BUSINESS MANAGEMENT

Sustainability Reporting

Perspectives on Regulatory and Professional Initiatives across the Asia Pacific

A report prepared for CPA Australia

SEPTEMBER 2005

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EXECUTIVE SUMMARY

This study reports on a survey of regulatory developments and other professional and commercial initiatives in accounting, auditing and corporate governance that share a common objective of enhancing corporate transparency and accountability to a broader set of stakeholders for environmental and social performance. The timing of this review captures the impact of national and international responses to the 1998 Asian debt crisis. The recent spate of high profile corporate collapses, such as Enron and Worldcom and many others, has also had significant global repercussions, adding momentum to financial reporting and corporate governance reforms. While every regulatory jurisdiction included in this review has undergone some form of corporate governance reform over the last five years, some jurisdictions have introduced mandatory reporting requirements while others have relied on voluntary codes and guidelines. Some of the corporate governance reforms covered in this review include requirements or recommendations to provide social and environmental disclosures to a broader range of stakeholders, while others are silent on the issue.

For the purpose of this report regulatory developments and initiatives are categorised as specific mandatory requirements, general mandatory requirements, and specific recommendations and guidelines. Mandatory requirements have been introduced in Australia, Malaysia and Korea. The Australian and Malaysian requirements have been introduced through legislation. They prescribe narrowly defined piecemeal disclosures and are unrelated to the Asian debt crisis. The mandatory disclosures introduced in South Korea are unique in that they are contained within an accounting standard and require a wider range of disclosures. These requirements have been introduced in South Korea since the Asian debt crisis. General mandatory requirements have been introduced in Australia and India as part of a broader package of corporate governance requirements. The vast majority of regulatory and other initiatives to enhance social and environmental reporting are in the form of recommendations and guidelines and have been introduced by a range of authorities, professional bodies and commercial organisations, including: governments, typically ministries with environmental portfolios; stock exchanges and securities commissions, usually as part of corporate governance codes; professional accountancy bodies; and other commercial organisations, such as business councils. The findings of the review are summarised by country in the table below.

Summary of review

Country or jurisdiction	Source of specific mandatory requirements	Source of general mandatory requirements	Source of specific recommendations and guidelines
Australia	Corporations Act; Australian Securities and Investments Commission; Financial Service Reform Act;	ASX Corporate Governance Council	Department of Environment and Heritage; Group of 100; Minerals Council of Australia; CPA Australia
China			State Environmental Protection Agency; Association of Chartered Certified Accountants (ACCA)
Hong Kong			Hong Kong Stock Exchange; Hong Kong Institute of Certified Practising Accountants (formerly Hong Kong Society of Accountants); ACCA
India		Securities and Exchange Board of India Committee on Corporate Governance; Companies Act	
Indonesia			
Japan			Ministry of the Environment
Malaysia	Occupational Safety and Health Act; Occupational Safety and Health (Control of Industrial Major Accidents) Regulations		Bursa Malaysia (formerly Kuala Lumpur Stock Exchange); Malaysian Accounting Standards Board; ACCA
New Zealand			Institute of Chartered Accountants of New Zealand; New Zealand Business Council for Sustainable Development; Sustainable Business Network and Ministry for the Environment
Philippines			Philippines Securities and Exchange Commission
Singapore			Singapore Accounting Standards Board; ACCA
South Korea (Republic of Korea)	Korean Accounting Standards Board		Committee on Corporate Governance; Ministry of Environment
Thailand			

INTRODUCTION

This part of the research project involves a review of regulatory and professional initiatives in accounting, auditing and corporate governance designed to improve the transparency and management of the social and environmental aspects of entities' activities. We also seek to determine whether such initiatives feature in broader regulatory endeavours aimed at providing economically viable and sustainable solutions to problems of financial distress in the Asia-Pacific region. The focus of the review is on reporting requirements and guidelines applicable to entities operating in the private sector. Guidelines or regulations which have exclusive application to public sector entities are outside the scope of this review. Accordingly, this report documents the extent to which regulatory or other professional bodies and commercial organisations either mandate or encourage reporting of social and environmental information by corporations and other private sector enterprises in the Asia-Pacific region.

The countries and other regulatory jurisdictions included in this analysis are:

Australia	Malaysia
China	New Zealand
Hong Kong	Philippines
India	Singapore
Indonesia	South Korea (Republic of Korea)
Japan	Thailand

For each jurisdiction, a search was undertaken of all publicly available documents, subject to language constraints, on the websites of the following bodies:

Stock exchanges

Securities commissions

Standard setters

Government departments

Professional accountancy bodies

Other relevant bodies in specific countries

The report is structured by country in the order listed above. Within each country, regulatory and professional developments are classified as follows:

a. specific mandatory requirements;
b. general mandatory requirements; and
c. specific recommendations and guidelines.

Specific mandatory requirements include any involuntary requirement to provide publicly information about the entity's environmental or social policies, operations or performance. The scope of the requirements may vary across countries as regulatory frameworks are quite diverse. For instance, a regulation may be imposed on all companies required to report under domestic corporate law, as in Australia, or it may be confined to listed entities, or a specific industry. An example of a specific mandatory requirement is the requirement under s 299(1) of the *Corporations Act* in Australia to include in the directors' report details of breaches of environmental regulations.

General mandatory requirements include statements in compulsory reporting directives that their scope may extend to environmental and/or social information, but which fall short of specific disclosure requirements. An example of a general mandatory requirement is contained in the Australian Stock Exchange (ASX) requirement for listed companies to report the extent of their compliance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, including to 'establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders' (Recommendation 10.1). The requirement to report on the extent of compliance with recommendation 10 is mandatory for listed entities. Under this requirement listed entities might report their policies and procedures for stakeholder engagements and codes of conduct. However, this falls short of being a specific mandatory requirement for social or environmental disclosures because an entity could satisfy the reporting obligation by disclosing that for given reasons it has not complied with recommendation 10.

Specific recommendations and guidelines refer to pronouncements that encourage social or environmental reporting, or offer guidelines for voluntary adoption. They include codes, such as Enduring Value, the Australian Minerals Industry Framework for Sustainable Development, which mandate disclosures for entities that voluntarily become signatories to them. Specific recommendations and guidelines may be issued by organisations, such as professional accountancy bodies, which generally do not have broad enforcement powers; or by entities, such as stock exchanges, which do have broad powers of enforcement among listed entities, but choose not to make the disclosures mandatory.

Other initiatives that do not fall into any of the three classifications, such as the National Pollutants Inventory, are identified and discussed within each jurisdiction.

AUSTRALIA

Australia has a population of approximately 20 million people (19.7 million in 2002).[1] The GDP for 2002 was US$409.4 billion (current US$)[2], and the GDP per capita was $28,260 (International $) in 2002.[3] The Australian economy was ranked 13th with a GDP of US$631 billion in 2004.[4] The market capitalisation of all listed companies was US$381 billion in 2002 and as a proportion of GDP was 93.1 per cent.

External corporate reporting is regulated in Australia by the *Corporations Act*, which requires large public companies, large private companies and other disclosing entities to prepare an annual report including financial statements prepared in accordance with accounting standards issued by the Australian Accounting Standards Board and a directors' report. The *Corporations Act* is administered by the Australian Securities and Investments Commission (ASIC). Companies listed on the Australian Stock Exchange (ASX) are also required to comply with its listing rules.

The two major professional accountancy bodies in Australia are CPA Australia and the Institute of Chartered Accountants in Australia (ICAA). The Australian Accounting Research Foundation (AARF) was jointly established by CPA Australia and the ICAA. The AARF is responsible to the Joint Standing Committee of the two professional bodies. The Auditing and Assurance Standards Board was a board of the AARF before it was reconstituted and brought under the Financial Reporting Council by changes introduced by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*.

Specific mandatory requirements

In 1998, section 299(1)(f) of the Corporations Act was introduced. This section requires companies to report within the directors' report breaches of any significant environmental regulation under a law of the Commonwealth, a state or a territory. This mandatory requirement applies to all entities that are required to prepare financial statements under the *Corporations Act*.

Following concerns regarding ambiguity of the wording of the requirement, and as part of an attempt to clarify accounting-related requirements introduced into the Corporations Law by the *Company Law Review Act 1998* and the *Managed Investments Act 1998*, the ASIC released Practice Note 68[5] which states:

a) Prima facie, the requirements would normally apply where an entity is licensed or otherwise subject to conditions for the purposes of environmental legislation or regulation.

b) The requirements are not related specifically to financial disclosures (eg. contingent liabilities and capital commitments) but relate to performance in relation to environmental regulation. Hence, accounting concepts of materiality in financial statements are not applicable.

c) The information provided in the directors' report cannot be reduced or eliminated because information has been provided to a regulatory authority for the purposes of any environmental legislation.

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[1] World Development Indicators database, World Bank, 2004.

[2] The term 'current US$' is used by the World Bank to refer to an amount measured in, or translated to US$ at the exchange rate applicable in the year for which the indicator is reported, as opposed to US$ of an earlier year used for time-series analysis. Thus, the 2002 GDP (current US$) measure reported throughout this report refers to US$ current at 2002. It should not be interpreted as referring to US$ current at the date of this report.

[3] The World Bank applies purchasing power parity conversion factors to provide an internationally comparable measure of GDP per capital in 'International $'.

[4] World Development Indicators database, World Bank, 15 July 2005

[5] Release 68 was issued to clarify accounting-related requirements introduced into the Corporations Law by the Company Law Review Act 1998 and the Managed Investments Act 1998.

d) The information provided in the directors' report would normally be more general and less technical than information which an entity is required to provide in any compliance reports to an environmental regulator.

The *Financial Services Reform Act 2001* includes requirements for product disclosure statements. Providers of financial products with an investment component are required to disclose the extent to which labour standards or environmental, social or ethical considerations are taken into account in investment decision making (s 1013D(1)(l)).

Section 1013DA of the *Financial Services Reform Act 2001* empowers the ASIC to develop guidelines that will be compulsory where a product disclosure statement makes any claim that labour standards, or environmental, social or ethical considerations are taken into account in investment decision making. This section of the act reflects intentions at the time to enhance disclosures about investment policies by investment funds in the ethical funds management industry. The Section 1013DA Disclosure Guidelines were released by the ASIC in December 2003 and applied to product disclosure statements from 11 March 2004.

General mandatory requirements

The ASX listing rules require entities listed on the ASX to report the extent to which they comply with each of the Best Practice Recommendations contained in the *Principles of Good Corporate Governance* and *Best Practice Recommendations* released by the ASX Corporate Governance Council in March 2003. The preamble to principle 10, 'recognise legal and other obligations to all legitimate stakeholders', states:

> *Companies have a number of legal and other obligations to non-shareholder stakeholders such as employees, clients/customers and the community as a whole. There is growing acceptance of the view that organisations can create value by better managing natural, human, social and other forms of capital. Increasingly, the performance of companies is being scrutinised from a perspective that recognises these other forms of capital. That being the case, it is important for companies to demonstrate their commitment to appropriate corporate practices.*

Recommendation 10 is to 'Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders' (*ASX Corporate Governance Council 2003*). The response that listed entities make to this general mandatory reporting requirement will vary with the nature of their corporate governance structure and practices in relation to a broader set of stakeholders. For example, corporate governance disclosures in Telstra Corporation's in relation to recommendation 10 discussed compliance programs on health, safety, environment, equal employment opportunity, privacy, trade practices and industry regulation, as well as policies on corporate social responsibility, political and other donations (Telstra Corporation 2005 Annual Report, pp 180-2). However, a statement of non-compliance for given reasons also satisfies this general reporting obligation. A report on the 2004 corporate governance reporting practices of the top 500 indicated that less than 60 per cent of entities sampled complied with recommendation 10, compared with average adoption rates of 68 per cent across all principles (ASX 2005).

Specific recommendations and guidelines

The Department of the Environment and Heritage (DEH) published *TBL Reporting in Australia: A Guide to Reporting Against Environmental Indicators* in June 2003.[6] The guide is intended to assist companies and other entities in reporting against the environmental indicators identified in the *Sustainability Reporting Guidelines* issued by Global Reporting Initiative (GRI) in 2002.

At about the same time the Group of 100, an association of Australia's senior finance executives, issued *Sustainability: A Guide to Triple Bottom Line Reporting*. The guide was prepared by a working party convened by the Group of 100 with assistance from Ernst & Young. It is interesting to note that the Group of 100 report addressed the issue of the role of the chief financial officer in triple bottom line (Group of 100, 2003, p 7):

The role of the CFO will include: ensuring the accuracy of financial and economic data, overseeing the financial efficiency of the reporting process and reviewing the report to assess any risks associated with statements or information within the report. In addition, the CFO may be given the role (by the Board) of assuring accuracy and integrity of the non-financial data contained within the report.

[6] The report was prepared by Maunsell Australia Pty Ltd for Environment Australia and published by the DEH. Environment Australia has since been merged with the DEH.

The guide also included a section on options for verification and refers to emerging initiatives by the GRI and the AA1000 Assurance Standard Guiding Principles.Another initiative by industry is the development of the Australian Minerals Industry Code instigated in 1996 by the Minerals Council of Australia[7]. This was further developed in 2004 when the Minerals Council of Australia issued *Enduring Value*, the Australian Minerals Industry Framework for Sustainable Development. Signatories to *Enduring Value* commit to, amongst other things, implementing and maintaining ethical business practices and sound systems of government and the integration of sustainable development considerations in decision-making. *Enduring Value* includes an obligation to publicly report to stakeholders on sustainability performance at site level, at least annually. The reporting metrics are to be self-selected from the GRI, the GRI Mining and Metals Sector Supplement or developed by the entity.

CPA Australia's Audit and Assurance Centre of Excellence published research into the assurance practices of triple bottom line reporting in February 2004. The research was conducted by the RMIT School of Accounting and Law.[8] Two very significant outcomes of the research were:

- a database made comprising over 160 companies that release TBL reports accompanied by assurance statements; and
- a report, *Triple Bottom Line: A Study of Assurance Statements Worldwide*, providing an analysis of TBL report assurance statements by geographical segments (Australia, Europe, Japan and the UK) (Deegan et al. 2004).

The main disclosure recommendation of the report is that assurance providers need to present clear information about items such as:

- the objectives of the assurance engagement (eg to give an opinion on all or a part of the TBL report, to assess controls and systems in place, to assess performance against targets or codes, to assess the processes used to identify, collect and report data);
- the coverage of the assurance statement (eg content of the report generally, environmental, social and/or economic data, management systems, performance indicators);
- the reporting criteria against which the reports are assessed (eg AA 1000, GRI, ISO 14001, relevant statutory requirements);
- the nature, timing, and extent of assurance procedures employed;
- the standards used which govern the work of the assurance provider (eg International Standards on Assurance Engagements, International Standards on Auditing);
- whether experts were used in the assurance engagement; and
- whether any restrictions were imposed by management on the scope of the assurance work.

Other initiatives

The Greenhouse Challenge, launched in 1995, is a joint voluntary initiative between the national Government and industry to abate greenhouse gas emissions. While there is no direct public reporting requirement, organisations entering into cooperative agreements are required to report annually, or as agreed, to the Commonwealth. These progress reports include an emissions inventory for the current year, updates on actions undertaken or planned and any revision to emission forecasts. Reports also document management change, and domestic and international influence. The individual independent verification reports comprise a section for public release and a 'Commercial-in-Confidence' section. All verifiers complete their reports using a pro-forma document to ensure consistency in format and coverage. Following completion of the independent verification round the publicly released components of the individual members' reports are posted on the Australian Greenhouse Office section of the Department of Environment and Heritage (DEH) website.[9]

Similarly, the National Pollutant Inventory (NPI) provides for indirect reporting of specified pollutants emitted to the air, land or water by certain entities, where such emissions exceed a specified threshold. The information is reported to the National Environment Protection Council and is made available to the public through a database on the NPI section of the DEH website.[10]

[7] Refer Minerals Council of Australia (2000).
[8] The summary report is available at http://www.cpaaustralia.com.au
[9] http://www.greenhouse.gov.au
[10] http://www.npi.gov.au

In June 2003, the Auditing and Assurance Standards Board (AuASB) issued *AUS 110: Assurance Engagements other than Audits or Reviews of Historical Financial Information*. This standard establishes basic principles and standards to be applied by auditors when completing work such as verification of sustainability reports. At the time, the AuASB was a board of the AARF. It should be noted that AUS 110 does not call for audit of non-financial information, but prescribes principles that should be followed in the event that such an audit or review is undertaken.

Other initiatives by the accountancy profession include the establishment by The Institute of Chartered Accountants (ICAA) of the Environmental Task Force in 1995, which was renamed as the Triple Bottom Line Special Interest Group in 1999, and produces periodic newsletters on issues relating to TBL reporting.

The ICAA, Environment Australia and EPA Victoria jointly sponsored research by Professor Deegan of the RMIT on environmental management accounting. One of the common findings of the case studies undertaken was that many opportunities for improving financial and environmental performance were lost due to the lack of information (Deegan, 2003).

More recently, Professor David Boymal, Chairman of the AASB suggested that the AASB prepare an accounting standard for sustainability reporting (Gettler 2005).[11] The AASB Work Program as at September 2005 lists 'social policy obligations' with exposure drafts due in the first quarter of 2006 (non-pension) and the second quarter 2006 and beyond for an exposure draft (pension) but this project is currently limited in scope to the public sector.

CHINA[12]

The People's Republic of China has a population of approximately 1 billion people (1.28 billion in 2002). The GDP for 2002 was US$1,266.1 billion (current US$), and the GDP per capita was $4,580 (International $) in 2002. The Chinese economy was ranked 7th with a GDP of US$1,649 billion in 2004.[13] The market capitalisation of all listed companies was US$463 billion in 2002 and as a proportion of GDP was 36.6 per cent.[14]

Companies in the People's Republic of China are regulated by the Securities Law and applicable laws and regulations administered by China's State Environment Protection Agency. The China Securities Regulatory Commission (CSRC) directly governs the Shanghai and Shenzehn Stock Exchanges. The Ministry of Finance provides a major source of generally accepted accounting principles with additional requirements for listed entities determined by the CSRC.

Key professional accountancy bodies operating in China include the Beijing, Shanghai and Guangzhou branch offices of CPA Australia, the Chinese Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (ACCA) China.

Specific Mandatory Requirements

The review has not identified any specific mandatory requirements for companies in China to provide disclosures about social or environmental policies, operations or performance. However, individual corporations may be required to publicly report on their environmental performance by local Environment Protection Bureaus under an incentive-based pollution control program introduced by the State Environmental Protection Agency (SEPA).[15] The required disclosures include corporate environmental policy, levels of emission and discharge, the status of pollution abatement, the state of environmental compliance and payments for pollution levies.

General Mandatory Requirements

The review has not identified any general mandatory requirements for companies in China to provide disclosures about social or environmental policies, operations or performance. While the CSRC issued a Code of Corporate Governance for listed entities in 2001, it does not require disclosure of social or environmental performance, nor make any specific recommendations to do so.

[11] Professor Boymal's comments coincide with the Parliament of Australia Joint Committee on Corporations and Financial Services Inquiry into corporate social responsibility and the Ministerial reference to the Corporate and Markets Advisory Committee requesting that it review and report on matters including corporate social and environmental reporting.

[12] As Hong Kong is a special administrative region within the People's Republic of China the requirements discussed in this section pertaining to China do not generally apply to entities in Hong Kong.

[13] World Development Indicators database, World Bank, 15 July 2005

[14] World Development Indicators database, World Bank, 2004

[15] This initiative is discussed further under 'specific recommendations and guidelines'.

Specific recommendations and guidelines

The SEPA, with support from the World Bank's InfoDev Program, implemented Green-Watch, an incentive-based public disclosure pollution control program. The program began with mandatory participation of large polluters, with later expansion to smaller sources of pollution. Participating enterprises are required to provide information to local Environment Protection Bureaus (EPBs) about corporate environmental policy, levels of emission and discharge, the status of pollution abatement, the state of environmental compliance and payments for pollution levies. The local EPBs use the information to rank enterprises from best to worst and publicly report lists of non-complying corporations through the media. An enterprise placed on the non-complying list must publicly report on its environmental performance for the year by 31 March of the following year. Other participating enterprises may also voluntarily report on their environmental policies, compliance and performance to the public or stakeholder groups.

The ACCA recently announced its commitment to translating the GRI 2002 into Chinese to facilitate sustainability reporting in China. This project will make the GRI more accessible to enterprises in China. This was announced in September 2005 in a keynote speech delivered by Mr Blewitt, chief executive of the ACCA at a conference on sustainable development hosted by the Chinese Government. Mr Blewitt said that in addition to government and business, professional bodies also had a key role to play because they had a duty to put the public interest first, ahead of the potential self-interest of their members; and accounting bodies must encourage industry to be more transparent in their financial reporting about the costs which they have traditionally left to wider society. While not an official pronouncement, the chief executive's speech, reported on the ACCA website, demonstrates the professional body's encouragement of sustainability reporting.

HONG KONG

Hong Kong is a separate administrative region of China and has a population of approximately 7 million people (6.8 million in 2002). The GDP for 2002 was US$161.5 billion (current US$), and the GDP per capita was $26,910 (International $) in 2002. The Hong Kong economy was ranked 33rd with a GDP of US$163 billion in 2004.[16] The market capitalisation of all listed companies was US$463.1 billion in 2002 and as a proportion of GDP was 286.7 per cent.[17]

As a separate administrative region of China, Hong Kong has its own stock exchange and securities commission. The principal regulator of the Hong Kong Stock Exchange (HKEx) is the Securities and Futures Commission (SFC), which is an independent statutory body established in 1989 by the Securities and Futures Commission Ordinance. Entities listed on the HKEx are governed by three main sources: the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the 'Listing Rules'); the disclosure provisions of the Hong Kong Companies Ordinance (the 'Companies Ordinance'); and the Statements of Standards Accounting Practice (the 'SSAP') issued by the Hong Kong Institute of Certified Public Accountants (or the International Financial Reporting Standards issued by the International Accounting Standards Board).

The accountancy profession is regulated by the Hong Kong Institute of Certified Public Accountants (HKICPA), formerly the Hong Kong Society of Accountants (HKSA). Other major professional accountancy bodies in Hong Kong are the Hong Kong division of CPA Australia and the ACCA (Hong Kong).

Specific Mandatory Requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General Mandatory Requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

[16] World Development Indicators database, World Bank, 15 July 2005
[17] World Development Indicators database, World Bank, 2004

Specific recommendations and guidelines

In 1999 the HKEx issued a guide, *Reference for Disclosure in Annual Reports*. The HKEx emphasised that this document did not form part of the listing rules and the disclosures identified are explicitly described as suggestions as to how listed entities might satisfy the reporting requirements: 'In this publication the Exchange has sought to identify the information that can be provided in listed issuers' annual reports which is useful for investors' decision making' (para 1.4). The suggestions are in relation to numerous disclosure requirements including notes to the financial statements and management discussion and analysis. The HKEx identified specific disclosures for selected industries and classified them into three categories: basic operating statistics and information; detailed profit and loss account information; and specific information that indicates the characteristics, or highlights the risks and opportunities, of the operations of the companies in the selected industries. Disclosures about environmental and social performance are suggested in the third category for certain industries. The items pertaining to environmental and social performance are extracted from the suggested disclosures for each industry and summarised in Table 1.

Coinciding with global movements to enhance corporate governance, the HKICPA (then, the HKSA) issued *Corporate Governance Disclosure in Annual Reports: A Guide to Current Requirements and Recommendations for Enhancement* in 2001. The guide is aimed at companies listed on the main board of the HKEx, the Growth Enterprise Market of the HKEx, unlisted public companies, public corporations and large private companies. HKSA (2001, para 4.9) encourages companies 'to disclose policies relating to their wider social responsibility including business ethics, the environment and other public policy commitments'. Disclosures about human resource policies, such as programs for human resource development or employee share ownership plans are also encouraged (para 4.10). Reporting on relationships with key stakeholders including employees, creditors, suppliers and other significant parties is also encouraged (para. 4.11).

Another initiative of the accountancy profession is the ACCA's translation of the GRI 2002 into Chinese, discussed under the same heading for China. Access to the GRI in Chinese will facilitate sustainability reporting in China and, to a lesser extent, in Hong Kong. As noted in the discussion on China, the chief executive of the ACCA spoke in support of the role of accountants and professional accountancy bodies in encouraging industry to be more transparent in their financial reporting about the costs that they have traditionally left to wider society. Local support for the head office initiative is reflected in the prominent placement of this speech on the ACCA Hong Kong website.

Table 1: Social and Environmental Disclosures Suggested by the HKEx (1999)

Industry	Suggested Disclosure
Airline Industry	Comments on regulatory matters focusing on the impact of existing or foreseeable changes in such requirements on a company's operations, eg, safety, maintenance and environmentally related regulations (chapter 4)
Railroad Operator	Comment on safety, eg, Number of accidents or fatalities per million-train-kilometres; number of injuries per 200,000 employee hours work (company and industrial average); number of level crossing accidents; number of accidents per million passengers; train collisions and derailments; trains passing signals at danger; compensation paid or payable for work-related or injury-related events; Comment on environmental regulations concerning air emissions, discharges into water, the generation, handling, storage, transportation, treatment and disposal of waste and hazardous substances, and soil and groundwater contamination, eg, relevant local laws and regulations relating to emission and transportation of hazardous material; clean up costs, penalties, claims, losses or other expenses; capital expenditure incurred for environmental matters; provision or reserve and contingent liabilities for environmental obligations; anticipated pay out period of future environmental liabilities; accounting policy for environmental liabilities; environmental training and education programs for employees (chapter 5)
Power Plant	Comments in relation to regulations concerning emissions, discharges, waste disposal and electromagnetic fields and environmental risk, e,g., existing laws and regulations regarding environmental matters and their impact on the company's operations, and capital or operating costs; revenue and capital expenditure spent for the last 3 years as a result of compliance, remediation, containment, and monitoring of environmental matters; and environmental matters related the revenue and capital expenditure budget for the next 2 years (chapter 6)
Pharmaceutical	Comments on regulatory and environmental matters focusing on the impact of existing or foreseeable changes, eg, relevant safety and environmentally related regulations (chapter 7)
Iron and Steel	Comment on information on employees, eg, number of employees by location; employment costs and basis of remuneration; details of labour agreements, pension plan and costs; other staff benefits and costs; staff policy (chapter 8)
Petrochemical	Comment on health, safety and environmental protection measures, eg, lost time injury frequency (an injury that results in a person being unable to work for a day or more, and frequency rate is per million hours worked); hydrocarbon emissions to air (thousands of tons); discharges to water (thousand of tons); oil spills (number over 1 barrel) Comment on environmental liabilities and related costs, eg, Existing environmental laws and regulations; proposed new environmental laws and regulations; environmental eg claims identified and their impact on results and operations; environmental expenses; expected capital expenditure in the next 5 years to meet environmental standards (chapter 9)
Tele-communications	Comment on regulatory matters, eg, safety, maintenance and environmentally related laws and regulations; accreditation of environmental programs from reputable bodies (ISO 14000) (chapter 10)
Infrastructure	Comment on maintenance and safety, eg, number of accidents Comment on regulatory matters and government policy and their impact on the operations, eg, safety, maintenance and environmentally related regulations (chapter 11)
Retailing	Comment on public image, which can be enhanced by support to the community (through philanthropy and donations to community and charity groups) and commitment to the environment, eg, expenditure incurred for donations, conference and other charity or educational programs; expenditure incurred and details of any recycling projects; energy saving programs; packaging catered for recycling, waste reduction and save costs; other environmental initiatives (load consolidation to maximise vehicle fill, backloading, aerodynamic trailer design, more efficient vehicle routing) (chapter 12)
Construction	Comment on regulatory matters, in the context of the strict laws and regulations and close government supervision because operations involve public safety, eg, safety and environmentally related regulations; licensing and qualification requirements of building contractors; details of construction licences including major terms and restrictions (chapter 13)
Food and beverage	Comment on public image, which can be enhanced by support to the community (through philanthropy and donations to community and charity groups) and commitment to the environment, eg, expenditure spent for donations, conference and other charity or educational programs; expenditure incurred and details of any recycling projects; energy saving programs; packaging catered for recycling, waste reduction and save costs; other environmental initiatives Comment on government regulations, which may include local government regulations affecting hygiene, environment, zoning and employment, eg, requirements of existing statutory or administrative rules, and the permits/certificates or licence granted; eg details of any violation of existing statutory or administrative rules; expected effect on operations of promulgation of additional requirements in the future (chapter 15)

INDIA

India has a population of approximately 1 billion people (1.05 billion in 2002). The GDP for 2002 was US$510.2 billion (current US$), and the GDP per capita was $2,670 (International $) in 2002. The Indian economy was ranked 10th with a GDP of US$692 billion in 2004.[18] The market capitalisation of all listed companies was US$131 billion in 2002 and as a proportion of GDP was 25.7 per cent.[19]

Companies in India are governed by the *Companies Act 1956*. Listed companies are also subject to the stock exchange listing rules.

The Securities and Exchange Board of India (SEBI) regulates the National Stock Exchange of India Limited. The functions of the SEBI, under the *SEBI Act 1992*, are:

- Protection of the interests of investors in securities;
- Development of the securities market;
- Regulation of the securities market, and
- Matters connected therewith and incidental thereto.

In regulating the securities market the SEBI determines listing rules and issues guidelines for listed entities.

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the *Chartered Accountants Act 1949*. The ICAI regulates the accountancy profession. Its role includes the issue of National Accounting Standards which have legal backing. The ICAI also issues mandatory auditing standards.

Specific Mandatory Requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General Mandatory Requirements

In 2001 the SEBI Committee on Corporate Governance introduced a requirement for listed companies to submit a quarterly compliance report, including a corporate governance report, within 15 days of the end of each financial reporting quarter.[20] While not mandating specific sustainability disclosures, the SEBI Committee on Corporate Governance's discussion of corporate governance indicated that a broader set of stakeholders should be considered:

- Good corporate governance includes taking into account societal concerns about labor and the environment (p 1) and
- best-managed corporations also recognise that business ethics and corporate awareness of the environmental and societal interest of the communities, within which they operate, can have an impact on the reputation and long-term performance of corporations (p 3).

The *Companies Act 1956* also contains a requirement for the inclusion of information about energy consumption in the board report which must be presented to the company by members of the board of directors at the annual general meeting. The requirement does not specify the nature of information about energy consumption (*Companies Act 1956*, a. 217 (1) (e)):

(1) There shall be attached to every balance sheet laid before a company in general meeting, a report by its board of directors, with respect to:

    (e) the conservation of energy, technology absorption, foreign exchange earnings and outgo, in such manner as may be prescribed.

It would appear from a study undertaken of corporate environmental reporting in India that this requirements is interpreted narrowly (Sahay 2004).

[18] World Development Indicators database, World Bank, 15 July 2005
[19] World Development Indicators database, World Bank, 2004
[20] Circular No. SMD/Policy/CIR-03/2001 issued 22 January 2001

Specific recommendations and guidelines

The review did not identify any specific recommendations or guidelines for reporting on social or environmental policies, operations or performance in India by authoritative bodies or other key players in corporate and financial reporting regulation.

Other

The National Stock Exchange of India undertook a review of the corporate social responsibility initiatives of 50 large companies included in the Exchange's broad based index in January 2003. The study found that monitoring and reporting on social and environmental issues by India's largest companies was limited. Whereas environmental assessments and audits are undertaken in some cases, there is almost no evidence of social audits taking place (National Stock Exchange of India, 2003, p 47). Very little systematic documentation of corporate social responsibility initiatives is available (p 45). While this study reflects the stock exchange's interest in corporate social responsibility reporting it has not, as yet, resulted in any recommendations for improved disclosures.

INDONESIA

Indonesia has a population of approximately 212 million people (211.7 million in 2002). The GDP for 2002 was US$172.9 billion (current US$), and the GDP per capita was $3,230 (International $) in 2002. The Indonesian economy was ranked 22nd with a GDP of US$257.6 billion in 2004.[21] The market capitalisation of all listed companies, US$30 billion, was 17.3 per cent of GDP in 2002.[22]

The Indonesian Capital Market Supervisory Agency performs a regulatory oversight function, for the now privatised Jakarta Stock Exchange. Accounting standards are issued by Komite Standar Akuntaksi Keuangan (Committee on Financial Accounting Standards).

Specific mandatory requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General mandatory requirements

No general mandatory requirements for corporations to report on social or environmental policies, operations or performance were identified in the review.

Specific recommendations and guidelines

The review did not identify any specific recommendation or guidelines issued by authoritative bodies or key players in corporate regulation for any category of entities to report on social or environmental policies, operations or performance.

Other

In April 2001, the National Committee on Corporate Governance (NCCG), a high-level advisory group appointed by the Indonesian government, produced a draft of the country's first code on corporate governance. The code is a model code and its recommendations must be adopted by rules and regulations of the securities regulator, BAPEPAM, and the main stock exchange, the Jakarta Stock Exchange. Several paragraphs of the code relate to corporate social responsibility reporting:

- a stated purpose of the code includes compliance with the prevailing regulations having the force of law, in accordance with their social responsibility towards the various stakeholders and the environmental protection (p 2); and
- the Company shall provide stakeholders with relevant information necessary for protecting their rights (p 20).

[21] World Development Indicators database, World Bank, 15 July 2005
[22] World Development Indicators database, World Bank, 2004

There is no evidence, in materials accessible in either English or Indonesian, of the code being implemented by the securities regulator at the time of writing.

JAPAN

Japan has a population of approximately 127 million people (127.1 million in 2002). The GDP for 2002 was US$3,993.4 billion (current US$), and the GDP per capita was $26,940 (International $) in 2002. The Japanese economy was ranked second with a GDP of US$4,623.4 billion in 2004.[23] The market capitalisation of all listed companies was US$2,126.1 billion in 2002 and as a proportion of GDP was 53.2 per cent.[24]

Japanese corporations are governed by the Commercial Code. Listed corporations are also governed by the Securities and Exchange Law and the listing rules of the Tokyo Stock Exchange (TSE). The Securities and Exchange Surveillance Commission (SESC), which falls within the ambit of the Financial Services Agency (FSA), monitors compliance with the various laws and regulations governing the securities market.

Japanese GAAP comprises Business Accounting Principles issued by the Business Accounting Council, Accounting Standards issued by the Accounting Standards Board of Japan (ASBJ), and Practical Guidelines issued by the Japanese Institute of Certified Public Accountants (JICPA). The ASBJ is a board of the Financial Accounting Standards Foundation, a private sector organisation established in 2001. The accountancy profession is regulated by the JICPA, which was reconstituted under Certified Public Accountants Law.

Specific Mandatory Requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General Mandatory Requirements

The Principles of Corporate Governance issued by the TSE in 2004 contained some references to stakeholders other than shareholders. However, the corporate governance principles, which are discussed below, do not provide for mandatory disclosures.

Specific recommendations and guidelines

The Ministry of the Environment has sought to encourage environmental reporting by Japanese companies through the issue of a number of publications.[25] These include:

1. Overview of Environmental Performance Indicators for Businesses (2000)
2. Environmental Performance Indicators for Businesses (2000)
3. Environmental Reporting Guidelines (2001)
4. Environmental Accounting Guidebook II (2001)
5. Developing an Environmental Accounting System (Year 2000 report)
6. Environmental Accounting Guidelines (2002, 2005)
7. Q&A - For Environmental Accounting Guidelines, which were available prior to the issue of the 2005 Environmental Accounting Guidelines
8. Understanding Environmental Accounting (September 2002)

The 2001 *Environmental Reporting Guidelines* summarise the directions and contents that are considered to be preferable, based on domestic and international trends on environmental reporting. The Ministry issued the guidelines to give practical guidance for those who are planning the publication of environmental reporting and also who already published environmental reporting(s) (Ministry of the Environment, 2001a, p 4).

The 2005 *Environmental Accounting Guidelines* include a framework for environmental accounting that addresses the scope or environmental accounting, internatal and external functions, the basic dimensions and structural elements designed to enhance the comparability of environmental reporting. The basic

[23] World Development Indicators database, World Bank, 15 July 2005
[24] World Development Indicators database, World Bank, 2004
[25] http://www.env.go.jp/en/rep/index.html

dimensions, or qualitative characteristics, identified in the *Guidelines* are: relevance, which includes materiality and significance to stakeholders; reliability, which includes faithful representation, substance over form and neutrality; understandability, such that stakeholders should be able to comprehend the wording; comparability; and verifiability. The structural elements are concerned with environmental conservation cost, environmental conservation benefit and economic benefit associated with environmental conservation and the social cost of environmental impacts (MOE 2005, pp 6-10). The guidelines also address accounting conceptual and technical aspects accounting issues including measurement and consolidation in the context of environmental reporting.

International survey undertaken by KPMG (2002, 2005) found that Japanese companies were the most likely to produce sustainability reports. The proportion of top 100 producing separate corporate responsibility reports was 80 per cent in 2005, compared with 72 per cent in 2002. KPMG (2002) suggests this is because of the guidelines on environmental reporting and environmental performance indicators issued by the Japanese Ministry of the Environment.

While the use of the guidelines has been effective in encouraging voluntary environmental disclosures, little progress has been made in other aspects of sustainability reporting. As noted by Knight and Scott (2001, p 30):

> While making good progress on environmental reporting, very few Japanese companies are looking beyond, to social issues and the wider concept of sustainability. These are not covered in government guidance, and again it appears that companies are reluctant to set a trend, but successful in following a model.

Other

In 2004, the TSE issued *Principles of Corporate Governance*, comprising a set of recommendations of the TSE's Listed Company Corporate Governance Committee. The principles acknowledge stakeholders other than shareholders and recommend that companies should establish smooth relationships with them. TSE's corporate governance principles also recommended reporting to other stakeholders such information as related to them. It did not, however, elaborate on the nature of other stakeholders or information related to them.

MALAYSIA

Malaysia has a population of approximately 25 million people (24.3 million in 2002). The GDP for 2002 was US$94.9 billion (current US$), and the GDP per capita was $9,120 (International $) in 2002. The Malaysian economy was ranked 36th with a GDP of US$117.8 billion in 2004.[26] The market capitalisation of all listed companies was US$124 billion in 2002 and as a proportion of GDP was 130.7 per cent.[27]

Companies in Malaysia are governed by the *Companies Act 1965*, which is administered by the Companies Commission of Malaysia. Listed entities are also required to comply with listing rules issued by Bursa Malaysia (formerly, the Kuala Lumpur Stock Exchange). The Securities Commission, a self-funding statutory body established under the *Securities Commission Act 1999*, supervises Bursa Malaysia. The Securities Commission reports to the minister of finance and has investigative and enforcement powers.

Accounting standards in Malaysia are issued by the Malaysian Accounting Standards Board (MASB), which was established under the Financial Reporting Act 1997. The MASB is an independent body. Publicly listed companies in Malaysia are required to comply with Malaysian accounting standards.

The Malaysian Institute of Accountants was established under the *Accountants Act 1967* as the major body regulating the accountancy profession. Major professional accountancy bodies in Malaysia are the Malaysian Association of Certified Public Accountants, the Malaysian Division of CPA Australia and the ACCA.

Specific Mandatory Requirements

Malaysia is one of only two countries included in this review for which the mandatory public disclosure of social information was identified. The *Occupational Safety and Health Act 1994* (s 17) requires the disclosure of information with respect to personal safety; and the Occupational Safety and Health (Control of Industrial Major

[26] World Development Indicators database, World Bank, 15 July 2005
[27] World Development Indicators database, World Bank, 2004

Accidents) Regulations, 1996 (reg 22) requires manufacturers to disclose information to the public relating to 'the nature of a major accident hazard including its potential effects on the population and the environment'.

General mandatory requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

Specific recommendations and guidelines

In a speech at the National Annual Corporate Report Awards in 1999, the president of the Kuala Lumpur Stock Exchange (now Bursa Malaysia), Datuk Salleh Majid, stated that companies should provide supplementary information, highlighting their corporate citizenship, community service, sports, social and welfare activities.[28] However, these suggestions were not incorporated in recent revisions of the stock exchange listing rules. The Bursa Malaysia listing rules make no specific mention of social or environmental disclosures.

Environmental disclosures are specifically mentioned by the MASB in *FRS 101: Presentation of Financial Statements* issued in 2004. The Standard is based on IAS 1: *Presentation of Financial Statements* but FRS 101 (para 10) includes an additional sentence encouraging environmental disclosures (emphasis added):

> Many enterprises present, outside the financial statements, additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are significant and where employees are considered to be an important user group. Enterprises are encouraged to present such additional statements if management believes they will assist users in making economic decisions.

A similar sentence has been added to the corresponding paragraph 10 of *FRS i-1: Preparation of Financial Statements of Islamic Financial Institutions*, 'An IFI is encouraged to present, outside its financial statements, the following: an environmental report and value added statements; and any other statements useful to users'.

The ACCA has published extensive guidelines for environmental reporting in 2003. In collaboration with the Department of Environment, Ministry of Science, Technology and the Environment, the ACCA developed *Environmental Reporting Guidelines for Malaysian Companies*. The guidelines (ACCA 2003a) outline relevant requirements in Malaysia and explain how companies might implement environmental reporting. Quantitative and qualitative disclosures are suggested. It is not based on any particular framework but reference is made to the GRI as a source of further information.

Other

There is some dissatisfaction with social environmental performance at government levels. At the July 2002 launch of the ACCA's Malaysian Environmental Reporting Award scheme, the Science, Technology and Environment Minister, Datuk Seri Law Hieng Ding, commented on the importance of companies not only acting a socially responsible manner, but also to report on how they were fulfilling their social and environmental obligations. He cautioned, 'Companies seem reluctant to engage in some form of environmental reporting… we (may) have to make it mandatory, amending the *Environmental Quality Act 1974* if there is a need' (Thompson 2002, p 20). The *Environmental Quality Act 1974*, as amended in 1996, empowers the director general to require the owner or occupier of any vehicle, ship or premises to carry out an environmental audit and submit an audit report to the minister (s 33A). The act allows for the appointment of registered qualified personnel to conduct the audit. However, the act does not currently provide for any public disclosure of the audit report.

[28] http://www.bursamalaysia.com/website/mediacentre/mr/1999/990715.htm
[29] World Development Indicators database, World Bank, 15 July 2005

NEW ZEALAND

New Zealand has a population of approximately 4 million people (3.9 million in 2002). The GDP for 2002 was US$58.6 billion (current US$), and the GDP per capita was $21,740 (International $) in 2002. The New Zealand economy was ranked 42nd with a GDP of US$99.7 billion in 2004.[29] The market capitalisation of all listed companies was US$21.7 billion in 2002 and as a proportion of GDP was 37.1 per cent.[30]

Companies in New Zealand are regulated by the Securities Commission which is empowered by the *Securities Act 1978*. Two of the results sought to be achieved by the Commission are 'high standards of disclosure' and 'good corporate governance'.[31] Public companies listed on the New Zealand Stock Exchange (NZX) must also comply with its listing rules.

Accounting standards in New Zealand are issued by the Accounting Standard Review Board (ASRB) of the Institute of Chartered Accountants of New Zealand (ICANZ). Standards issued by the ASRB have legal backing by virtue of the *Financial Reporting Act 1993*.

Specific mandatory requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General mandatory requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review. Although in 2004 the Securities Commission issued *Corporate Governance in New Zealand: Principles and Guidelines*, which refers to the need to develop policies for relationships with key stakeholders, it did not require disclosures about those policies by private sector entities. The disclosure requirements apply to public sector entities only (Securities Commission 2004, 9.3).

Specific recommendations and guidelines

The ICANZ Taskforce on Sustainable Development Reporting (October 2002) concluded that on a conceptual level sustainable development reporting does fit within the framework for financial and non-financial reporting provided by the Statement of Concepts, FRS-2 and AS-100. The Sustainable Development Reporting Committee (SDRC) was formed following the recommendations of the Taskforce. The terms of reference for the SDRC are to *'provide on-going leadership and guidance on the external reporting and auditing of sustainable development reporting, with the intention of integrating the reporting and auditing of economic, social and environmental measurement within the activities of the FSRB by 31 December 2005'*.

The taskforce made a number of recommendations, particularly with respect to encouraging the development of sustainability reporting. They recommended that reporting could be undertaken within the current regulatory framework and that preparation of sustainable development reports would be encouraged within a voluntary framework.

Corporate social responsibility reporting has been encouraged by several private sector bodies with the support of the Ministry of the Environment (MOE). The New Zealand Business Council for Sustainable Development (NZBCSD) is a voluntary organisation founded in 1999. Its members range from small consultancies to some of New Zealand's largest companies. With support from the MOE, the NZBCSD published *Business Guide to Sustainable Development Reporting* in 2002. Another key promoter is the Sustainable Business Network (formerly the New Zealand Businesses for Social Responsibility, focusing on smaller organisations. In partnership with the Ministry for the Environment, the Sustainable Business Network published a triple bottom line reporting guide (Sustainable Business Network and MOE 2003).

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[30] World Development Indicators database, World Bank, 2004

[31] http://www.sec-com.govt.nz/about/index.shtml#2

PHILIPPINES

The Philippines has a population of approximately 80 million people (79.9 million in 2002). The GDP for 2002 was US$78.0 billion (current US$), and the GDP per capita was $4,170 (International $) in 2002. The Philippine economy was ranked 46th with a GDP of US$86.4 billion in 2004.[32] The market capitalisation of all listed companies was US$39 billion in 2002 and as a proportion of GDP was 50.0 per cent.[33]

In The Philippines the Securities and Exchange Commission (SEC) regulates and supervise the stock exchange. Its role includes establishing rules to be followed by listed entities. Listed companies in The Philippines are required to comply with the Corporations Code, listing rules and accounting standards. The Philippine Institute of Certified Public Accountants (PICPA) established the Accounting Standards Council which is responsible for developing and issuing accounting standards for The Philippines.

Specific mandatory requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General mandatory requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review. The SEC approved the promulgation and implementation of a Code of Corporate Governance in 2002. However, the Code makes no explicit mention of social or environmental performance reporting.

Specific recommendations and guidelines

The SEC requires a financial disclosure checklist to be completed by listed companies to indicate that the financial statements are prepared in accordance with Philippines GAAP. While there are no mandatory requirements for social and environmental reporting, the checklist encourages a number of additional disclosures. These include (SEC 2004, p 6):

> General Disclosures – Financial Review by Management: As encouraged, does the entity present outside the financial statements, additional statements such as *environmental reports* (emphasis added) and value added statements when management believes they will assist users in making economic decisions, particularly in industries where environmental factors are significant and when employees are considered to be an important user group.

Other

The industrial ECOWATCH is a compliance monitoring system introduced by the Department of Environment and Natural Resources (DENR), as provided for under the Department Administrative Order No 51, series of 1998. The system was developed by the DENR with support from the World Bank and 23 industry associations (who are signatories to an Industrial ECOWATCH Pact with government). It provides for annual rating of entities' environmental compliance by the DENR, which publishes the ratings. Although similar to China's Green-Watch program, the Philippines ECOWATCH system does not require any direct public reporting. The Chinese program requires companies who are put on the poor performing list to report directly to the public.

The Philippines ECOWATCH program uses public information and disclosure as a means of encouraging industries to comply with environmental laws, rules and regulations. Management effort towards achieving environmental compliance is rated using the following colour codes: GOLD for companies that reached excellent levels of environmental management, GREEN for companies that have reached very good levels (eg, firms that use clean technology, resource conservation, pollution prevention, waste minimisation, etc); BLUE for those firms that achieve baseline compliance with applicable environmental regulations consistently for at least one year; and RED and BLACK, reflecting the lowest two ratings given under the ECOWATCH. Ratings are performed by the DENR and

[32] World Development Indicators database, World Bank, 15 July 2005
[33] World Development Indicators database, World Bank, 2004

published annually. As envisioned by the DENR, firms that receive RED or BLACK ratings would attract scrutiny from the media and even public censure, while firms that achieve ratings of BLUE or higher could use their positive ratings to their advantage, as a prototype environmental or ecological label for their firms and products.

The initial rating covers wastewater only, with emphasis on organic pollution from the manufacturing sector. There are plans to expand the program to monitor additional pollutants as well as air emissions and to cover additional sectors in the future.

SINGAPORE

Singapore has a population of approximately 4 million people (4.2 million in 2002). The GDP for 2002 was US$87.0 billion (current US$), and the GDP per capita was $24,040 (International $) in 2002. The Singaporean economy was ranked 40th with a GDP of US$106.8 billion in 2004.[34] The market capitalisation of all listed companies was US$101.9 billion in 2002, which as a proportion of GDP was 117.1 per cent.[35]

Singaporean companies are also governed by the *Companies Act* which is administered by the Ministry of Finance (MOF). Listed companies in Singapore must comply with listing rules of the self-regulated Singapore Stock Exchange (SGX).

The MOF, the Monetary Authority of Singapore (MAS) and the Attorney-General's Chambers set up Disclosure and Accounting Standards Committee (DASC) to enforce several statutes including the *Business Registration Act* and the *Accountants Act*. In 2004 the Registry of Companies and Businesses and the Public Accountants Board were merged to create the Accounting and Corporate Regulatory Authority (ACRA), which monitors compliance with accounting and auditing standards. Accounting standards in Singapore are issued by the Singapore Accounting Standards Board.

Major professional accountancy bodies in Singapore are The Institute of Certified Public Accountants of Singapore (ICPAS) and the Singapore division of CPA Australia.

Specific mandatory requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General mandatory requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review. The DASC undertake a broad study of the issues relating to corporate regulation and governance.

Specific recommendations and guidelines

In harmonising to International Financial Reporting Standards, the SASB issued *FRS 1 Presentation of Financial Statements*, based on IAS 1: *Presentation of Financial Statements*. Similar to the Malaysian Accounting Standards Board, the SASB includes an additional sentence encouraging environmental disclosures (emphasis added) (para. 10):

> Many enterprises present, outside the financial statements, additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are significant and where employees are considered to be an important user group. *Enterprises are encouraged to present such additional statements if management believes they will assist users in making economic decisions.*

In 2003, the ACCA prepared an extensive guide for environmental reporting for Singaporean companies. Quantitative and qualitative disclosures are suggested. It is not based on any particular framework but reference is made to the GRI as a source of further information. The guide included a review of the state of environmental reporting in Singapore which discovered that some companies produced environmental information internally or collated it for submission to the MOE but found no necessity to publish it (ACCA, 2003b, p 24).

[34] World Development Indicators database, World Bank, 15 July 2005

SOUTH KOREA (REPUBLIC OF KOREA)

South Korea has a population of approximately 48 million people (47.6 million in 2002). The GDP for 2002 was US$476.7 billion (current US$), and the GDP per capita was $16,950 (International $) in 2002. The South Korean economy was ranked 11th with a GDP of US$679.7 billion in 2004.[36] The market capitalisation of all listed companies was US$249 billion in 2002 and as a proportion of GDP was 52.2 per cent.[37]

The Securities and Futures Commission (SFC) was set up under the Financial Supervisory Commission (FSC) to oversee securities and futures markets. Its principal function is to investigate market abuses, such as insider trading and market manipulation in the securities and futures markets, and to oversee accounting standards and audit reviews. The government enacted the Securities and Exchange Act 1962 (SEA), thus establishing a legal framework for the Korean securities market. Under the SEA, the Exchange was reorganised into a joint stock corporation. The SEA was amended in April 1963 to impose stricter regulations on the operation of the securities market and to reform the Exchange into a non-profit, government-owned corporation, with a new name: the 'Korea Stock Exchange'. The KRX was privatised as a non-profit, membership organisation in 1988. The KRX sets its own listing rules applicable to listed companies.

The SFC delegates authority for standard setting to the Korea Accounting Institute (KAI), an independent private organisation established in 1999. The Korea Accounting Standards Board (KASB) is a Board of the KAI. Its functions include setting, revising, and interpreting accounting standards to improve the quality of Korean accounting standards and to suit Korean economic circumstances.

Specific mandatory requirements

As part of its process of setting, revising and interpreting accounting standards, the KASB issued *Financial Accounting Standards for Business Enterprises*.[38] This includes significant mandatory requirements for the disclosure of information about environmental and social performance as indicated in the following extracts provided below (KASB, 2000, pp 4, 30):

> §1. Purpose (p 4)
>
> In accordance with Article 13 of the Act on External Audit of Corporations (hereinafter referred to as 'the Act'), the purpose of these Standards is to prescribe the standards for financial accounting and reporting by business enterprises which are subject to the application of the Act, in order to ensure uniformity and objectivity in the financial reporting and external audit.
>
> §87. Additional Note Disclosures (p 30).
>
> *Relevant disclosures include:*
>
> 9. The nature and possible outcome of pending litigations;
> 13. The nature and consequence of natural disasters, significant accidents, strikes, fire, etc;
> 14. The company's environmental standards and policies, safety and accident related matters, environment related investments, consumption of resources and energy matters related to occurrence and treatment of by-products and scraps;
> 15. Costs incurred for employee welfare and contributions made to organisations in society;
> 16. Recruiting expenses, expenses for training and education and depreciation of related tangible assets for the recent three years in connection with the development of expert human resources (only limited for the cases which are extraordinary and large in amount); (italics added) John, there are no italics in the original
> 21. Other matters that have significant impact on the financial statements, or are necessary for understanding of the financial statements.

[35] World Development Indicators database, World Bank, 2004
[36] World Development Indicators database, World Bank, 15 July 2005
[37] World Development Indicators database, World Bank, 2004
[38] http://english.fss.or.kr/en/laws/acc/lawaccount_l.jsp. Note the English translation is current as at 1 August 2002.

General mandatory requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

Specific recommendations and guidelines

The Committee on Corporate Governance was established as a non-government body in March 1999 to develop a code of best practices, a source to guide corporations in establishing proper corporate governance structures. It issued *Code of Best Practice for Corporate Governance 1999* to guide improved corporate governance and serve as a model of proper corporate governance structure. Relevant extracts from the code are provided below:

II. Board of directors

The directors and the board shall perform their duties faithfully in the best interests of the corporation and its shareholders; they shall also perform their social responsibilities and consider the interests of various stakeholders.

1. Protection of rights of stakeholders

1.2 The corporation shall make every effort to maintain and improve labor conditions by faithfully observing labor-related statutes such as the *Labor Standard Act*.

1.3 The corporation shall not be negligent in its social responsibilities, such as consumer protection and environmental protection.

- With the significant rise of corporation's influence on the economy and society, similarly increasing has been the recognition of general public's concern about the corporation's social responsibilities. Also, consumers and regional societies have been increasing in importance as interested parties in the continuance of the corporation.
- In particular, if the corporation neglects its social responsibilities, such as protecting consumer rights or the environment using its vantage, it will, unlike the past, lead to a very adverse effect on its long-term development as well as to a decline in its image. Therefore, each corporation shall enable its managers to faithfully perform its social responsibilities through an appropriate governance system.

1.4 If the corporation infringes upon the rights of stakeholders, the corporation shall take appropriate measures for redress, and the stakeholders shall retain means to efficient redress if their rights have been infringed.

1.5 The corporation shall, under the limits indicated by law, provide stakeholders with relevant information necessary for protecting their rights; and the stakeholders shall have access to relevant information.

2. Disclosure

2.2 The corporation shall disclose any information, not just limited to those required under law, that may materially influence the decision-making of shareholders and other stakeholders.

2.3 In the annual report, a public corporation shall explain the differences between its corporate governance and this Code, and the reasons for such; any plans to make future changes shall also be explained.

In 2002 the Ministry of Environment (MOE) issued environmental reporting guidelines based on the GRI, following the issue of draft guidelines in 2000. The guidelines are intended to offer assistance to entities seeking to provide more comprehensive environmental information over and above the specific disclosures required by KASB (2000). A study of 13 companies in six different industries in 2001 reported a 'high level' of awareness of the guidelines (50.5 per cent), lower levels of recognition of the GRI (16.5 per cent), but found that only a few entities followed the draft guidelines.[39]

[39] IGES Kansai Research Center Discussion Paper 2003-No.3E 2003.12

THAILAND

Thailand has a population of approximately 62 million people (61.6 million in 2002). The GDP for 2002 was US$126.9 billion (current US$), and the GDP per capita was $7,010 (International $) in 2002. The Thai economy was ranked 32nd with a GDP of US$163.5 billion in 2004.[40] The market capitalisation of all listed companies was US$46.1 billion in 2002 and as a proportion of GDP was 36.3 per cent.[41]

Companies in Thailand are regulated by the *Securities and Exchange Act BE 2535 (1992)* which came into force on 16 May 1992. The act empowered the Office of the Securities and Exchange Commission to be established as an independent state agency responsible for the supervision and development of the capital market under the direction and guidance of the Securities and Exchange Commission (the SEC). The objective of the act was to reinforce the unity, consistency and efficiency in the supervision and development of the Thai capital market. The SEC enforces the act rather than being a 'rule making' body per se. Listing rules are established by the Stock Exchange of Thailand.

Specific mandatory requirements

No specific mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

General mandatory requirements

No general mandatory requirements to report on social or environmental policies, operations or performance were identified in the review.

Specific recommendations and guidelines

No specific recommendations or guidelines for social or environmental reporting were identified.

Other

There are two items that are of possible interest for the reporting of social and environmental information. First is the report titled *Enhancing Good Corporate Governance of Thai Listed Companies*[42] issued by the Securities and Exchange Commission in 1999 and revised in 2004. Second is the SEC Act BE 2535 Division 5 Disclosures of Information and Auditor (Section 56 - Section 62)[43], which requires a company to submit a further report on the occurrence of a number of incidents. While neither the report nor the act explicitly reference social or environmental performance, the requirements of the report and the act are general enough to include social and environmental issues.

Under public disclosure programs, established with the support of the World Bank, the environmental performance of firms are publicly announced, and subsequent public pressure often results in pollution reduction activities. Pollution Control Department (PCD) is currently developing a public disclosure program to improve the environmental performance of industrial polluters. It is similar to the public disclosure programs established in China and the Philippines but further details were not available in English.

LIMITATIONS OF THE ANALYSIS

The analysis in this part has been primarily restricted to a review of web based documents provided by the relevant organisations. One limitation of this process is that some websites are not available in the English language. This limitation did not apply to Australia, Hong Kong, India, Japan[44], Malaysia, New Zealand, The Philippines or Singapore, where all relevant websites were found to be in English. The limitation was also not applicable to

[40] World Development Indicators database, World Bank, 15 July 2005
[41] World Development Indicators database, World Bank, 2004
[42] The report, which is available in English, discusses the requirements Code of Best Practice for Directors of Listed Companies, which was issued by the Stock Exchange of Thailand in January 1998 but is not available in English.
[43] http://www.sec.or.th/en/enforce/regulate/legalsecact_e.shtml
[44] Some sections of the Commercial Code were not available in English.

Indonesia and South Korea because reviews of websites in Indonesian and Korean were undertaken by bilingual colleagues.[45] The extent of the limitation and the process undertaken to address it in each of the remaining two countries, China and Thailand, are discussed below.

The review of regulatory developments, professional and other initiatives in China was constrained by the lack of an English version of the Ministry of Finance's website. The review of Chinese Accounting and Auditing Standards relied on secondary materials, primarily (Narayan and Reid, 2000) published by the Asian Development Bank.

The review of regulatory developments, professional and other initiatives in Thailand was limited because the following websites of the Ministry of Commerce and the Institute of Certified Accountants and Auditors of Thailand (ICAAT) were not available in English. The Stock Exchange of Thailand issued a report which discusses the Exchange's corporate governance code. This report was relied upon because the actual code was only available in Thai. The following documents were also not available in English: the Stock Exchange disclosure rules; Thai company regulations; and details relating to the public disclosure project found on the website of the Pollution Control Department. However, the inability to review these sources is unlikely to have resulted in any material omissions of requirements for social and environmental disclosure requirements as Kuasirikun (2005) also identifies the lack of requirements for social and environmental reporting in Thailand.

Another limitation of the review was that some documents were not available on websites. The potential implications of this limitation are discussed below for each country. The following discussion of documents not available on websites is not necessarily comprehensive because it is limited to those documents referred to, but not available on websites included in the review.

Hong Kong

Hong Kong Auditing Standards were not available on the internet. However, specific requirements for auditing social and environmental information are unlikely to have been omitted because Hong Kong does not have a requirement for the social and environmental disclosures.

India

Auditing standards were not available on the internet. However, specific requirements for auditing social and environmental information are unlikely to have been omitted because India does not have a requirement for the audited social and environmental reporting.

Japan

Accounting and auditing standards and the TSE listing rules were not available on the internet. It is unlikely that the lack of access to these documents resulted in any material omissions as a review of environmental reporting in Japan described it as voluntary (Investor Responsibility Resource Centre, 2001). Further, guidelines published by the MOE, as recently as 2005, are for voluntary environmental reporting and are not described as elucidating any existing requirements.

Malaysia

Some areas of the websites of the Malaysian Institute of Accountants and the Malaysia Association of Certified Public Accountants were accessible to members only. However, this is unlikely to have resulted in any material omissions because the review of publicly available information on the websites did not reveal any relevant material, consistent with reviews undertaken by ACCA (2003a).

Philippines

Full copies of accounting and auditing standards were not available on the internet. The secondary sources that were relied upon included an unofficial summary of accounting standards available on the PICPA website and the disclosure checklist provided by the SEC.

Singapore

Some sections of the website of the Institute of Certified Public Accountants of Singapore were available to members only. However, it is unlikely that this limitation resulted in any material omissions because the review of publicly available documents including speeches, news items and policy documents revealed no relevant information, consistent with the review undertaken by ACCA (2003b).

[45] The review of Indonesian language websites and documents was undertaken by Isabelly Susilowati, an associate lecturer in Accounting in the School of Business, University of Sydney. The review of Korean language websites and documents was undertaken by Robin Lee, a senior tutor in the Accounting in the School of Business, University of Sydney, using a Korean language keyboard to enable use of search engines.

CONCLUDING COMMENTS

This report has examined legislative and other regulatory requirements, as well other initiatives undertaken by key players and stakeholders in business regulation and reporting including national and international professional accountancy bodies, industry organisations and other representative bodies. The timing of the report is significant in that it follows a period of substantial reform of financial reporting and securities market regulation and corporate governance practices throughout the Asia-Pacific region. These reforms were largely initiated in response to the Asian debt crisis of 1988, but in some countries the profile of these reforms was subsequently elevated by the widespread ramifications of the collapse of Enron, Worldcom and other multi-national corporations.

Very few legislative requirements for the disclosure of social and environmental information were revealed by this review. The few instances of disclosure requirements that were identified were found to be piecemeal and narrowly defined, such as (by way of example) a breach of an Australian environmental regulation, or unspecified information about energy conservation in India. Mandatory requirements introduced by legislation were generally not initiated in response to the Asian debt crisis as, except in one instance, they were introduced or proposed prior to 1998. The exception is the requirement for information to be reported in product disclosure statements about the extent of labour, social, environmental and ethical consideration in decision making by investment funds, which was introduced in Australia in 2001.

The Korean Accounting Standards Board is the only standard setter in the Asia-Pacific region to introduce mandatory requirements for social and environmental disclosures in accounting standards. The requirements introduced in South Korea cover a broader range of disclosures than other specific mandatory requirements found in legislation in other countries in the Asia-Pacific region.

The corporate governance codes introduced in Australia and India include general requirements for the disclosure of social and environmental information for a broader range of stakeholders. While corporate governance reforms were undertaken in each of the twelve jurisdictions included in this review, most were not mandatory and some made no reference to social and environmental information.

The vast majority of regulatory and other initiatives to enhance social and environmental reporting and improve transparency to a broader range of stakeholders have been introduced in the form of recommendations and guidelines. The most significant of these regulatory initiatives is the set of environmental reporting and environmental accounting guidelines issued by Japan's Ministry of the Environment. Japan's ranking as first in the world in terms of the number of its top 100 companies that prepare environmental reports is attributed to the environmental reporting and accounting guidelines promoted by the Ministry of the Environment. Reporting guidelines have also been issued by government departments within environmental ministerial portfolios in Australia, New Zealand and South Korea. The New Zealand guidelines have a broader TBL focus.

Environmental reporting is specifically encouraged in Malaysian and Singaporean accounting standards. While the accounting standards are based on IFRS, additions have been made to explicitly encourage environmental disclosures if management considers them relevant to users.

The accountancy profession has played a significant role in encouraging social and environmental reporting in the Asia Pacific region, most notably in Australia, China, Hong Kong, Malaysia, New Zealand and Singapore.

The World Bank has been active in encouraging environmental management through public disclosure programs. These have been implemented in China, The Philippines and Thailand. The Green-Watch program in China encourages direct public environmental reporting and requires such disclosures when companies are placed on a non-compliance list.

Significant initiatives have been undertaken toward improving the transparency of corporate activities and accountability for social and environmental impacts of operations in the Asia-Pacific region. They have mostly been in the form of voluntary guidelines and recommendations. The effectiveness of these initiatives is difficult to assess as most have been in operation for only a few years. However, the recommendations and guidelines in Japan have been in operation for four years and have resulted in a high rate of participation in environmental reporting by large Japanese companies.

Key players in social and environmental reporting reform are securities exchanges, securities commissions or councils involved in corporate governance reforms, governments, accountancy professional bodies, and commercial organisations, such as business councils and industry groups. The involvement of government environmental ministries has typically been in the form of issuing or sponsoring detailed guidelines and recommendations, including, as in the case of Japan, the preparation of a conceptual framework of environmental accounting. However, the government initiatives involving treasury and financial ministerial portfolios have typically been in the form of corporate governance disclosure requirements or recommendations, or piecemeal mandatory disclosures in legislation. There are many key players working with different strategies toward a common goal of sustainable management of resources facilitated by enhanced accountability for social and environmental performance. There is a need for more collaboration among key players and coordination of developments in sustainability reporting to advance corporate transparency and accountability to a wider range of stakeholders.

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