

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report of the Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting on its Seventeenth
Session

held at the Palais des Nations, Geneva,
from 3 to 5 July 2000



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Introduction

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) held its seventeenth session at the Palais des Nations, Geneva, from 3 to 5 July 2000. In the course of its session, it held two plenary meetings and six informal meetings.

Chapter I

AGREED CONCLUSIONS

I. Accounting by small and medium-sized enterprises

2. Small and medium-sized enterprises (SMEs) are important to economic growth and contribute significantly to economic development in both developed and developing countries. However:

- The existing international and some national accounting and reporting requirements have been intended primarily to meet the accounting and reporting needs of large, listed companies;
- Many SMEs do not keep proper financial records and accounts;
- Many SMEs are not aware or not convinced of the usefulness of accounting and financial reporting requirements for control and decision-making purposes;
- Many SMEs lack skilled accounting personnel and infrastructure to implement existing accounting rules and regulations;
- There is weak accounting infrastructure, inadequate information systems and an insufficient number of fully qualified accountants in some countries;
- In some countries the only rules that affect SMEs are tax-based rules;
- Many SMEs have difficulties in accessing affordable accounting services of the kind they need;
- The majority of SMEs do not require sophisticated accounting, tax and audit advice, but low-cost and understandable accounting and management guidance;
- Governments need more reliable economic data on SMEs both for managing the economy and for equitable taxation.

3. Even if useful, simplified accounting and reporting systems were widely available for SMEs and even if SMEs were to have skilled personnel to implement these systems, many SMEs would still be reluctant to keep adequate accounts because they would fear that transparent reporting would expose them to excessive taxation. In certain countries, taxation regimes can be perceived as burdensome and tend to hamper the growth of SMEs. On the other hand, accounting may help SMEs to compute their taxes properly.

4. Improved accounting information would permit SME owners to manage their firms better, would allow them to access finance more easily, and would assist them in properly calculating their taxes.

5. With that in mind, the seventeenth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) agrees that to alleviate the above problems, SMEs need a financial accounting and reporting framework which would:

- (a) Be simple, understandable and user-friendly;
- (b) Produce useful management information;
- (c) Be as standardized as possible;
- (d) Be flexible enough to accommodate the growth of business and increase the potential of some SMEs as they expand to use International Accounting Standards;
- (e) Be easily reconcilable for taxation purposes;
- (f) Recognize the environment in which SMEs operate.

6. It also agrees that it is up to each country to define different categories of SMEs in a manner appropriate to its needs and that any model accounting framework put forth would be voluntary.

7. Having in mind both the accounting problems of SMEs and the desired characteristics of an accounting and reporting system for SMEs, ISAR recommends that ad hoc expert consultations be held which should consider the following:

- (a) The categorization of the target group to which the SME accounting and reporting framework to be suggested would apply;
- (b) The identification of an accounting and reporting framework consistent with the above characteristics and suitable for the different types of SMEs;
- (c) The identification of possible difficulties in implementation;
- (d) How the education needs of SMEs could be most appropriately met.

8. To that end, it calls upon experts to extend their cooperation to the consultative group.

9. It further agrees that the results of the consultations be presented to the eighteenth session and that the main agenda item for consideration again be accounting by SMEs.

II. Further work to follow up the fifteenth session

10. Having considered the work done on environmental performance indicators as mandated at its fifteenth session, ISAR recommends that the UNCTAD secretariat complete the development of the users' and preparers' manuals on environmental performance indicators. The final output should be reviewed by industry and business associations, financial analysts, banks, insurance companies, accounting entities and other relevant bodies and then distributed in both developing and developed countries.

11. ISAR also recommends that the UNCTAD secretariat continue to work on environmental and financial accounting and disclosure to promote sustainability reporting.

III. Further work to follow up the sixteenth session

12. Taking into account the positive and recognized contribution that the guideline on national requirements for the qualification of professional accountants that ISAR adopted at its sixteenth session is making towards the goal of raising the level of professional qualifications, ISAR recommends that the UNCTAD secretariat continue to cooperate with international, regional, and national organizations and professional bodies to strengthen accounting education and professional qualification.

IV. Recommendations for better networking and communication between ISAR experts and the UNCTAD secretariat

13. ISAR recommends that UNCTAD increase communication among experts and between sessions, and requests that it consider, *inter alia*, improved access in as many official languages as possible to its website, newsletters and e-mail in order to accomplish this.

Chapter II

OPENING STATEMENTS

14. The **Secretary-General of UNCTAD** welcomed participants to the seventeenth session and updated them on two recent developments. First, the consultations on the review of the functioning of ISAR had been concluded and it had been agreed that the Group would continue under its existing mandate, would maximize the involvement of non-members, and would propose topics for its work programme to the Commission on Investment, Technology and Related Financial Issues. Second, UNCTAD X had reaffirmed the need for increased transparency and financial disclosure, and had called upon UNCTAD to encourage the use of internationally recognized accounting, reporting and auditing standards and improved corporate governance.

15. He then referred to the challenges facing the Group in the new millennium. For example, the emergence of the knowledge-based economy might require accountants to rethink existing methods for measuring the value of intellectual capital in financial statements. The ever-increasing gap between the value of the dot.com companies according to their published financial statements and their market capitalization raised some fundamental questions.

16. The topic for the current session — accounting by small and medium-sized enterprises (SMEs) — was a timely one. He underscored the economic importance of SMEs, noting that in almost all the countries that the experts at the session represented, SMEs were the largest employment providers. They produced the greater share of goods and services for domestic consumption, formed the bulk of the tax revenue base and generated the greater share of export earnings. Policy makers needed therefore to consider thoroughly the direct and indirect impact of their decisions on the SME sector of the economy. They required adequate, consistent, reliable and comparable financial information on SMEs in order to make sound policy decisions. Furthermore, tax authorities needed accurate, consistent, reliable, comparable and verifiable financial information.

17. At the enterprise level, business owners had to make routine decisions as well as long-term strategic ones. These required accurate, consistent and reliable accounting information. Unlike listed businesses, which could finance their operations by issuing equity stocks or floating debt instruments, SMEs depended on banks and other creditors for financing their operations. Thus, it was very important for SMEs to maintain accurate accounting records and present their existing as well as prospective creditors with pertinent financial information. However, the task of maintaining accurate accounting data and generating meaningful financial information had not been easy for SMEs.

18. The **Chairperson** reaffirmed the need for ISAR's work and the fact that the Group had no parallel with any other accounting organization in the world. Its contributions to environmental accounting, accounting education and accounting by SMEs were incomparable, and they must continue.

19. He strongly supported cooperation rather than confrontation among international bodies — governmental and non-governmental — which aimed at the development of accountancy. Disputes about privilege and precedence would result only in a failure to attain the goals of improved transparency and accountability. The challenges for financial reporting were many and included the harmonization of accounting and auditing standards, improvements in the education and organization of the profession, the acceptance of global qualification standards, and the elimination of barriers to cross-border trade in services. He urged the experts to do their part for the development of accountancy at the world level.

Chapter III

CHAIRPERSON'S SUMMARY OF INFORMAL DISCUSSIONS

Agenda item 3: Accounting by small and medium-sized enterprises

20. For its consideration of this agenda item, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting had before it the following documentation:

“Accounting by small and medium-sized enterprises” (TD/B/COM.2/ISAR/9).

21. The secretariat provided a brief introduction to the agenda item. SMEs face special problems in producing meaningful accounts because the national and international systems were usually not developed with SMEs in mind; rather, they were developed for larger, publicly listed companies. Furthermore, many SMEs reported that their main area of weakness was accounting and bookkeeping. To have a fruitful and orderly discussion, the secretariat suggested that the Group set some parameters or boundaries. It was necessary to have an idea of the target group of SMEs to which any recommendations for a more user-friendly and useful accounting approach would apply. There is no universal definition of an SME, and the degree of development, the structure of the economy and the sector of economic activity influence the regional and national definitions. For the sake of policy coherence, it was useful to have, at least at the national level, one definition in order to avoid confusion and to increase compliance.

22. The Organisation for Economic Co-operation and Development (OECD) defines SMEs as non-subsidary, independent firms that employ less than a given number of employees. Up to 19 employees is very small, up to 99 is small and from 100 to 499 is medium. The upper limit is usually 250, but in the European Union it is less than 200 and in the United States it is less than 500. According to available statistics, about 95 per cent of enterprises in developed countries have fewer than 50 employees. The Group might want to consider as its target group enterprises with 5 to 50 employees. It is this Group that contributes most in terms of employment and gross domestic product (GDP) and that needs better accounting in order to survive and grow. This would exclude sole traders and micro enterprises, which would probably be required only to comply with tax accounting.

23. The resource person then presented the results of his research on the accounting problems faced by SMEs. He said that most entrepreneurs started their own businesses usually because they were good at making a particular product or providing a particular service. They were usually not sufficiently educated about accounting or business management. Therefore, they were not convinced of the usefulness of accounting information for managing their businesses. Some of them

saw accounting as a “tool of oppression”. Furthermore, even when entrepreneurs were convinced of the usefulness of accounting information in managing their businesses, they faced difficulties. They would not be able to generate accounting information internally because most of them did not possess the required skills, and they were unlikely to pay for accountancy service providers to generate the required information, because they would find it difficult to justify the costs. They would also find it difficult to obtain the relevant services since the service level of providers tended to cater predominantly to the needs of large enterprises. Moreover, given the absence of economies of scale, accounting information would be more expensive for SMEs than for larger businesses when taken on a per transaction basis.

24. He then focused on the different accounting infrastructures or frameworks for small businesses. The accounting systems used in most European nations during the period of the Industrial Revolution had been introduced into the countries that the European nations had colonized or had been involved with. In many countries such influences continued. The two models most visible were the French and British ones. Under the French model all businesses, whether they were incorporated or not, were required to keep accounts and those accounts were intended to be used, among other things, for tax purposes. The system had not only financial reporting requirements but also a chart of accounts which determined the kind of business records that should be kept and the nature of those records. The French model was distinguished by the fact that its requirements were not limited to what the end product — the financial statements — should look like. It also defined the process for producing the financial statements. The existence of a chart of accounts implied that the accounting process was uniform in all entities in a specific country. Thus a person trained in one company would find it very easy to transfer to another company since the ledger codes of the two companies would be the same. This uniformity reduced costs, such as those for training and software development. The British system was mainly for large companies, and the European Union provided for a single measurement system for limited liability companies which offered some flexibility for SMEs in terms of the details they had to report.

25. A major issue was: would one system fit all enterprises? Should all enterprises use the same system? This approach could act as a major impediment in having enterprises pass from the informal to the formal economy since it imposed an administrative burden on SMEs. For example, it was believed in the United Kingdom that there was no justification for accounting in a different way if the enterprise was of a different size. Only the disclosure requirement was reduced, which did not reduce the cost of maintaining the system. With a single system it was more likely that SMEs would not want to cross the divide between the informal and formal economy. A “one size fits all” system was a major obstacle to enterprises and to decriminalizing the informal sector.

26. Field research had identified the following issues:

- Entrepreneurs see accounting as intended purely for tax collection purposes;

- Entrepreneurs lack training to prepare their own accounts;
- Service providers are either too expensive or of uncertain quality;
- It is thought to be cheaper to bribe a tax official than to prepare accounts;
- Different users have different accounting requirements;
- Accounting is just one more among many administrative burdens.

27. In the general discussion that followed, experts debated what was the greater obstacle facing SMEs — the fear of taxation or the lack of skills to comply with a complex system. One expert pointed out that looking into all the accounting regulations was a burden for SMEs, while another said that what was often at issue was a question of public governance. SMEs saw no reason to pay tax if they received no services or if the tax system was arbitrary. A number of experts were in favour of getting the tax authorities out of the books of the very small enterprises by instituting a flat tax on the latter, as was done in a number of countries. One expert noted that financial accounting was not attractive in itself to SMEs but was a problem-solving device. Another expert said that the lack of accounting was a brake on development because the growth of SMEs was impeded by the lack of management information. Several experts asked whether it was possible to simplify accounting if every transaction needed to be recorded. One expert questioned whether it was possible to combine accounting for internal and external users. Could everyone's needs be met in a single document? Another expert said that SMEs needed a system which would let them evolve, i.e. grow. Regarding the lack of personnel or skills to keep accounting records, some countries had set up accounting management centres to service the SMEs where approved accountants kept the books. Another expert said that his country had four levels of bookkeeping but was moving towards a simpler system for SMEs while requiring International Accounting Standards (IAS) for listed companies. There were many problems with SMEs, such as the mixing of personal and production expenses. In all cases it would be necessary to produce manuals or commentaries to explain exactly what was to be done. Some experts said that a special standard for SMEs already existed in their countries. Another expert said that his country had chosen to have one accounting system for all enterprises but to grant exemptions to SMEs on a standard-by-standard basis.

28. In replying to the questions raised, the resource person asked whether it was possible to know everything about a business or about factors affecting a business in its accounts. It was necessary to decide what economic aspects of the company could be reliably measured and usefully reported. It was like driving a car: a driver usually paid most attention to the most important things, such as the traffic flow in front of him, because he could not monitor everything. Likewise in accounting, it was impossible to measure every economic aspect in financial terms. The question was whether the financial picture was good enough for practical decisions. There was a certain hierarchy of economic changes or transactions, starting with cash and followed by purchases and sales on credit. Next were depreciation of assets and provisions. These were followed by changes in the value of physical and financial assets. Elements of intellectual capital, self-generated brands, employee know-how and customer loyalty made up the final segment of the hierarchy.

29. For basic bookkeeping, what was important was whether there was a transaction or not; the simplest watertight system was a cash system. In a cash transaction the full impact of the event was easily captured in financial terms. As one moved further into the hierarchy, recording some transactions involved significant economic judgements and became difficult to express consistently in clear financial terms. Furthermore, some elements in the hierarchy, such as self-generated brands, employee know-how and customer loyalty, were not captured at all. The purpose of the Expert Group was to devise a system for simple circumstances.

30. The second fundamental issue was that of the objective of accounting. Was it management information for managers? Was it financial information for creditors and investors, and tax information for Governments? The European Union's Fourth Directive required SMEs to produce financial statements for third-party protection. The standard disclosures were not oriented towards management information and therefore did not provide help to SMEs. As regards SMEs with more than 50 employees, management information needs would drive them towards a more sophisticated accounting system. The third issue was whether financial and tax accounting could be reconciled. In many countries this was done via a liaison document.

31. The resource person then reviewed the desired characteristics of an accounting framework, which might resolve most of the accounting problems faced by SMEs. A simplified accounting framework for SMEs should:

- Produce useful information for managing the business;
- Be a uniform system which would reduce accounting costs;
- Be flexible but consistent with the system for larger companies, and allow SMEs to grow into IAS;
- Be tax-compliant and useful for government while at the same time encouraging economic development via SME development.

32. He therefore suggested that SMEs could use several financial formats which would be consistent with these desired characteristics. A chart of accounts would save costs because it was uniform and software could easily be adapted to it since it would be sold in large quantities. The incentive for SMEs would be that use of such formats should help them to manage more efficiently and therefore make more money. Access to and use of these formats could be provided/taught by low-cost business centres. SMEs needed only to know the nature of the inputs and outputs of a standard computerized system and it might even be worthwhile to distribute the uniform software free of charge. The profit and loss statement would analyse transactions by product line and by direct and indirect costs. Such information was useful to all—managers, creditors and tax authorities. There were two opposing opinions on the necessity for SMEs to have a cash flow statement. Some said that SMEs did not want to produce it, while others said that SMEs wanted to produce only that. It was probably true that managers understood cash flow but not in the format produced by accountants.

33. The Group then proceeded to discuss the desired characteristics of an accounting framework and the system that could produce them. The Chairperson asked the Group to express itself on the acceptability of the proposals that had been made. One expert said that it was necessary to bridge the gap not only between financial and tax accounting but also between financial and management accounting. A number of experts commented on ways in which their professional associations or Governments were cutting costs for SMEs. For example, the Association of Chartered Certified Accountants (United Kingdom) had developed special software for SMEs to prepare accounts. The professional institutes and/or associations of India, Malaysia, Thailand and the United Kingdom had developed special accounting courses for SMEs.

34. In one country some banks offered incentives to SMEs if they used accounting systems for management purposes. They received lower interest rates and rebates. Some Governments were providing or could provide tax incentives and rebates to SMEs which accounted for and reported their transactions. Accounting technicians could certify these accounts and, if certified, the tax and banking authorities should accept them. Other experts noted that SMEs were mostly afraid of reporting and not accounting. Therefore, reporting should be kept as simple as possible. All experts agreed that accounting systems were being undermined by the tax systems and that the Gordian knot of useful accounting had to be cut. This would require cooperation between the accounting and tax authorities in order to agree upon a solution. The current tax systems forced SMEs to stay in the informal sector and this was an important brake on development — for the growth of SMEs and the growth of the economy and of the ability of Governments to provide essential public services. An expert echoed this point. He said that SMEs played an important role in poverty alleviation and they needed simple accounting which was low in cost and followed a uniform, mass-produced system.

35. In concluding the discussion, a number of experts agreed that the objective was to remove the obstacles to useful accounting by SMEs, namely their fear of tax consequences and their lack of skills in using existing systems. Better accounting information would allow SMEs to better manage their business and to grow. Therefore, the experts agreed that it was necessary to produce an accounting framework with the desired characteristics. It should be uniform, simple and low-cost. One expert remarked that even his grandmother ought to be able to use it and that the objective should be to eradicate illiteracy in accounting. Another expert remarked that SMEs ranged from entrepreneurs with PhDs using venture capital to illiterates setting up a grocery store. How could a new accounting system be sold to such a range? The Group must segment its market. It was recommended that the target group for such a system be narrowly defined in order to make the task manageable. However, the exact definition of an SME should be left to each country. All the experts agreed with the general approach and saw a gap that needed to be filled. They recommended that during the inter-sessional period ad hoc expert consultations be conducted to further define the approach and that the results be discussed during the next session.

Agenda item 4: Other business

A. Follow-up to previous sessions

(i) Fifteenth session – Update on the work on environmental performance indicators

36. Participants were apprised of the progress of work on environmental accounting and environmental performance indicators. They were informed that the ISAR guideline had been published in six languages in 1999 and had been adapted into a training manual which would be published shortly. Nine regional workshops on implementation had been held and over 650 participants from 25 countries had attended; some workshops were sector-specific. Furthermore, the guideline had had an impact — for example, the European Union's draft recommendation on environmental issues in the annual accounts and reports had been influenced by ISAR's guidance.

37. Additionally, work had been completed on linking environmental and financial indicators, i.e. on how to select the most relevant environmental performance indicators and combine them with financial information. In that way an enterprise's effectiveness and efficiency in the consumption of resources could be measured, thereby increasing the usefulness, meaningfulness and comparability of environmental performance indicators.

38. A number of experts welcomed UNCTAD's report on environmental performance indicators, entitled "Integrating environmental and financial performance at the enterprise level". It was deemed to be timely because despite the difficulties in making comparisons of environmental performance, it was inevitable that such comparisons would be made and therefore guidance on the subject was needed. The report was also welcomed because it provided a good overview of an active and rapidly developing area and made some useful and original proposals. The fact that it envisaged that the enterprise rather than a third party should publish eco-efficiency indicators was seen as an advantage. Participants recommended that UNCTAD continue its work in this field.

(ii) Sixteenth session – Update on assessment of professional qualification requirements

39. The Chairperson and the representatives of the Eastern, Central and Southern African Federation of Accountants (ECSAFA) and the Malaysian Institute of Accountants informed participants of the follow-up work on the sixteenth session. They stated that in mid-July 1999 about 25 interested national, regional and international organizations had met at the offices of the Association of Chartered Certified Accountants (ACCA) in London to discuss ways and means of implementing the outcome of the sixteenth session. The main group had established a task force to advise on how to carry the work forward. The task force had completed its work and reported its recommendations to the main group in May 2000. A

Steering Committee had been established and had invited UNCTAD and the International Federation of Accountants (IFAC) to join it and play a coordinating role. The Steering Committee would report to the main group on its findings regarding pilot tests on self-assessment of national systems for professional qualification and any other recommendations.

40. It was also reported that the guideline on national requirements for the qualification of professional accountants had recently been recognized as an international benchmark in an official statement by the International Chamber of Commerce (ICC). It was already being used for strengthening accounting education and raising the level of professional qualifications worldwide.

B. Recent developments in international organizations

41. The representative of the International Accounting Standards Committee (IASC) provided an update on recent developments in IASC. He said that a new constitution had been approved in May 2000. It stipulated that IAS were intended for participants in global capital markets. These were not always SMEs and, in his opinion, by definition they could not be. Although some IAS were relevant and helpful for SMEs, others by definition were not applicable to SMEs (IAS 14, Segment Reporting; IAS 19, Employee Benefits). Therefore, SMEs could not apply the full rigour of IAS. When asked whether IASC intended to draft a standard on SMEs, he stated that at present its Board did not seem to support the idea of providing a detailed guideline on SME accounting in the foreseeable future. Although many countries incorporated IASC standards into their national legislative structures, the infrastructure to implement and maintain them had not yet been put in place.

42. IASC was particularly encouraged by the efforts of OECD, IFAC and UNCTAD to raise the level of education and qualification systems. There was a need for continuation of the educational initiatives of IFAC and UNCTAD. He then turned to the ongoing IASC restructuring. Following the ratification of the constitutional changes by member bodies of IASC in May 2000, the first meeting of the Trustees (in practice a Board of Directors) had been held. At the meeting a new chairman of the IASC Trustees had been appointed. IASC's new structure would comprise the Trustees, the Standard-setting Board, the Standards Advisory Council and the Standing Interpretations Committee.

43. In response to the presentation, some experts expressed doubts about one of the stated objectives of IASC, namely that its new structure would not allow it to be dominated by any regional or professional interest. They noted that developing countries were particularly under-represented in IASC, which they described as a rich man's club. However, other experts praised the work of IASC and its contribution to standard-setting programmes in their countries.

44. The representative of the European Commission briefed participants on recent developments in the European Commission with regard to accounting and reporting issues. He said that in the light of the introduction of the euro, the objective of better comparability of company accounts in the EU and in world markets seemed particularly relevant. As companies began to present their financial statements in euros there was an expectation that comparability of accounts of European companies would increase. The Commission's 1998 Communication, "Financial services: Building a framework for action by States", clearly stated the objective of stimulating cross-border investment through more transparency and better comparability of accounts.

45. A proposal to introduce "fair value accounting" into the Accounting Directives had been adopted by the Commission in February 2000 to allow EU companies to follow the latest developments in accounting standard-setting in the area of financial instruments, namely IAS 39, without being in conflict with the Accounting Directives. It would contribute to greater transparency in this field.

46. Regarding International Accounting Standards (IAS), he said that on 13 June 2000 the Commission had adopted a Communication on the EU's Financial Reporting Strategy, in which it was proposed that all EU companies listed in a EU-regulated market prepare their consolidated financial statements in accordance with a single set of internationally recognized accounting standards, namely IAS. This would be made obligatory at the latest from 2005 onwards, and would be supplemented with the possibility for Member States to extend the application of IAS to unlisted companies and for producing individual accounts. A legislative proposal would be presented in the autumn of 2000 which would introduce the IAS requirement.

47. The representative of the Organisation for Economic Co-operation and Development (OECD) shared with the experts the OECD's experience in accountancy reform and its contribution to financial disclosure, accounting and auditing. He focused on two regional accounting reform initiatives, covering the Regional Federation of Accountants and Auditors "Eurasia" (the Eurasian Federation) and the South Eastern European Partnership on Accountancy Development (SEEPAD). The objectives of both initiatives were similar: first, to strengthen the accounting profession through their respective associations; secondly, to integrate the nascent profession in the countries of those two bodies into the international community; thirdly, to help the participating countries develop a sustainable regulatory capacity; and finally, to help coordinate international reform efforts in the area of financial disclosure, accounting and auditing.

48. He informed the meeting that the Eurasian Federation had recently decided to follow the ISAR guideline on professional qualifications in the development of a harmonized professional education and certification programme for its member bodies. OECD would welcome UNCTAD's active participation in the regional initiative "Eurasia". With regard to SEEPAD, it had been established in December 1999. It comprised accounting and/or audit associations, in addition to government

representatives, in South-Eastern Europe. He commended UNCTAD for providing important and very welcome assistance in the creation of SEEPAD. The main activities undertaken by SEEPAD were as follows:

- (a) Holding policy meetings to find common solutions to shared problems;
- (b) Identifying gaps in country-based accountancy practices vis-à-vis international benchmarks;
- (c) Formulating a set of general recommendations on how to reduce the gaps;
- (d) Developing country-based action plans to address country-specific needs and issues;
- (e) Implementing a peer or progress review system.

49. He concluded by saying that only strong and sustainable partnerships between all public and private institutions on the one hand, and the international community on the other, would ultimately lead to true reform.

50. The representative of the Asian Development Bank (ADB) stated that the ADB's overarching objective was poverty reduction in the Asia-Pacific region. Achieving this objective through economic growth was one of the approaches that the ADB had been vigorously pursuing. In that context the topic that ISAR had chosen accounting by small and medium-sized enterprises — was most appropriate. He informed participants about a number of initiatives that the ADB had undertaken to assist its member States in improving their accounting, reporting, auditing and corporate governance practices. Some of the initiatives had been undertaken in response to the recent financial crises that had affected a number of its members. The ADB had recently adopted an anti-corruption policy. Regarding accountancy in the public sector, he noted that the public sector had a shortage of qualified accountants. Most of these were attracted by the private sector, which paid higher salaries.

51. The representative of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) provided some background information on his organization. To date, AAOIFI had issued 14 accounting standards which formed the conceptual framework guiding the preparation of further standards, three auditing standards, three governance standards, a code of ethics and a statement of capital adequacy. His organization did not have the power of enforcement, but it worked very closely with the Central Banks in countries in which Islamic financial institutions operated. He discussed one of the main governance problems facing Islamic banks. Investment accounts were major sources through which Islamic banks mobilized funds on the basis of the profit-sharing *Mudaraba* contract. These accounts were neither a financial liability nor an equity instrument. Therefore, investment account holders (IAHs) were not considered shareholders and did not have the same rights as shareholders. The relationship posed a governance problem since IAHs accounted for a very significant portion of the assets of Islamic banks.

52. The Chairperson, the Chief Executive of the Eastern, Central and Southern African Federation of Accountants (ECSAFA) and the delegate from Swaziland briefed participants on current developments in the Inter-American Association of Accountants, ECSAFA and the Swaziland Institute of Accountants respectively.

Chapter IV

ORGANIZATIONAL MATTERS

A. Opening of the session

53. The session was opened on Monday, 3 July 2000, by Mr. Rubens Ricupero, Secretary-General of UNCTAD.

B. Election of officers (Agenda item 1)

54. At its opening plenary meeting, on Monday, 3 July 2000, the Intergovernmental Working Group elected its officers, as follows:

Chairperson: Mr. Nelson Carvalho (Brazil)
Vice-Chairperson-cum-Rapporteur: Mr. Aziz Dieye (Senegal)

C. Adoption of the agenda and organization of work (Agenda item 2)

55. Also at its opening plenary meeting, the Intergovernmental Working Group adopted the provisional agenda for the session (contained in TD/B/COM.2/ISAR/8). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Accounting by small and medium-sized enterprises
4. Other business
5. Provisional agenda for the eighteenth session
6. Adoption of the report of the Intergovernmental Working Group on its seventeenth session

D. Accounting by small and medium-sized enterprises (Agenda item 3)

56. At its closing plenary meeting, on 5 July 2000, the Intergovernmental Working Group adopted its agreed conclusions on this topic (see chapter I). It also agreed that the Chairperson should summarize the informal discussions on this agenda item (see chapter III).

E. Other matters
(Agenda item 4)

57. At its closing plenary meeting, the Intergovernmental Working Group agreed that the Chairperson should also summarize the informal discussions on matters raised under this agenda item (see chapter III).

F. Provisional agenda for the eighteenth session
(Agenda item 5)

58. At its closing plenary meeting, the Intergovernmental Working Group adopted the provisional agenda for its eighteenth session, the main item being once again “Accounting by small and medium-sized enterprises”. Under item 4, “Other business”, it was requested to review existing corporate governance practices, and country, company and regional codes and principles.

G. Adoption of the report of the Intergovernmental Working Group on its seventeenth session
(Agenda item 6)

59. Also at its closing plenary meeting, the Intergovernmental Working Group authorized the Vice-Chairperson-cum-Rapporteur, under the authority of the Chairperson, to finalize the report after the conclusion of the meeting.

Annex I

PROVISIONAL AGENDA FOR THE EIGHTEENTH SESSION

1. Election of officers
2. Adoption of the agenda and organization of work
3. Accounting by small and medium-sized enterprises
4. Other business
5. Provisional agenda for the nineteenth session
6. Adoption of the report

Annex II

ATTENDANCE*

1. Experts from the following States members of UNCTAD attended the session:

Angola	Jordan
Argentina	Lebanon
Brazil	Malta
Bulgaria	Morocco
Canada	Nigeria
China	Pakistan
Costa Rica	Philippines
Croatia	Portugal
Cuba	Republic of Korea
Cyprus	Romania
Democratic People's Republic of Korea	Russian Federation
Democratic Republic of the Congo	Senegal
Egypt	Slovakia
Ethiopia	Spain
France	Sri Lanka
Gambia	Sudan
Germany	Swaziland
Ghana	Switzerland
Greece	Thailand
Haiti	Tunisia
Hungary	Uganda
India	Ukraine
Indonesia	United Kingdom of Great Britain and Northern Ireland
Italy	United Republic of Tanzania
Japan	

* For the list of participants, see TD/B/WP/INF.42.

2. The following intergovernmental organizations were represented at the session:

Asian Development Bank
European Community
Organisation for Economic Co-operation and Development

3. The following non-governmental organization was represented at the session:

General Category

World Federation of United Nations Associations

SPECIALLY INVITED

Accounting and Auditing Association of the Republika Srpska, Bosnia and Herzegovina
Accounting and Auditing Organization for Islamic Financial Institutions
Arab Society of Certified Accountants
Chartered Association of Certified Accountants
Eastern, Central and Southern African Federation of Accountants
Fédération Internationale des Comptables
Fédération Internationale des Experts-Comptables Francophones
Comité International des Normes Comptables
Institute of Chartered Accountants of India
Malaysian Institute of Accountants

GUESTS

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Ms. Heloisa BEDICKS, Advisor, Instituto Brasileiro de Governança Corporativa
Mr. Eric DELESALLE, Professeur agrégé à l'Institut National des Techniques
Economiques et Comptables du Conservatoire National des Arts et Métiers,
Paris
Ms. Corinne OLLIER BESSIEUX, Research Assistant, University of Geneva
Ms. S. SIAN, Lecturer, London Guildhall University, London
Mr. Peter WALTON, Professor, HEC University of Geneva