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Mandatory Environmental Disclosures by Companies Complying with IASs/IFRSs: The Cases of France, Germany, and the UK☆

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Abstract

This study investigates whether the adoption of a single set of accounting standards, such as IASs/IFRSs, guarantees the harmonization of accounting practices within a country and across countries, or whether differences in reporting practices persist because of dissimilarities in reporting habits and institutional settings. To this end, we investigate whether the level of environmental disclosure under IFRSs is related to the size of the reporting firm, and the strength of legal and regulatory constraints on environmental disclosures in the country where the firm is domiciled. Results indicate (1) that environmental disclosures imposed by IFRSs increase with firm size, and (2) that firms domiciled in countries with constraining environmental disclosure regulations (i.e., France and the UK) report more on environmental issues than firms domiciled in countries with weakly constraining regulations (i.e., Germany). This suggests a strong impact of national regulations on IFRS reporting. Taken as a whole, our results support the view that IFRSs are not applied consistently across firms and across countries, notably because of persistence of reporting traditions and discrepancies in national legal requirements.
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1. Introduction

The accelerated process of globalization, increased interdependence of financial markets, and high capital mobility have all contributed to increased awareness of the necessity for a common set of accounting standards. In light of this, IASs/IFRSs were adopted to enhance financial statement comparability across firms. However, opportunities and motives for differences in financial reporting remain due to the flexibility provided by accounting standards and because of differences in reporting traditions and national legal, taxation, and financing systems.

To determine whether reporting habits and national characteristics may affect environmental information reported by firms complying with IASs/IFRSs, we took three steps:

1. We analyzed all IASs/IFRSs and IFRIC to create a grid aimed at calculating a score quantifying the environmental information available in financial statements.
2. We analyzed the regulatory environmental framework prevailing in France, Germany, and the UK, the three countries under study, to determine the magnitude of the non-accounting information requirements imposed by environmental regulations in each country.
3. We used regression techniques to determine whether environmental disclosure scores differ depending on the country where the reporting firm is domiciled (i.e., a proxy for the strength of national regulations), and the size of the reporting firm (i.e., a proxy for its reporting habits concerning environmental disclosures).

This paper is divided into seven parts. The next part introduces the literature review to demonstrate the contribution this article makes to the literature. The third part presents the environmental regulatory framework of the three countries and the hypotheses. The fourth part explains the sample. The fifth presents the creation of our environmental information grid and the empirical models used to test the hypotheses. The sixth part discusses the results. The last section provides interpretations and draws conclusions.

2. Literature on determinants of environmental disclosure

As suggested by Ball, Robin, and Wu (2003), Ball (2006), Nobes (2006), Bradshaw and Miller (2008), Holthausen (2009), and Kvaal and Nobes (2010), the adoption of a single set of accounting standards does not systematically ensure comparability of financial statements. The suggested reasons for persistent differences in financial reporting notably include differences in national regulations and in reporting traditions. Therefore, compliance with IAS/IFRS environmental requirements may differ across countries because of national environmental disclosure regulation differences, and across firms because of differences in reporting practices.

Until the late 1980s, there was no great need for environmental disclosure (Milne & Chan, 1999; Solomon & Solomon, 2006). Investors started attaching importance to environmental information from the 1990s (De Villiers & Van Staden, 2010; Deegan & Rankin, 1997; Epstein

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