operate to meet the information needs of their principals; however, in line with organization theory, policies are needed to guide the actions of man, including the learning organization.

Keywords: Disclosure compliance, corporate social disclosure, social accounting, corporate social responsibilities.

1.0 Introduction

Information on corporate social issues is needed to assess risks that might affect the company's operations; e.g. existing and potential investors would like to know the relationship of management with customers, employees and the host communities to choose less risky investment portfolios. Thus, corporate social issues can affect a company's valuation. However, the International Financial Reporting Standards, or the IFRS, omit corporate social disclosure in corporate financial reporting on grounds that the issues are outside the financial statements.

> Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRS (IFRS Foundation, 2014, p. A593).

This statement might have arisen due to the practice in the United Kingdom where environmental accounting reports are presented in separate volumes from the financial accounts. This practice, however, does not rule out the possibility of integrating social disclosures into financial reports; e.g. the policies relating to social accounting may be presented in the part dealing with Statement of Accounting Policies, the Notes on the Accounts may show any material contingent liabilities in respect of social matters, and the financial statements can include social responsibility cost as part of administration expenses. The Chartered Association of Certified Accountants in the United Kingdom organizes 'Green Accounting' competition to stimulate progressive practice among firms in environmental accounting, and this may have influenced the creation of a separate volume for environmental accounting.

The International Accounting Standards Board views external financial reporting as a private contract between the management and the owners of the entity (the classical perspective) but believes that corporate financial reporting should also service the financial markets through the provision of information relevant for economic growth and development (the market perspective). However (a very important 'however'), it is also important to focus on the entity itself. The Accounting Standards Steering Committee writes:

> Economic entities compete for resources of manpower, management and organizational skills, materials and energy, and they utilize community owned assets and facilities. They have a responsibility for the present and future livelihoods of employees, and because of the interdependence of all social groups, they are involved in the maintenance of standards of life and the creation of wealth for and on behalf of the community ('Corporate Reports', 1975).

This ecological view of the Accounting Standards Steering Committee cannot be dismissed because the reporting organization is located within a complex ecology of mutual dependence, interacting with people, material environments and other organizations. In these interactions, the reporting organization takes from and gives to its ecology in both obvious and subtle exchanges. Thus, the reporting organization has a responsibility towards all elements of its ecology, not only towards its owners. The United States has a corporate social performance agenda touching on employee

welfare, environment, sex discrimination, equal opportunity, racial discrimination, product quality, safety and drugs. In Nigeria, like the United Kingdom, public policy emphasizes employee welfare and environment. In the area of employee welfare, legislation has gone beyond the usual labour laws to require management to report on its treatment of employees in annual financial reports. There are also pieces of legislation regulating industrial pollution even though there is no requirement to report on activities connected with pollution in financial statements. Although there are laws and programmes intended to reduce the drug problem, which has caused much damage to Nigeria abroad, there is no discernible evidence that drugs and women affairs are legitimate elements in corporate social performance that require reporting in annual financial statements.

Social issues in corporate financial reporting fall within the domain of social accounting, which is a branch of corporate accounting that reports on the responses of corporate entities to social concerns (Asechemie, 1996, p.7). These concerns, which cover social and environmental, vary from one society to another so that each society must establish the limits of social concerns that corporations are expected to report on. Then, social accounting should proceed to set out the items to be disclosed in corporate reports, the valuation principles applicable to those items, and the format for the disclosure. Appropriately, Nigeria has established the social issues of concern that corporate entities must report on (Companies and Allied Matters Act [CAMA], Schedule 5, part III) but there is no adequate responsive social accounting by the accounting profession in Nigeria. The Nigerian Accounting Standards Board, or the NASB, specified the content and format of the statement of value added, which is a financial statement in social accounting, but fails to specify the contents and format of items of corporate social responsibilities. As a result, companies develop templates that carry the descriptive, qualitative information set out in CAMA. This was very unsatisfactory state of affairs. Succour came to the accounting profession when the National Planning Commission adopts the minimum environmental and social disclosure requirements of the United Nations for all corporations (‘Nigeria First’, 2008); however, the adoption was more in principle as the NASB never took up the enforcement responsibilities. Therefore,

whether the companies implement the adoption of the corporate social disclosure of the United Nations is an empirical question. Moreover, the voluntary declaration of the International Accounting Standards Board (or the IASB) on corporate social disclosures has expanded the complexity of this empirical question, which is fundamental because the Financial Reporting Council of Nigeria, which replaces the NASB, is silent on the declaration, suggesting that compliance with corporate social disclosure is optional. Few studies have investigated compliance with the corporate social disclosure of the United Nations. Reverte (2009) investigates characteristics that explain disclosure practices; Iatridis (2013) examines association between environmental disclosure, performance and corporate governance; Van der Laan, Gouldman and Tondkar (2014) compare compliance of shareholder-oriented countries with compliance of creditor-oriented countries. The objective of the present study is different: it examines compliance with the corporate social disclosure of the United Nations and whether the IASB voluntary declaration detracts from compliance. This is fundamental because the United Nations can use the results to evaluate the extent to which listed firms in Nigeria are willing to comply with the corporate social disclosure requirements for all corporate entities.

The study finds that social disclosures on employment creation and labour practices; welfare, health and safety; and environment, improve during the IFRS regime, suggesting that that the voluntary declaration on corporate social disclosure by the IASB makes no impact on compliance. The improvement in corporate social disclosure is associated with size of the firm, not audit identity, ownership or capital structure. These results provide evidence to clinch anecdotal claim in organization theory that in the absence of laws the agents (i.e. management) would still operate to meet the information needs of their principals, i.e. owners and other stakeholders.

The remainder of the paper is structured as follows. Section 2 reviews the empirical literature. Section 3 reports on the background framework which props up the structural hypothesis of the study. Section 4 describes the design and method of study. Section 5 presents the results and concludes.

2.0 **The Empirical Literature**

The literature is scanty of empirical studies on corporate social disclosure. In Spain, Reverte (2009) examines whether industry characteristics and media exposure are potential determinants of corporate social responsibility (CSR) disclosure practices. The characteristics investigated are size of the firm (measured by the natural logarithm of market value of the firm), industry environmental sensitivity, profitability, ownership structure, international listing, and media exposure. These characteristics are regressed against CSR ratings using multiple regression equation. The study finds that larger size, higher exposure, and environmental sensitivity of the industry of operation influence CSR disclosure practices, not profitability or leverage. The most influential characteristics are media exposure, followed by size and the industry.

In Malaysia, Iatridis (2013) examines the association between environmental disclosure and environmental performance on one hand, and the association between environmental disclosure and corporate governance on the other hand. A multiple regression is used to model the association expressed in each case, with several control variables: audit quality, the proportion of common equity held by managers and institutional investors, change in management, return on assets, leverage, and size. Environmental disclosure score is calculated for each company in the sample, following the scheme of the Global Reporting Initiative (GRI). Environmental performance is measured by the total amount of hazardous waste produced in tonnes deflated by net sales whilst corporate governance is measured by the existence of audit committee, the existence of independent and non-executive directors in the board and in the audit committee. Iatridis finds that companies with high environmental disclosures are positively linked to environmental performance, and effective corporate governance.

Iatridis goes further to examine the financial attributes of companies with different environmental disclosure scores. The objective is to learn whether companies with effective environmental disclosure and corporate governance face less capital constraint. This objective is logical because, on voluntary basis, companies disclosed social and environmental information about their operation to seek investors' recognition. Environmental disclosure quality (measured by GRI scores), environmental

performance, the cross-listing status of the company, and several of the control variables included in the earlier analysis are regressed on scores indicating the extent to which each company faces capital constraint, which is assigned based on Kaplan and Zingales index. Iatridis finds that firms with effective environmental and corporate governance structures are likely to face less capital constraints. Other issues investigated are the value relevance of environmental disclosures, and investors' perceptions of environmental disclosure. Iatridis finds that environmental disclosures provide incremental information that is value relevant and positively related to stock valuation. Also, environmental disclosures are positively associated with investors' perceptions.

Van der Laan, Gouldman and Tondkar (2014) investigate whether firms' corporate social disclosure (CSD) policies are affected by the mandatory disclosure requirements of IFRS. They examine the level of CSD provided by large European and Australian firms for two years prior to adoption of IFRS (2003 – 2004) and two years following adoption (2006−2007). The design partitioned controls into two: (1) shareholder-oriented countries, and (2) stakeholder-oriented countries. They find that CSD increased in shareholder oriented countries, suggesting that shareholders approve of disclosures of social issues.

3.0 Background and Hypothesis Development

Nigeria has established the social issues that corporate entities must report upon in their annual reports and account. Table 1 lists the social concerns addressed by the Companies and Allied Matters Act (CAMA). These issues, though descriptive, cover employee welfare, work safety process, and corporate responsibility to host communities. However, the format for reporting these items of social concerns in corporate annual reports and account remain the responsibility of the Financial Reporting Council of Nigeria, which replaces the Nigerian Accounting Standards Board (or the 'NASB'). The NASB had responded with the value added model of social accounting through the Nigerian Statement of Accounting Standard Number 2 (or 'SAS 2'). The statement of value added reports on the wealth created and its distribution to various stakeholders. The figure for value added shows the contribution of the business

enterprise to the national income of the country. The distributions to employees in the form of wages, salaries and pensions, represent employees' share of the wealth created, and may be used as the basis of negotiation on increases in salaries or as a measure of employees' satisfaction. The taxes paid by the entity represent government's share of the wealth created.

In addition to NASB response, the United Nations, through its Intergovernmental Working Groups on International Standards of Accounting and Reporting, has developed core indicators for each item of social concerns, which preparers of annual reports and account should disclose for stakeholders to assess their various needs. Table 2 presents the core indicators required in annual reports and account of reporting entities. In 2008, the Federal Executive Council approves of a corporate social responsibility policy, and the Ministry of National Planning Commission adopts the minimum environmental and social disclosure requirements of the United Nations ('Nigeria First', 2008). Thus, like the IFRS adoption, Nigeria also adopts the corporate disclosure of the United Nations and, hence, the study expects compliance by reporting entities. However, neither the then NASB or the recently constituted Financial Reporting Council assumes the responsibility of enforcement; therefore, auditors are under no obligation to enforce compliance. The possibility of non-compliance increases with the voluntary declaration of the IASB on corporate social disclosure because in the present era, the accounting profession is bound by pronouncements of the IASB so that a voluntary requirement may impact practice. Nevertheless, Marston and Shrives (1991) observe that if companies anticipate net benefits of publishing information that exceeds the minimum requirements then they occasionally make voluntary disclosure.

TABLE 1
Items of Corporate Social Disclosure in Nigeria

S/N	Information Required
1.	Activities of the company in the area of research and development.
2.	Particulars of donations and gifts made for any purpose.
3.	Charity.
4.	Statements on arrangements made, or facilities provided, by the company for the training of employees during the year.
5.	Employee involvement and training.
6.	Employment of disabled persons:
(a)	Applications from disabled persons
(b)	Number of disabled persons employed during the year.
(c)	Continued employment of those that have become disabled while in the employment of the company.
(d)	Training, career development and promotion of disabled persons employed.
7.	Statement of arrangements to secure or protect employees against risk of health and safety.
8.	Employee welfare covering:
(a)	Housing
(b)	Medical care
(c)	Pension
9.	Statement of action taken to introduce, maintain and develop arrangement aimed at:
(a)	Providing employees systematically with information on matters concerning them.
(b)	Consulting with employees or their representatives so that their views may be taken into account in making decisions that are likely to affect their interest
(c)	Encouraging the involvement of employees in the company's performance through such schemes as employees share scheme.
(d)	Creating a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.

Source: Schedule 5, Part III of CAMA

Moreover, companies that desire international recognition might comply with the corporate social disclosure because voluntary disclosure is driven by the desire for increased international exposure (Young & Guenther, 2003). Furthermore, the United Nations emphasize that corporate social disclosure increases public recognition of an entity commitment, improves its reputation, enhances employees' motivation, and reduces the risk of conflict with third parties (UNCTAD, 2005). Thus, the study hypothesizes substantial compliance with corporate social disclosure requirements of the United Nations.

Table 2
Core Indicator of Corporate Social Disclosure

Group	Sub-group	Indicator
Contribution to Economic development		1. Total sales (contribution to GDP) 2. Value of imports vs. exports (contribution to balance of payments 3. Number of employees (contribution to job creation) 4. Total of all salaries and pension payments (contribution to local economic activity)
Human rights	*Security*	7. Number of enterprise operations with armed security(with breakdown by type of security: company employees, contractor, government)
Labour practices	*Equal opportunity*	8. Number of female employees (with breakdown by function)
	Workforce turnover	9. Employee turnover rate (with breakdown by function)
	Collective bargaining	10. Percentage of total employees covered by a collective bargaining agreement (with breakdown by employee function)
Human capital development		11. Training hours for internal training (wit h breakdown by employee function) 12. Expenditure on internal training (with breakdown by employee function)
Health and safety		13. Expenditure on employee health and safety 14. Work days lost due to accidents, injuries and illness
Community support		15. Donations to civil society (with breakdown by type and nature)
Value chain		16. Number of enterprises in the dependent value chain (with breakdown by supplier, distributor and location)
Corruption		17. Number of convictions for violations of corruption related laws or regulations and amount of fines paid/payable

Source: UNCTAD, International Standards on Accounting and Reporting, ISAR, 29, 2005

4.0 **Design and Method**

A data collection instrument was designed and applied to collect data from annual reports and account prepared before and after IFRS adoption by firms listed on the

Nigerian Stock Exchange as at 2012/2013 fiscal year. The reports, prepared within the period 2010 to 2011 (pre-IFRS adoption) and 2013 to 2014 (post-IFRS adoption), were read to spot items of corporate social disclosure. A spotted item goes into one of five categories: (1) trade and linkages, (2) employment creation and labour practices, (3) welfare, health and safety, (4) environment, and (5) government and community contribution. The strands of information under each category were carefully selected such that they apply to all firms in the sample. Table 3 lists the items in each of these categories. Each firm in the sample gets a score of one per item disclosed otherwise zero. Then, a compliance score is calculated for each category per company as the number of items disclosed ÷ no. of items in the category. The data for analysis are the cross-sectional distributions of compliance score per firm, which consists of the sum of compliance score for all categories.

Each company in the sample produces two compliance scores, one being for the period before IFRS adoption and the other after the IFRS adoption. Summary data were calculated separately for each period, and differences obtained and tested for significance using the Wilcoxon *Z-test* at 5 per cent alpha level. When the results show that firms disclosed more corporate social information in the post-IFRS, an improvement index, $DI,$ was calculated for categories in which there were clear improvements following Mısırlıoğlu, Tucker & Yükseltürk (2013):

- social items reported in both periods are marked and counted, a
- social items reported only in the post-IFRS are marked and counted, b
- social items reported only in the pre-IFRS are marked and counted, c
- All social items applicable to all firms but not reported are counted and marked, d

Then, the improvement index (DI) was obtained as $\frac{d}{a+b+c+d}$.

Table 3: A priori social disclosure items per category

Employment creation and labour practices	**Government and Community Contribution**
Policy on training and development	Social responsibility projects reported
Total workforce	Donations amounts
Males in the workforce	Information on violation of related laws
Females in the workforce	Amounts of fines paid/payable
Number of physically challenged in employment	
Total number of staff promoted	**Trade and Linkages**
Number of physically challenged promoted	Value added
Employee turnover	Value of imports
% of employees covered by collective agreement	Value of exports
Employee involvement	Local purchasing
Partnership scheme	Imported material/services
Recognition award scheme	
	Welfare, Health and Safety
Environment	Policy on occupational health and safety
Policy on environmental sustainability	Severe and fatal injury
Environmental projects	Quantitative data on performance
Environmental audits conducted	Cost of employee welfare
Quantitative data on environmental performance	Cost of employee health
Catastrophe reserve	Cost of employee safety
Waste management	Projects on employee welfare

SOURCE: Disclosures and indicators based on:
1. Companies and Allied Matters Act, 1990 (amended)
2. SAS 2: Information to be disclosed in Financial Statements
3. United Nations Conference on Trade and Development Guidance on CR indicators in Annual Reports, 2005

The literature identifies several factors that can affect compliance. First, auditors are the monitors of compliance. Hodgdon, Tondkar, Adhikari & Haress (2009) find that audit firm size is positively related to IFRS compliance. Also, Mısırlıoğlu, Tucker & Yükseltürk (2013) find that audit identity influences disclosure compliance. Generally, the big audit firms have more informative, experienced, and analytical staff to monitor compliance with accounting standards, but they might not enforce social and environmental disclosure as the IFRS has declared them optional. Large firms disclose more information than small firms because large firms engage in more activities. The IASB has developed separate accounting standards for small firms because firm size is an important determinant of disclosure and accounting policy choice (Rahman, Pererra &

Ganesh, 2002). Also, a company that is highly equity financed will disclose more information than that which is highly debt financed because banks and other creditors receive information on their debts directly from management, and they may even sit on the board of companies. Thus, more disclosures are required when a company is equity oriented than when a company is creditor oriented (*cf.* Ball, 1995). Put simply, leverage or gearing can affect disclosure compliance. Foreign shareholders in a board can influence compliance because they have greater exposure to international market (Mısırlıoğlu, Tucker & Yükseltürk, 2013). Also, ownership structure, surrogated by free float, FF, can influence the volume of corporate social disclosure. Therefore, a regression of compliance score on each of these factors was embarked upon. Equation 1 is the regression model:

$$\text{CScore}_{it} = \beta_0 + \beta_1 audit_{it} + \beta_2 leverage_{it} + \beta_3 size_{it} + \beta_4 ForeignOwnership_{it} + FF_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots EQ1$$

CSore_{it} is the compliance score for firm i at time t.

$$audit = \begin{cases} \text{a dummy variable that } takes \text{ on the value of 1 when } t\text{he firm is audited by one of the Big 4, i.e.} \\ \text{Deloitte, Ernst \& Young, KPMG and PwC otherwise 0} \end{cases}$$

Leverage = total debt to total equity

Size is the natural logarithm of the firm market value.

$$ForeignOwnership = \begin{cases} \text{a dummy variable that } takes \text{ on the value of 1 when } a \text{ foreigner sits on the board,} \\ \text{otherwise 0} \end{cases}$$

The industry type can affect disclosure compliance due to differing nature of activities; e.g. Reverte (2009) finds that environmental sensitivity of the industry of operation influences corporate social disclosure practices. Also, Rahman, Pererra & Ganesh (2002) note that the nature of activities within an industry could be a reason for the diversity in both the amount and type of disclosure and measurement practices among firms. Therefore, to keep the effect of industry constant, the analysis was restricted to only manufacturing firms. Table 4 presents the firms listed on the Nigerian Stock Exchange by industrial sector.

Table 4
Companies in Nigerian Stock Exchange Market by Industrial Sectors

N/S	Industrial Sector	Number of companies listed
1.	Agriculture	5
2.	Construction/Real Estate	9
3.	Consumer Goods	33
4.	Banking and Insurance Services	48
5.	Pharmaceutical products	10
6.	ICT	11
7.	Industrial Goods	23
8.	Natural Resources	5
9.	Oil & Gas	10

Source: The Nigerian Stock Exchange FactBook 2012/2013.

On the basis of the product of firms, the sample is an amalgam of consumer goods, industrial goods and pharmaceutical products, yielding a total sample size of 66 firms. However, as at the time of fieldwork, four firms neither submitted their annual reports and account to the Stock Exchange nor made them available online, reducing the effective sample size to 62 firms. Therefore, with a sample of 62 firms and 5 categories, the matrix of compliance score has 310 observations, where an observation is a compliance score of a firm per category; i.e. Matrix F_{ij} where $i = 1, 2, ..., k = 62; j = 1, 2, ...5$.

5.0 **Results and Discussion**

The descriptive statistics are presented in Panel A, Table 5. Pre-IFRS adoption, the distribution of compliance scores follows a normal distribution (W = .94, p > .05), suggesting that the mean and standard deviation are appropriate statistical summaries of the data. However, post-IFRS, the distribution is non-normally distributed (W = 80, p < .05) though not badly skewed. In terms of the mean and standard deviation, the average compliance score in the post-IFRS period is higher but the pre-IFRS period is characterized by uniformities in corporate disclosure practices. This profile is sustained by the median and interquartile range. Corporate social disclosure items increase by 81 per cent, decrease by 6 per cent, and no effect on 10 per cent of the total social disclosed items (see Panel B). Overall, corporate social disclosure practices improve during the post-IFRS adoption period (z = 4.4, p < .05). However, the improvement is observed only with certain reporting categories: (1) employment creation and labour

practices, (2) welfare, health and safety, and (3) environment, and this result is influenced by size of the firms in the sample, not dependent on audit identity, foreigner sitting on the board, or capital/ ownership structure.

There was no effect on trade and linkages, the reason being that Nigerian company law (the Companies and Allied Matter Act [CAMA]) and its domestic accounting standards (SAS 2) require entities to report the statement of value added, which capture most of the social items in this category. On government and community contribution, the reason for the no effect is likely to be due to the tax exempt status accorded to items in this category by the Federal and States Governments. Simply, donations or contributions to community development are deductible from taxable income. Although there was no requirement to report on activities connected with pollution in annual financial statements, some companies reported policies on environmental treatments both before and after the IFRS adoption though there was more disclosure during the latter period; moreover, some companies provide performance data on pollution controls. A predominant feature observed in corporate social disclosure is that a large proportion of the companies provide only descriptive information with the costs of such actions and arrangements not disclosed in any of the functional categories in the income statements. One doubts whether these policies on social concerns were actually implemented.

Table 5: Corporate social disclosure statistics

Panel A: Descriptive statistics & normality test	Pre-IFRS	Post-IFRS
mean	1.824	2.355
standard deviation	0.745	1.362
minimum	0.72	0.72
median	1.69	2.11
maximum	3.57	8.01
range	2.85	7.29
interquartile range (IQR)	1.37	1.64
Wilk *W*	.94	.79
p-value	.081	.0005

Panel B: Improvement/detraction statistics	
Improvement (+)	50(81%)
Detraction (−)	2(06)
No effect (0)	10(13)
Total (*N*)	62(100%)

Panel C: Statistical test	
z-statistic	4.408
p-value [2-tailed]	.0005

Panel D: Corporate social disclosure improvement index	
Disclosure category	*DI*
Employment creation and labour practices	0.29(55 observations)
Welfare, health and safety	0.33(35 observations)
Environment	0.43(35 observations)
Government and community contribution	No effect
Trade and linkages	No effect

Panel E: $\text{CScore}_{it} = \beta_0 + \beta_1 audit_{it} + \beta_2 leverage_{it} + \beta_3 size_{it} + \beta_4 ForeignOwnership_{it} + FF_{it} + \varepsilon_{it}$

	β	*t*-stat	*p-value*	Tolerance	VIF
constant	−4.118				
audit	0.742	1.305	.20	−	−
leverage	−0.052	−0.025	.98	.931	1.075
size	.820	3.182	.004	.691	1.445
ForeignOwnership	−0.373	−0.632	.533	−	−
FF	1.443	.835	.411	.713	1.403

$R^2 = .70; F(5,56) = 4.717,\ p = .004$

Companies ought to report qualitative, financial and non-financial data relating to actions and arrangements for social concerns as required by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the United Nations. The IASB cannot be indifferent to the opinions or questions of the

public interest as persons and groups affected by environmental decisions of the firm have a legitimate interest in those decisions. All that the IFRS Foundation need is to insert, in the IFRS accounting policies, a statement of compliance with the social disclosures of the Intergovernmental Working Group of Experts rather than declaring them outside the scope of financial statements. This declaration connotes that social disclosures are optional so that auditors are under no obligation to enforce compliance as companies prepare IFRS financial statements to satisfy current and potential owners of the firm, but even at that investors should be allowed to choose less polluting investments or be able to determine, over time, the relation between an enterprise's environmental impact and its financial position and performance.

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