Counting the Environment: The Environmental Implications of International Accounting Standards[1][2]

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The relationship between international accounting standards and the environment has been neglected by scholars of global environmental politics, but it deserves more attention. Linking scholarship that explores the relationship between global financial markets and the environment as well as the power of accounting in the global economy, this paper develops a theoretical case explaining why international accounting standards have potentially significant environmental impacts. At the same time, it describes and interprets recent discussions and decisions by the International Accounting Standards Board (IASB) in order to demonstrate potential environmental implications from this institution's activities.

Keywords: international accounting standards, environmental liabilities, environmental risk, international finance.

Introduction:

To date, scholars of global environmental politics (GEP) have devoted little attention to the study of international accounting standards. This paper argues that this neglect is becoming increasingly difficult to justify. Recent GEP literature has begun to explore how global financial markets can have important impacts on the environment. Scholarship in the field of international political economy (IPE) has also started to demonstrate how the behavior of global financial markets are governed and influenced in significant ways by international accounting standards. At the same time, accounting practitioners and academics have called attention to the implications of financial

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[2] This is only the abstract and introduction, for a full version of the paper, feel free to e-mail me: j2thistl@uwaterloo.ca.

accounting practices for the environment. The first section of this paper draws on these three bodies of scholarship to make the case that scholars need to take international accounting standards more seriously as an important subject of study within the field of GEP.

The second section of the paper then takes up the task of exploring the potential environmental implications of international accounting standards at a more detailed empirical level. It traces the evolution of recent debates within the key institution which sets international accounting standards, the International Accounting Standards Board (IASB), and interprets their potential environmental significance. At first glance, these debates appear extremely technical and of interest only to accounting specialists. Through a detailed analysis of their content, however, this paper reveals their broader potential importance for GEP scholars.

This analysis focuses on how the IASB develops standards that determine the extent to which an accountant will measure a publicly-listed firm's environmental performance as an impact on its bottom-line, or economic value. Of these standards, International Accounting Standard 37 (IAS 37) on *provisions, contingent liabilities and contingent assets*, and International Financial Reporting Standard 3 (IFRS 3) on *business combinations* have the most potentially widespread and influential environmental implications.[3] Guidance contained within these two standards controls the extent to which an accountant will recognize and measure two financially significant aspects of a firm's environmental performance known as environmental liabilities and risks. In recent years,

[3] The IASB is also currently in preliminary discussions on standards governing the valuation of emissions trading permits, which also have environmental implications. But, these implications are limited to firm's participating in the emissions trading schemes, whereas IAS 37 and IFRS 3 apply to publicly-listed firms in all the IASB's member-states and consequently, have a much more widespread and global environmental implications. Because of their wide application, this paper will focus analyses on IAS 37 and IFRS 3.

the IASB has made some controversial decisions on the guidance within IAS 37 and IFRS 3 that have potentially significant implications for disclosure and cash amounts associated with environmental liabilities and risks. These decisions demonstrate that international accounting standards play a role in determining the extent to which a firm's environmental performance impacts its bottom-line or economic value. Because the IASB now sets accounting standards for over 110 countries, these decisions on the valuation of a firm's environmental performance generates an informal regime that defines how global financial markets measure value. This unique authority of the IASB is overlooked by students of GEP, but deserves more attention as a powerful site of authority capable of shifting modern capitalism towards the imposition of costs on pollution and the accrual of value to sustainability efforts.

Before outlining these arguments, it is important to clarify what the paper does not attempt to do. First, this paper is not designed to demonstrate empirically how specific provisions within international accounting standards are in fact affecting the environment. That task is left to future researchers; the goal here is a more modest ground-clearing exercise designed to convince GEP scholars why this issue should form a more important part of the research agenda for the field. Second, although the paper discusses IASB debates in detail, it does not attempt to explain the politics of the debates and IASB decision-making. The objective instead is the more limited one of attempting to convince the reader of the potential environmental *significance* of these debates. For readers so convinced, the next research step will be to explore the politics of IASB decision-making vis-à-vis the environmental issues. The conclusion to the paper outlines some suggestions for future research in this area.