



Environmental Disclosures in Financial Statements

New Developments and Emerging Issues

“Perspectives on Comprehensive Assessment”

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New York

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At Issue

“What Is Adequate Environmental Disclosure?”

Agenda

Environmental Disclosures in Financial Statements

- ◆ **The Current Accounting Environment**
- ◆ **Accountability and Reporting**
- ◆ **A Risk Based Audit Perspective**
- ◆ **Emerging Issues**
- ◆ **Mitigating Fraud and Misconduct Risk**

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A Look Back

- ◆ **Beginning in the early 70's, Congress and state governments began paying increased attention to legislation designed to protect the environment**
- ◆ **The explosion of federal and state environmental laws and regulations has affected all manner of business transaction**
- ◆ **In 1998 the US EPA disclosed that 74 percent of US publicly traded corporations it surveyed violate the US SEC environmental financial debt accounting regulations**
- ◆ **The World Resource Institute released reports in 2000 that showed that certain companies are not disclosing environmental risks that may significantly affect their financial performance**
- ◆ **An environmental group recently issued a report concluding that 74 percent of US publicly traded companies it surveyed did not provide information on the risks related to climate change and other environmental issues**

Authoritative Literature for Auditors

- ◆ **US SEC Regulation S-K: Environmental Legal Proceedings Disclosure Requirements**
- ◆ **Financial Accounting Standards Board (FASB) Statement No. 143: Accounting for Asset Retirement Obligations (Issue Date: June 2001)**
- ◆ **FASB Statement No. 144: Accounting for the Impairment or Disposal of Long-Lived Assets (Issue Date: August 2001)**
- ◆ **FASB Statement No. 146: Accounting for Costs Associated with Exit or Disposal Activities (Issue Date: June 2002)**
- ◆ **Statement of Position 96-1: Environmental Remediation Liabilities, American Institute of Certified Public Accountants (AICPA)**

Traditional Sources of Environmental Liabilities

- ◆ **Non-compliance - Fines / Penalties**
- ◆ **Third Party Litigation**
- ◆ **Contaminated Land & Impaired Assets**
- ◆ **Regulatory Obligations**

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Accountability: Company Competes in 4 Markets...

Capital

**Other
Suppliers**

Company

Customers

Talent

...Plus 2 Quasi Markets

Capital

**Other
Suppliers**

Company

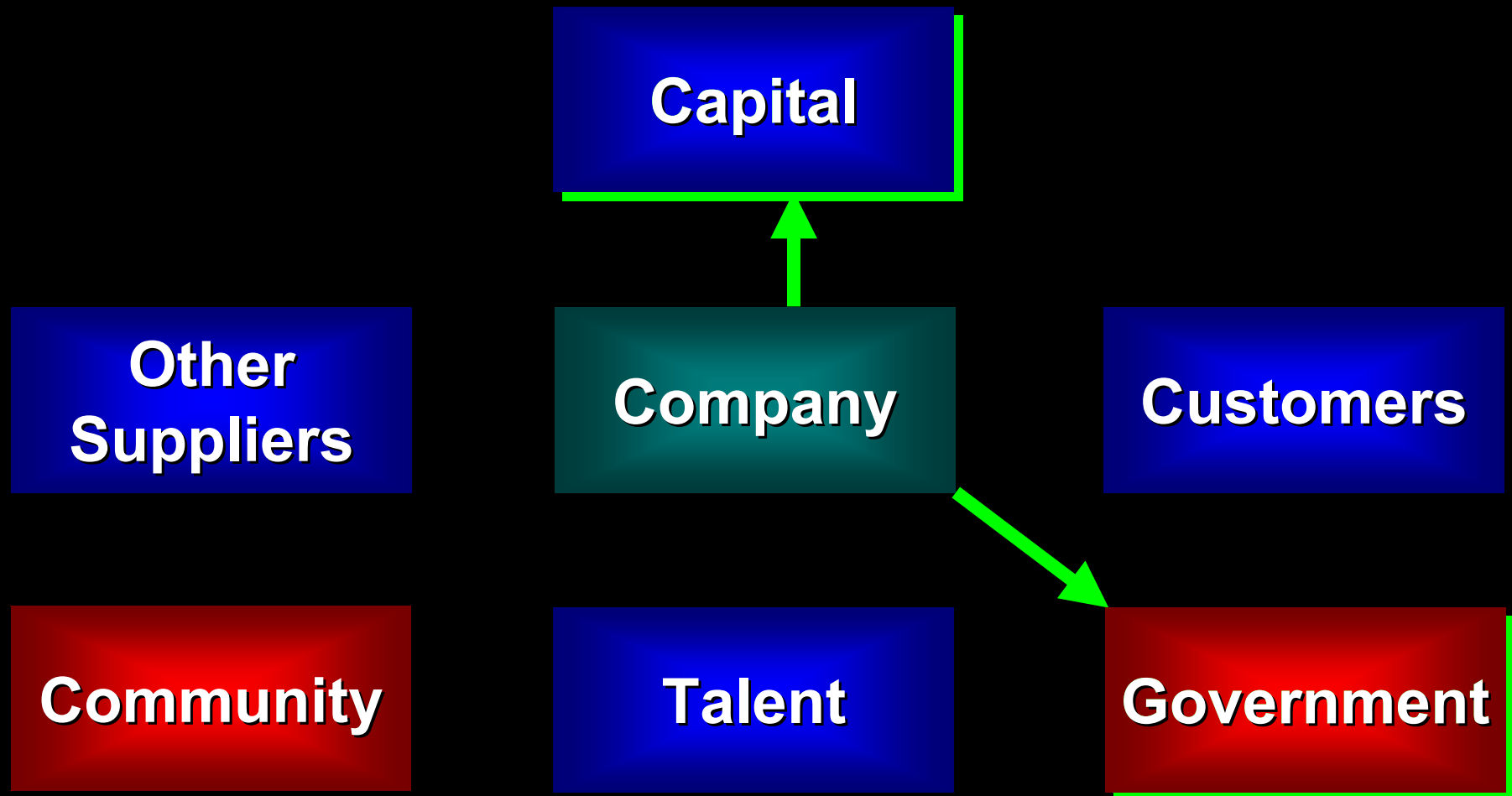
Customers

Community

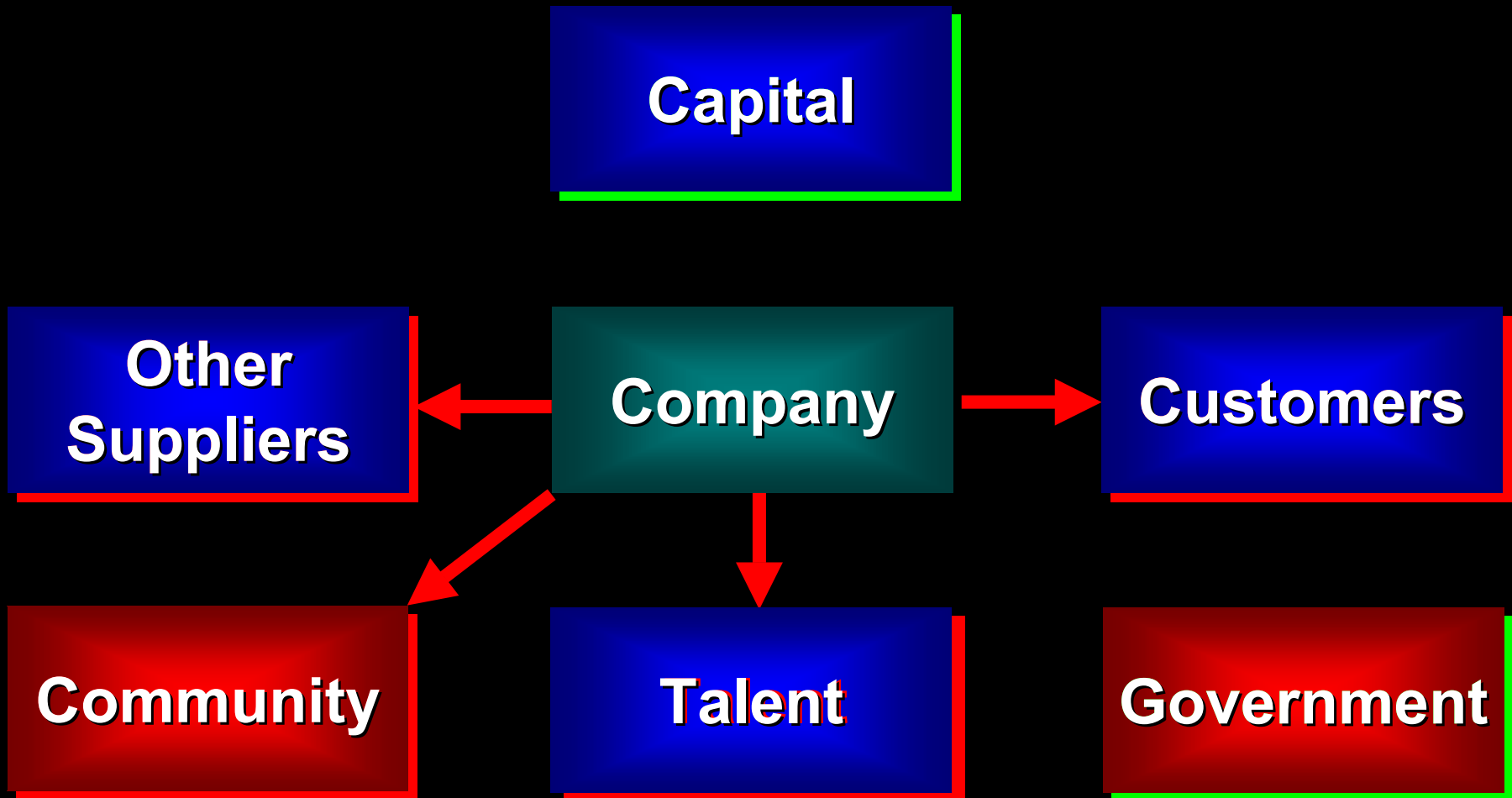
Talent

Government

Reporting: Formalized Information Flows...



...And Unformalized Information Flows



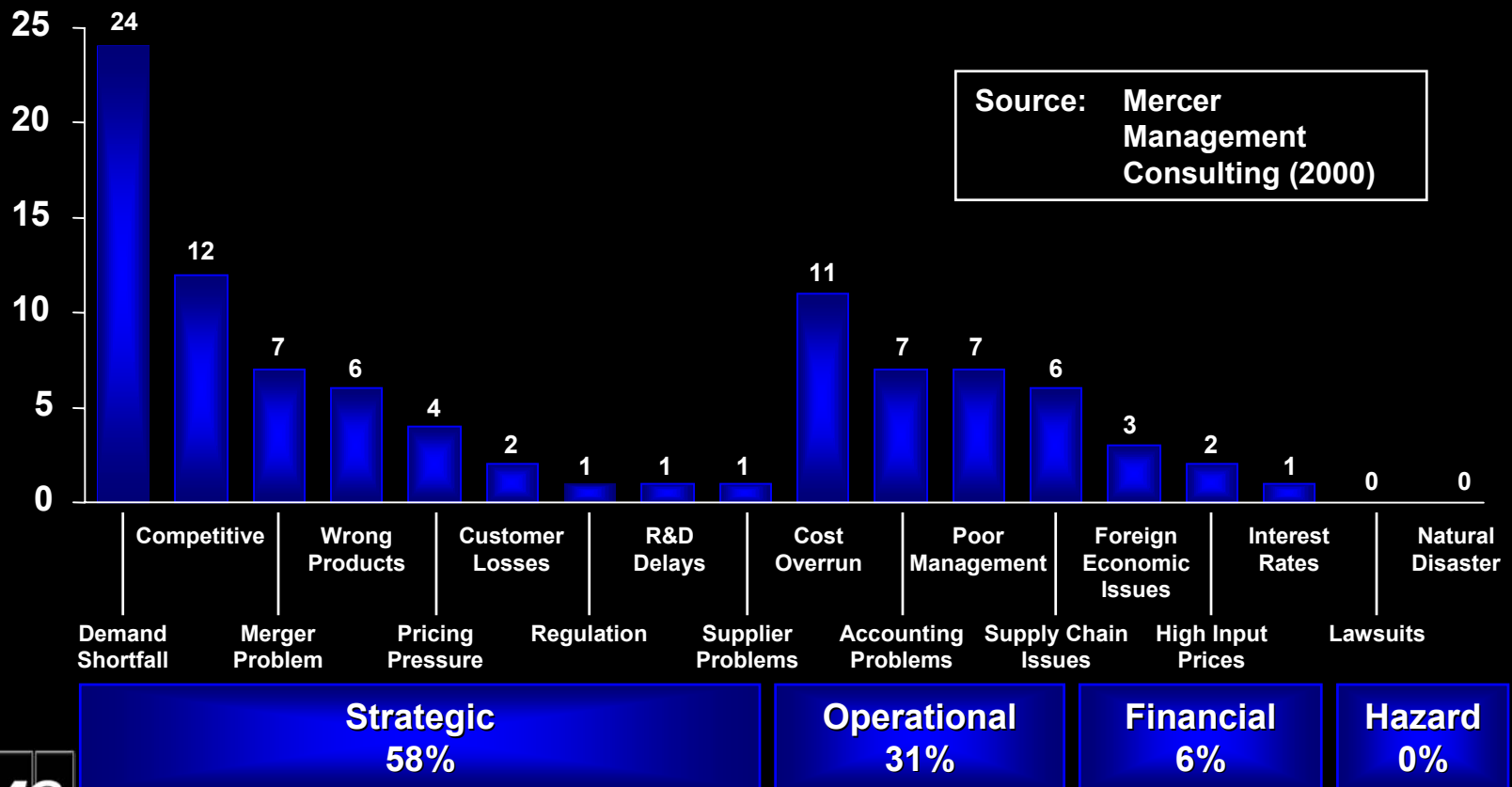
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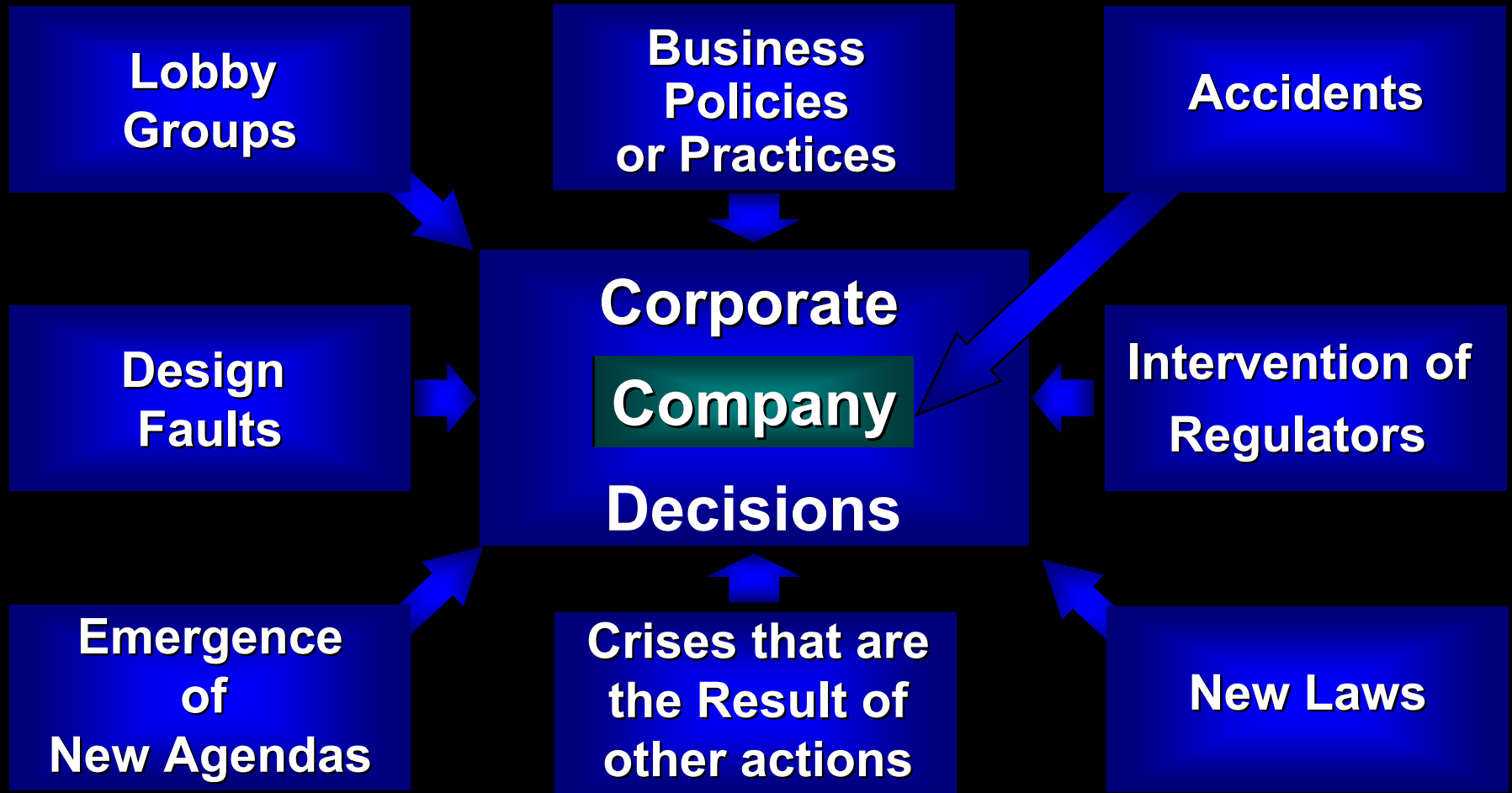
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Risk Management

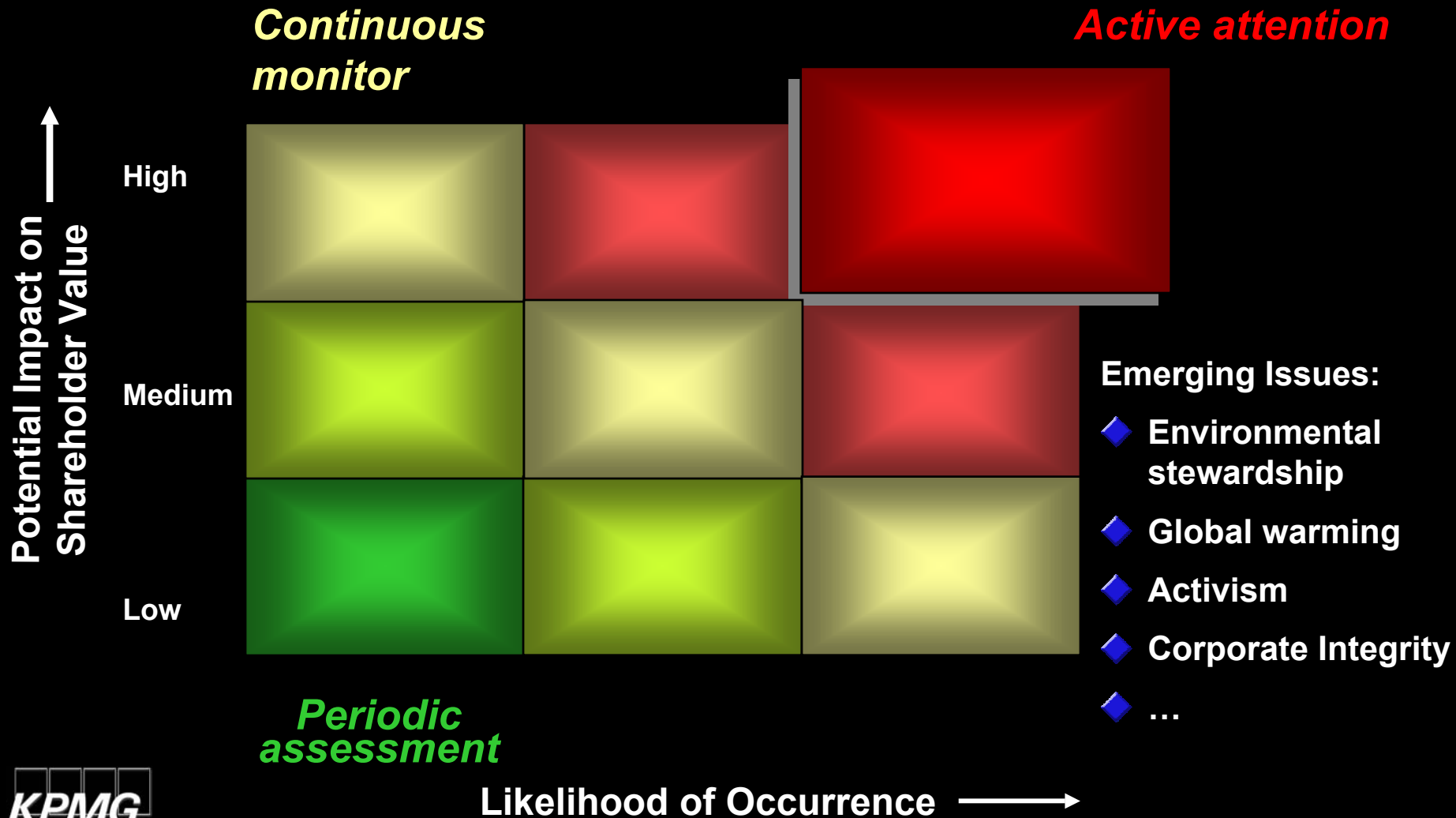
From 1996 to 2000, 10% of the Fortune 1000 lost over 25% of its shareholder value within a one-month period. Many of these losses can be attributed directly or indirectly to non-financial issues.



Risks Come from Everywhere



Frame Identified Risks in Terms of Shareholder Value



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Disclosure issues

- ◆ **Consistency To Information Users**
 - Management
 - Employees
 - Outsiders

 - ...But Level Of Detail Differs
- ◆ **Balance Transparency With Privacy**
 - Legitimate Needs Of Stakeholders
 - Competitive Damage
- ◆ **Must Decide What To Reveal vs. Conceal**

What's Ahead

- ◆ **Emerging Corporate Reporting**
- ◆ **Emerging Regulations**
- ◆ **Climate Change**
- ◆ **Corporate Governance and Ethics**
- ◆ **Sarbanes-Oxley**
- ◆ **Mitigating Fraud and Misconduct Risk**

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Thank You
