UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/COM.2/ISAR/26
27 December 2004

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Investment, Technology and Related Financial Issues
Ninth session
Geneva, 7–11 March 2005

REPORT OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING ON ITS TWENTY-FIRST SESSION

Held at the Palais des Nations, Geneva
from 27 to 29 October 2004

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Chapter I

AGREED CONCLUSIONS

Review of the comparability and relevance of existing indicators on corporate social responsibility

1. Since its eighteenth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has identified reporting on corporate responsibility as one of the emerging issues in the area of corporate transparency. Furthermore, at its twentieth session, ISAR concluded that the pressure for better reporting on social issues was increasing and that enterprises were producing more information on this topic. It further noted that a tremendous amount of work was being done by various groups and initiatives. However, it was observed that the satisfaction of stakeholders with the quality and comparability of such reports remained low. It was also observed that the increasing demand for information in the area of corporate responsibility was imposing a growing burden on enterprises as they tried to respond to various stakeholders.

2. In accordance with the agreed conclusions of the twentieth session, ISAR at its twenty-first session began examining existing indicators so that corporate reports could be made more comparable. It noted that UNCTAD XI had provided a broader context in which the issue of corporate responsibility could be addressed. In particular, taking into account the impact of good governance, transparency and accountability on financial stability and economic development, ISAR noted that the São Paulo Consensus stated that UNCTAD should "assist developing countries, in particular LDCs, to design and implement active policies for building productive capacity and international competitiveness based on an integrated treatment of investment, corporate responsibility, technology transfer and innovation, enterprise development and business facilitation (including transportation and ICT), competitiveness, diversification and export capacity, to sustain a high level of growth and promote sustainable development" (TD/410, para. 49).

3. ISAR considered the report "Review of the comparability and relevance of existing indicators on corporate social responsibility" (TD/B/COM.2/ISAR/24) prepared by the secretariat. It commended the report for its quality and agreed that the report provided useful suggestions for further work on improving the relevance and comparability of social reporting to encourage disclosure. Social reporting could constitute a part of enterprise annual reporting that would supplement financial information and provide a broader view of corporate activities and their impact on society. Such information could meet common needs of users of companies' annual reports and should not impose undue additional burdens on enterprises, especially those in the SME sector. It was agreed that such information could also reflect corporate contributions to the economic and social development of host countries, as well as the need for capacity building.

4. ISAR agreed to continue its work in the area of social reporting in order to develop guidance on voluntary disclosure. In particular, it agreed that further deliberations would be needed regarding the principal users of social reporting, criteria for selecting topics and indicators, and the use of such information, so as to improve the comparability and relevance of social reports based on the incremental approach suggested in the secretariat report.

Review of the implementation status of corporate governance disclosures and the role of such disclosures in adding sustainable value

5. ISAR reviewed recent trends, the implementation status of corporate governance disclosures and the role of such disclosures in adding sustainable value. Discussions were facilitated by the report prepared by the secretariat as a background document for this agenda item (TD/B/COM.2/ISAR/25) and by a panel of distinguished experts in the area of corporate governance disclosures. ISAR noted the increased attention being paid to governance issues by various stakeholders and the growing trend towards convergence in disclosure practices in different parts of the world. It also discussed a number of implementation challenges still to be addressed in order to bridge the gap between existing codes and practices. It agreed that further efforts were needed to reassert the developmental benefits being brought to host countries by good corporate governance as well as its impact on company performance.

6. ISAR also discussed the results of the survey of corporate governance disclosure that had been conducted by the secretariat based on its "Transparency and Disclosure Requirements for Corporate Governance" (TD/B/COM.2/ISAR/15), considered by ISAR at its nineteenth session. It acknowledged that the results of the survey provided a useful snapshot of disclosure practices at the company level. ISAR felt that an annual study to assess the state of reporting on corporate governance would be useful. This study should cover a larger sample of companies and a wider geographical area than the initial study. It would take time for some of the provisions in corporate governance codes to be reflected in company reports, and any conclusions based on the studies should bear this in mind. These studies should also identify areas where there were particular obstacles to the implementation of corporate governance codes that merited additional work.

7. ISAR also discussed that, considering new developments in corporate governance disclosure, there might be a need to update the report "Transparency and Disclosure Requirements for Corporate Governance" to reflect new best practices that had evolved since the paper was produced.

8. ISAR agreed that this report could be a useful tool for promoting good practices and that the secretariat and ISAR should make further efforts to disseminate it. It was also emphasized that cooperation with other international organizations in the area of corporate governance should continue.

Briefing on UNCTAD XI

9. ISAR examined the mandate provided by the São Paulo Consensus with regard to the issue of corporate responsibility and other issues relevant to the work of ISAR. In light of this, the UNCTAD secretariat is asked to consider the implications of the São Paulo Consensus for the work of ISAR and report to the twenty-second session of ISAR on appropriate action taken as well as on possible additional areas of work with a focus on the developmental dimension.

Follow-up to accounting by SMEs

10. The twenty-first session of ISAR agreed that the secretariat should continue disseminating the Accounting and Financial Reporting Guidelines for Small and Medium-Sized Enterprises (SMEGA) Guidance for Level 2 and Level 3 SMEs and monitoring and compiling feedback on the guidelines' implementation as well as field-testing the Guidance for Level 3 SMEs. It was also agreed that, in accordance with the agreement reached at the twentieth session of ISAR, the secretariat should convene small working groups to assess the need for revising the Guidance for Level 2 and Level 3 SMEs and providing update reports to ISAR as necessary.

Follow-up to environmental accounting

11. The twenty-first session of ISAR agreed that ISAR's work on environmental accounting and eco-efficiency indicators should continue to be disseminated, taking into account the experience gained by companies that had already started using the recently published ISAR Manual for the Preparers and Users of Eco-Efficiency Indicators. UNCTAD should coordinate its work on reporting with other initiatives, including the UN Environment Programme, the Global Reporting Initiative and other bodies working in the area of environmental accounting and reporting.

Follow-up to the Model Curriculum

12. ISAR requested that the UNCTAD secretariat continue its efforts on national, regional and international requirements for the qualification of professional accountants in coordination with the Education Committee of the International Federation of Accountants (IFAC).

Chapter II

OPENING STATEMENTS

13. At the opening of the twenty-first session of ISAR, the **Officer in Charge of UNCTAD** said that the outcomes of UNCTAD XI, the Spirit of São Paulo and the São Paulo Consensus, emphasized the need for greater coherence between international processes and the development strategies and policies of developing countries and countries with economies in transition. In particular, the São Paulo Consensus stressed the central role of investment and the need to create an enabling environment for the facilitation of sustained investment flows to developing countries and economies in transition and for deriving greater benefits from those investments. Accounting and reporting constitute a fundamental part of such an enabling environment because sound and high-quality corporate reporting is essential for attracting and protecting investors, managing risks and returns, reducing financial volatility, enhancing accountability and ultimately allowing for efficient allocation and use of economic resources.

14. He also noted that a novel component of UNCTAD XI was the launching of development partnerships involving governments, international organizations, NGOs, the private sector and academic institutions. In particular, a partnership agreement had been launched between UNCTAD and the International Federation of Accountants. The agreement launched at São Paulo was going to culminate in the signing of a memorandum of understanding early the following month. The essential aim of the agreement was to join forces in building accounting infrastructure and strengthening the accounting profession in developing countries and countries with economies in transition. This development was an important one with significant implications for the future work of the Group of Experts. He expressed confidence that the discussions at the twenty-first session of ISAR and its agenda over the following four years would help in fulfilling the mandates contained in the São Paulo Consensus.

15. The outgoing **Chairman of the twentieth session** of ISAR emphasized the importance of UNCTAD XI and briefed participants on two parallel events organized there by the secretariat to highlight the role of accounting and corporate transparency in economic development. He stressed the significance of the partnership agreement between UNCTAD and the International Federation of Accountants.

Chapter III

CHAIRPERSON'S SUMMARY OF INFORMAL DISCUSSIONS

Review of the comparability and relevance of existing indicators on corporate social responsibility

(Agenda item 3)

16. A resource person introduced the agenda item. She noted that ISAR had previously recognized that corporations had environmental and social impacts that were not always reflected in corporate reporting. ISAR had recognized the weaknesses of non-financial reporting, such as the poor comparability of social indicators, and the potential burden that preparing reports placed on companies, especially SMEs. ISAR's work in this area was based on its mandate to promote the comparability and relevance of corporate reporting, and therefore the focus of the initiative was on the comparability of relevant corporate responsibility (CR) indicators.

17. ISAR recognized the work of the Global Reporting Initiative (GRI) as well as other organizations to develop specific social and environmental reporting indicators. ISAR's efforts were not meant to replace the work of other reporting organizations or discourage companies from producing more elaborate reports that extended the limits of best practice.

18. The resource person drew the attention of participants to the documentation that had been prepared for the agenda item. The main report "Review of the Comparability and Relevance of Existing Indicators on Corporate Social Responsibility" (TD/B/COM.2/ISAR/24) contained a summary of the deliberations of a Consultative Group of Experts created by the secretariat to facilitate the discussions. Her overview of this report covered the discussion of criteria for selecting social indicators, the consideration of potential users of social reports and their common needs, and other issues contained in the paper. The resource person then presented specific questions to the group to facilitate discussion of the subject.

19. The first question was whether CR reporting should be presented in annual reporting or in separate sustainability reports. Several delegates and invited experts were of the opinion that CR reporting should be presented in the annual report. These participants argued that CR reporting provided valuable information about the viability of a company and its quality of management. One representative of industry observed that a company should present only one face to the public (i.e. have one consolidated annual report). Some argued that social reporting was as important as financial reporting. It was also noted that some companies already included CR reporting in their annual reports and that the regulations of some countries required reporting on non-financial issues of a material nature.

20. Several delegates and invited experts expressed the view that CR reporting should not be included in the annual report of large companies. Annual reports were already very long documents, and adding additional material would increase the difficulty for analysts reading these reports. Other participants observed that there might be advantages to separate CR reports, as they might allow greater emphasis on social and environmental issues, provide space for improved comparability of performance over time, and avoid any potential conflicts with existing national regulations regarding the content of annual reports. One delegate suggested that the decision of whether to locate CR reports in annual reports or in separate CR reports should be made on a country-by-country basis.

21. Others felt that, even if a separate CR report were made, at least some basic information on CR should be included in the annual report. With respect to SMEs, concern was also expressed regarding the potential burden on SMEs if CR reporting were to be included in annual reports. One delegate, who supported inclusion of CR reporting in the annual report, also suggested that TNCs report CR indicators for their subsidiaries.

22. The second question related to the common needs of the target audience and the purpose of CR reporting. Many delegates expressed a need to better identify the target audience of social reporting, as this could affect so much of the content and process of such reporting. One delegate indicated that his delegation did not find the purpose of social reporting very clear. CR reporting should be objectively oriented: how, for instance, would CR reporting help users of such reports make decisions, and what kind of decisions would be affected by CR reports? Once the objective of CR reporting was identified, the scope and target audience of such reporting could also be more clearly identified.

23. An invited expert pointed out that, in addition to external audiences, one must keep in mind the relevance of CR reporting for the firm itself: such reporting might assist the firm in its own management efforts by, *inter alia,* facilitating gap analysis of key corporate goals and commitments. It was suggested that not only should the firm itself be considered part of the target audience, but the quality of management benefits derived by the firm from CR reporting should also be included in the overall cost/benefit analysis of the reporting process.

24. Some delegates observed that governments should also be considered part of the target audience of CR reporting. One delegate suggested that governments could use social reporting information to evaluate companies and to decide whether to limit or promote particular activities of firms.

25. The third question related to whether the stakeholder or the accountability perspective should be adopted. Some delegates observed that in their countries there was already a substantial amount of data collected from companies about social and environmental issues that pertained to government requirements. Such data could be used, from an accountability perspective, in CR reporting. Concerning the stakeholder perspective, an invited expert observed that the plethora of civil society groups that might demand data from a company could exceed a company's capacity to report. Despite some reservations about a stakeholder approach, many delegates and experts supported the idea of dialogue and partnerships between the private sector and civil society groups.

26. The fourth question concerned the criteria for selection of social indicators. Delegates and experts discussed the potential conflict between materiality and universality and, in much the same sense, between comparability and relevance. Several delegates suggested that materiality should take priority over universality, and that comparability, while an excellent objective, should not be overemphasized. There were several statements recommending a more sector-specific approach to CR indicators. The general concern expressed was that too great an emphasis on universality, or comparability, could undermine the materiality or relevance of a given indicator. Several other delegates and experts argued in favour of the use of universal and comparable indicators, at least in a limited way. Several suggested that a limited set of universal indicators could be developed and that these could be complemented by another set of more sector-specific indicators. Many delegates and experts supported the idea of a limited set of universal indicators supplemented by sector-specific indicators where questions of materiality were confined to a specific industry.

27. One delegate highlighted the potential for comparability across sectors to lead to "wrong" conclusions, since different industries could be expected to have different levels of performance vis-à-vis certain CR indicators; employee turnover, for example, could be expected to vary significantly

from industry to industry, and what might be "low" for one industry could be considered "high" for another. Another delegate said that the risk of drawing "wrong" conclusions from comparable indicators across sectors was not unique to the area of CR reporting. In financial reporting there were many comparable indicators, such as the price/earnings ratio, which varied significantly from sector to sector and from country to country. Nevertheless, analysts were able to interpret the indicators in the proper industry and country context and thus draw company-specific conclusions about performance within an industry, while also being able to draw industry- and country-level conclusions. Another delegate, who supported this idea of comparable indicators, suggested that there needed to be some "benchmark" indicators which could be harmonized internationally and allow cross-border comparisons.

28. The fifth question related to what issues should be reported on. Several delegates that expressed concern about the implications of reporting on sensitive topics such as human rights and corruption. Some delegates and experts questioned the role of corporate reporting on issues over which companies might have limited, indirect or even no control. An invited expert from the financial industry said that, while it was difficult to report on sensitive subjects such as human rights and corruption, it was not impossible. Several initiatives were underway (e.g. the Extractive Industries Transparency Initiative) that sought to address these particularly sensitive subjects.

29. Many delegates and experts expressed support for common topics in the field of CR, including working conditions (i.e. occupational safety and health), corruption and discrimination. One delegate suggested that the topic of skills transfer, or human capacity development, also be addressed by one or more indicators.

30. The sixth question concerned whether to use an incremental approach to CR reporting. Many delegates and experts supported this approach. One delegate expressed concern about the potential for duplication of work within companies on reporting matters and supported an incremental approach that would build on existing procedures within companies. Another delegate supported the incremental approach but noted that in some countries where there was little current reporting on social issues, there might be a need for more substantial steps.

31. The Group commended the report (TD/B/COM.2/ISAR/24) for its quality and recognized that it provided helpful suggestions for future work in the area of social reporting. The Group agreed to continue the work on the comparability and relevance of social reporting in order to develop guidance on voluntary disclosure. The Group recognized that future work would need to focus, *inter alia*, on such issues as the principal users of social reporting, the criteria for selecting topics and indicators, and the ultimate use of information produced by social reporting. The Group reaffirmed the goal of improving the comparability and relevance of social reporting based on an incremental approach.

Review of the implementation status of corporate governance disclosures and the role of such disclosures in adding sustainable value

(Agenda item 4)

32. The chairperson introduced agenda item 4 as an area in which ISAR has long-standing involvement and one that continues to receive a high level of attention globally. The chairperson introduced a panel of experts in the area of corporate governance.

33. A resource person presented the background paper prepared by the secretariat (TD/B/COM.2/ISAR/25), which highlighted recent developments in corporate governance disclosures, presented the results of a survey of corporate governance disclosure practices at the company level, and outlined further challenges in improving disclosure in the area of corporate governance. The role of corporate governance disclosures in adding long-term value was also discussed in the report. The resource person noted that increased attention was being paid to governance issues by various stakeholders and that the trend towards convergence in disclosure practices in different parts of the world was growing. The resource person also highlighted recent developments, including the revision and strengthening of the OECD principles, developments in and global implications of United States corporate governance reforms, and the continued trend towards harmonization of disclosures, as demonstrated by increasing acceptance and application of International Financial Reporting Standards (IFRS), inroads by International Standards on Auditing (ISAs) and application of ISAR's guidance on corporate governance disclosures in national and regional codes.

34. The resource person discussed the results of the survey of corporate governance disclosure that was conducted by the secretariat based on its “Transparency and Disclosure Requirements for Corporate Governance” (TD/B/COM.2/ISAR/15), considered by ISAR at its nineteenth session.

35. The resource person said that, despite its limited scope, the survey provided a useful snapshot of disclosure practices at the company level. It revealed the most and least frequent company disclosures among the selected companies. The most frequent disclosures concerned financial and operating results, basic governance structures (such as committees), and critical policies. The least frequent disclosures concerned performance evaluation processes, the impact of alternative accounting decisions, and the availability and use of external advisors.

36. Other findings of the survey were that disclosure was better among companies with international listing than companies with only local listing; that companies from the North American and Northern, Southern and Western European regions performed relatively better than those in other regions; and that companies in developing countries and countries with economies in transition tended to score lower. At the companies in the survey, relatively few boards of directors stated that they had confidence in the integrity of the auditor and in the auditor's independence; disclosure of the process of selecting both external and internal auditors could be improved; there was relatively limited disclosure of internal control mechanisms; and there was limited discussion of risk management systems.

37. With respect to the association between corporate governance practices and sustainable value, the resource person noted that, while no widely accepted definition of sustainable value existed, studies indicated that poor corporate governance practices and non-transparency increased investment risk and raised the cost of capital. He also noted that the survey confirmed anecdotally the positive impact of corporate governance on company operations and performance.

38. In concluding his presentation, the resource person highlighted the gap between what corporate governance principles required and actual implementation, which indicated the usefulness of ISAR corporate governance disclosure guidance in raising awareness of good practices and the need for wider dissemination of such guidance.

39. A number of delegates and invited experts acknowledged the quality and usefulness of the report prepared by the secretariat, and various delegates affirmed the existence of gaps in implementing corporate governance requirements. One delegate commented that corporate governance was a culture

of norms, not simply the application of rules. Various delegates agreed that implementation of good corporate governance practices was more complex than just obeying codes. It was generally felt that implementation required the existence of a cultural environment that recognized the economic benefits of good corporate governance practices for countries and companies and supported a viable system for monitoring and enforcement. One delegate felt that disclosure of the impact of alternative accounting decisions could be confusing to report users, as the alternatives often yielded different financial results. The same delegate also felt that requiring disclosure of performance evaluation and advisorship for board members might be inappropriate, as these activities might simply be a part of the routine of the board.

40. Certain delegates requested clarification on the methodology used for selecting companies and developing the checklist of disclosure items. The resource person responded that company selection was limited to 30 companies and that the companies selected represented a range of countries, industries and firm sizes. Country selection was based on achieving regional representation, levels of economic development, and levels of sophistication of capital markets. Company selection was based on the following criteria: whether companies were publicly traded, companies' contribution to GNP and diverse industry representation. The resource person also clarified that the checklist was taken from the list of corporate governance practices developed by ISAR and deliberated on at its nineteenth session.

41. A panel member who represented the European Commission said that corporate governance was at the top of the European Commission's agenda, not only because of the corporate scandals in the United States and Europe in recent years but also because good corporate governance paid off – it helped companies perform better. It was important to recognize that corporate governance systems and practices varied not only within the European Union but also around the world. With respect to recent developments on corporate governance disclosures in the European Union, in 2004 the European Commission had adopted two recommendations to member states of the European Union. The first recommendation dealt with directors' remuneration and the second with the role of non-executive supervisory directors. The first recommendation called for disclosure of companies' policies on directors' remuneration and the earnings of individual directors. The second recommendation reinforced the presence and role of independent non-executive directors on listed companies' boards. Both recommendations were developed through extensive consultations. The representative discussed four key proposed revisions to the Accounting Directives that the European Commission announced at the end of October 2004. The revisions were proposed with a view to establishing that board members were collectively responsible for financial statements and key non-financial information; making unlisted companies' transactions with related parties more transparent; ensuring that all companies provided full information about off-balance sheet arrangements, including Special Purpose Vehicles that might be located off-shore; and making listed companies issue an annual corporate governance statement. The representative also discussed the objectives and composition of a 15-member European Corporate Governance Forum that the European Commission established in October 2004.

42. As example of a country case where national institutions assist in the implementation of good corporate governance practices, the panellist from the Capital Market Authority in Egypt discussed efforts in Egypt that affirmed the country's commitment to applying internationally agreed standards, including the issuance of Accounting and Auditing Standards that complied with internationally recognized standards, the establishment of an Egyptian Disclosure Framework and the role of the Capital Market Authority in standard setting, monitoring and enforcement. Further, the panellist noted

an initiative of the Government of Egypt aimed at enhancing the quality of the accounting and audit profession.

43. The panellist from the Russian Institute of Directors presented the results of surveys on investor use of corporate governance disclosures in the Russian Federation. In general, the results indicated that, of those surveyed, capital providers, financial analysts, banks and stock exchanges interested in Russian securities tended not to rely on or to see little benefit in corporate governance disclosure. Gaps in implementation and use might result partly from a lack of understanding of the economic benefits associated with good corporate governance practices. With respect to disclosures concerning, for example, ownership, board independence and corporate responsibility, the panellist noted cultural differences that currently tended to limit the disclosure of such elements of corporate governance.

44. A panellist from the Brazilian Institute of Corporate Governance (IBGC) briefed participants on activities in Brazil and elsewhere in Latin America in the area of corporate governance reform, and on IBGC's role as a leading advocate of corporate governance initiatives in Brazil. He outlined institutional frameworks to support sound corporate governance practices, such as Brazil's CVM (Securities and Exchange Commission) codes and the dissemination of an OECD white paper on corporate governance in Latin America. He also pointed out that the economies of the region shared certain challenges, such as pension reform and limited access to long-term capital, and that this affected the implementation of corporate governance disclosure practices.

45. The panellist from the Nairobi Stock Exchange noted the important role of the government in providing a viable framework to support the implementation of good corporate governance standards, and highlighted the focus of the New Partnership for Africa’s Development's (NEPAD) on corporate governance issues. The panellist also described national initiatives aimed at developing and disseminating corporate governance guidelines. He pointed out, however, that many companies were not interested in public listing owing to the burden of complying with listing requirements and the associated costs. At the same time, they were not convinced of the benefits of increased disclosures. He stressed the need to promote better disclosure through the distribution of information on the economic benefits of good corporate governance practices.

46. Following the presentations of the panellists, participants deliberated on implementation issues, such as the gaps that existed between principles or standards and practice; causes of these gaps; and challenges faced in bridging the gaps. Other specific issues discussed were availability, accessibility and applicability of internationally agreed corporate governance principles; the gap in implementation at the subsidiary level of a company; application and implementation of corporate governance practices for SMEs, non-publicly traded companies and state-run enterprises; and reconciliation of internationally recognized good practices with local culture.

47. Various delegates felt that new best practices in corporate governance disclosure that had evolved since the twentieth session of ISAR should be reflected, and they suggested updating the paper prepared by the secretariat for the nineteenth session, "Transparency and Disclosure Requirements for Corporate Governance".

48. Several participants stressed the role of the host government in a TNC subsidiary's adoption of corporate governance disclosure practices. It was also noted that in general subsidiaries that were not obligated to report to local regulators were not as transparent as those that were obligated to do so. In this connection, a number of participants noted the common practice among companies of reporting to shareholders, not stakeholders. This shareholder focus had strengthened reporting at the parent level,

where the majority of the shareholders tended to be located, and reporting at the subsidiary level only if required by local authorities.

49. The issue of applicability was raised by several delegates, in particular as it related to SMEs and non-publicly-traded companies. While certain participants felt that sound corporate governance was the responsibility of all types of companies, other participants also recognized that the special needs and constraints of SMEs might limit their full adoption of best practices. One delegate commented that the culture of corporate governance extended beyond reporting to company shareholders to the realm of contributing to the public good. This delegate observed that, if not customized to fit local conditions, principles developed at the international level could fall short at the local level.

50. A number of participants underscored the effects of additional cultural and capacity development constraints on implementation, such as cultural scepticism, insufficient awareness about internationally recognized corporate governance principles, and lack of access to technical assistance. Several participants felt that these constraints could in part be overcome through the development and wide dissemination of guidelines on good practices, and that the guidelines should be supported by rationalizations of the benefits of good corporate governance practices. A number of delegates felt that national governments, by providing a supportive institutional framework, and international organizations, by providing guidance on implementation and with their wide distribution capabilities, could play an important role in promoting good corporate governance practices.

51. Participants thanked the secretariat for preparing the background paper and coordinating a panel of experts and indicated that the issue of corporate governance disclosure should continue to be considered at forthcoming ISAR meetings. It was also felt that if further study to assess the state of corporate governance disclosures at the company level was to be done, such study should cover a larger sample of companies and a wider geographical area than the initial survey.

Other business

(Agenda item 5)

Briefing on UNCTAD XI

52. Since the Group of Experts was meeting for the first time after UNCTAD XI, the secretariat briefed participants on the outcomes of UNCTAD XI and their implications for the work of ISAR. The São Paulo Consensus reaffirmed the continuing relevance of the Bangkok Plan of Action that member States had adopted in February 2000 at UNCTAD X. Furthermore, the São Paulo Consensus provided additional areas of work. In particular, it mandated UNCTAD to carry out work in the area of corporate responsibility that provided a broader context for ISAR's work on corporate responsibility reporting.

53. The secretariat reported on two parallel events organized in São Paulo. The first one was a high-level roundtable on corporate transparency and investment organized jointly with BOVESPA, the São Paulo Stock Exchange. The roundtable was designed to raise awareness among main stakeholders of the importance of corporate transparency for facilitating investment, including foreign direct investment; debating major issues related to improving corporate transparency at the national and international levels; and discussing international best practices on corporate transparency and how

developing countries and countries with economies in transition could be assisted in implementing these best practices.

54. The second parallel event was a workshop on accountancy and economic development whose main objective was to raise awareness of the importance of accountancy for economic and social development, since the positive role that accountants and auditors play in economic development seems to be often underestimated. The workshop addressed a number of issues, including the role of accountancy in creating an enabling business environment and attracting investment; the impact of good governance, transparency and accountability on financial stability; major challenges faced by the profession owing to the globalization of accounting, reporting and auditing and professional education standards; and major challenges faced by developing countries and countries with economies in transition in strengthening the accountancy infrastructure and the accounting profession.

55. It was also discussed that ISAR was uniquely positioned in the United Nations system as a focal point for corporate accounting and transparency to undertake the mandate given by member States at UNCTAD XI. ISAR has a wide network of experts, including regulators, the private sector, the accountancy profession, academia, and other stakeholders that it has built over a period of three decades. It has a long-established process of proposing issues for consideration, conducting research, building consensus through intergovernmental deliberations, developing practical guidance and assisting in implementation through technical cooperation programmes.

Accountancy and economic development

56. One panellist at the workshop on accountancy and economic development highlighted some of the points discussed at UNCTAD XI regarding the positive role that accountants and auditors play in economic and social development. The speaker emphasized the need to raise awareness of the importance of accountancy for economic development and called on the Group of Experts to intensify its efforts in assisting developing countries and countries with economies in transition in implementing international standards that were often developed with more established economies and businesses in mind.

Follow-up on previous ISAR sessions

Fifteenth session – update on environmental accounting

57. The Group of Experts was briefed on further work carried out during the intersession period in the area of environmental accounting. The secretariat reported that *A Manual for the Preparers and Users of Eco-Efficiency Indicators,* developed by the Group of Experts, had been published. Ciba Speciality Chemicals Company had adopted the guidelines and had included eco-efficiency indicators in its annual environment, health and safety report for 2003. The secretariat considered the adoption of the ISAR guidelines by Ciba as a significant step towards the goal of sustainable development, since Ciba was a leading transnational company with operations in more than 120 countries. Additional companies and industry associations had expressed interest in adopting the ISAR eco-efficiency guidelines.

58. A representative of Ciba reported that after publishing its eco-efficiency indicators, the company had received positive feedback from fund managers, general investors, rating agencies and to some extent the media. Opportunities for improvement existed regarding issues such as the impact of changes in currency ratios and the calculation of certain parameters with respect to energy use. The session agreed that ISAR's work on environmental accounting and eco-efficiency indicators should

continue to be disseminated, taking into account the experience gained by companies that had already started using the ISAR manual.

Sixteenth session – update on the ISAR model curriculum

59. The secretariat reported that the model curriculum revised by the Group of Experts at its last session had been published in the 2003 *Review of International Accounting and Reporting Issues.* The secretariat also reported that UNCTAD had joined the Education Committee of the International Federation of Accountants (IFAC) as a public member. This development was expected to provide UNCTAD with additional opportunities for coordinating its activities with the Education Committee of IFAC, especially in the area of International Education Standards (IESs). The session called on UNCTAD to continue its efforts on national, regional and international requirements for the qualification of professional accountants in coordination with the Education Committee of IFAC.

Nineteenth session – update on accounting by small and medium-sized enterprises

60. Participants were updated on further work carried out in the area of accounting by SMEs. The secretariat reported that during the intersession period, the publication and printing work on the Guidance for Level 2 and 3 SMEs had been completed and copies of both publications had been disseminated in large numbers during UNCTAD XI and other relevant events. The secretariat reported on progress made with respect to translating and publishing the Guidance for the two levels into the other working languages of the United Nations. The secretariat also reported on field-testing activities on the Guidance for Level 3 SMEs as well as developments at the International Accounting Standards Board with respect to its project on accounting by SMEs. The twenty-first session of ISAR agreed that the secretariat should continue disseminating the Guidance for Level 2 and Level 3 SMEs and monitoring and compiling feedback on the guidelines' implementation as well as field-testing the Guidance for Level 3 SMEs.

Updates by other organizations

61. A representative of the **European Commission** updated participants on developments on issues such as corporate governance, auditing and financial reporting that had occurred during the intersession period, in addition to his briefing during the session that specifically addressed issues of corporate governance disclosures. Regarding corporate governance, as in most other areas, the Commission had focused on providing principles as opposed to detailed rules. In the area of audit, the representative reported that in March 2004 the European Commission had issued a proposal for a directive on statutory audit of annual accounts and consolidated accounts. Among others, the proposed directive called for public oversight of the audit function and contained provisions for auditor independence. The Commission expected negotiations on the proposed directive to be completed by mid-2005. The Commission's proposals on modernizing the Fourth and Seventh Directives called for better transparency not only by listed companies but also by all limited liability companies. Finally, while the convergence efforts between the Financial Accounting Standards Board (FASB) in the United States and the International Accounting Standards Board were encouraging, further efforts needed to be made with respect to recognizing each other's accounting requirements.

62. A representative of the **International Accounting Standards Board** (IASB) reported on various activities that the IASB had undertaken during the preceding 12 months. The representative highlighted the completion of improvements on 13 International Accounting Standards and the publication by the IASB of what came to be generally known as "stable platform". The IASB had been working towards convergence with the FASB in the United States. A convergence initiative was

had also recently been announced with the Accounting Standards Board of Japan. The representative reported that under its current agenda the IASB was working on standards for insurance contracts, business combinations, consolidations, revenue recognition, liability and equity, and reporting comprehensive income. With respect to the IASB's project on accounting by SMEs, the IASB had received over 100 letters commenting on the discussion paper it issued in June 2004, and an exposure draft on accounting by SMEs could be issued by mid-2005. With respect to the constitutional review process at the IASB, a final version of the IASB constitution was expected to be completed by March 2005. There was going to be more emphasis on the due process of the IASB. He also discussed broadening the communication channel of the IASB, including its Web site.

63. A representative of the **European Federation of Accountants** (FEE) updated participants on activities by FEE since the last session of ISAR. The accountancy profession faced several challenges, including in the areas of application and enforcement of IFRS in Europe by 2005 as well auditor independence, public oversight, liability, quality assurance and implementation of International Standards on Auditing in Europe by 2007. With respect to accounting and financial reporting needs of SMEs, FEE had recently organized a congress and published a guide for SMEs on avoiding business failure. In the area of financial reporting, FEE had been actively calling for a comprehensive set of IFRS for Europe identical with full IFRS, and voicing its concerns with respect to the major uncertainties that might occur if the endorsement of IFRS was delayed. The representative highlighted several activities that FEE had undertaken in the areas of capital markets, company law and corporate governance, sustainability and corporate social responsibility, the public sector, taxation and liberalization of qualifications of the profession. A FEE study on mandatory auditor rotation of audit firms had concluded that mandatory rotation of audit firms endangered audit quality.

64. The Chief Executive of the **Eastern, Central and Southern African Federation Accountants** (ECSAFA) provided updates on activities that his organization had carried out since the twentieth session of ISAR. ECSAFA had held its sixth congress from 9 to 10 September 2004 in Botswana. At that conference, a new governance code for public sector entities had been launched. The ECSAFA region had set up an African standard setters' group to respond to exposure drafts issued by the IASB from the perspective of African countries. ECSAFA had continued work towards harmonization of qualification requirements at the level of accounting technicians in the region. Within its Council structure, ECSAFA had formed a committee on the New Partnership for Africa's Development (NEPAD) with a view to responding to accounting issues that might arise.

65. A Board member of the **International Federation of Accountants** (IFAC) spoke about various developments that had occurred at IFAC during the intersession period. He highlighted a number of initiatives undertaken by IFAC and reported that, as a result of reforms by IFAC, more IFAC Standard-Setting Committees would have Consultative Advisory Groups. These included the Education, Public Sector and Ethics Committees. The composition of the Consultative Advisory Group for the International Auditing and Assurance Standards Board had been expanded and strengthened. The meetings of these Committees would be open to the public and their agendas would be posted on the IFAC Web site. A public interest oversight board would be formed before the end of 2004. The board's responsibility would include ensuring that IFAC standard-setting committees met their public interest responsibilities. A study of challenges and successes in implementing international accounting and auditing standards commissioned by IFAC had been published and presented at a meeting organized by the Financial Stability Forum. The Board member also briefed participants on the activities of several IFAC committees and task forces and outlined some changes in the leadership of IFAC that would be taking effect over the few months that followed.

Chapter IV

ORGANIZATIONAL MATTERS

Opening of the session

66. The session was opened on Wednesday, 27 October 2004 by Mr. Carlos Fortin, Officer in Charge of UNCTAD.

Election of officers

67. At its plenary meeting, on 27 October 2004, the Intergovernmental Working Group elected the following as officers:

Chairperson:	Mr. Abbas Ali Mirza (Saudi Arabia)
Vice-Chairperson-cum-Rapporteur:	Ms. Alicia A. Jaruga (Poland)

Adoption of the agenda and organization of work

68. At its opening plenary, the Intergovernmental Working Group adopted the provisional agenda for the session (contained in TD/B/COM.2/ISAR/23). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of the comparability and relevance of existing indicators on corporate social responsibility
4. Review of the implementation status of corporate governance disclosures and the role of such disclosures in adding sustainable value
5. Other business
6. Provisional agenda for the twenty-second session
7. Adoption of the report

Transparency and disclosure in corporate governance and other business

69. At its closing plenary meeting, on Friday, 29 October 2004, the Intergovernmental Working Group adopted its agreed conclusions on these agenda items (see chapter I). It also agreed that the chairperson should summarize the informal discussions on these agenda items (see chapter III).

Adoption of the report of the Intergovernmental Working Group on its twenty-first session

70. At its closing plenary meeting, on 29 October 2003, 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 TWENTY-SECOND SESSION

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of practical implementation issues of International Financial Reporting Standards
4. Comparability and relevance of existing indicators on corporate responsibility
5. Other business (including corporate governance disclosures and follow-up to other topics as needed)
6. Provisional agenda for the twenty-third session
7. Adoption of the report

Annex II

ATTENDANCE [*]

1. Representatives from the following States members of UNCTAD attended the meeting:

Benin
Brazil
Cameroon
China
Colombia
Czech Republic
Democratic Republic of the Congo
Democratic People's Republic of Korea
Egypt
Ethiopia
France
Germany
Greece
Hungary
Indonesia
Iran (Islamic Republic of)
Jordan
Kazakhstan
Kenya
Mexico
Namibia
Oman
Philippines
Poland
Russian Federation
Rwanda
Saudi Arabia
Serbia and Montenegro
Spain
Sri Lanka
Switzerland
Thailand
Tunisia
Ukraine
United Kingdom of Britain and Northern Ireland
United States of America

2. The following intergovernmental organization was represented at the meeting:

European Commission

3. The following non-governmental organizations were represented at the meeting

General category

International Confederation of Free Trade Unions

Special category

International Organization for Standardization

4. Special invitees from the following organizations attended the meeting:

American Institute of Certified Public Accountants
Arab Banking Corporation
Association of Accountants and Auditors of Republika Srpska
Association of Accounting Technicians

[*] For the list of participants, see TD/B/COM.2/ISAR/INF.7.

Association of Chartered Certified Accountants
Association of International Accountants
BDO International Accountants and Consultants
Capital Markets Board
Chamber of Financial Auditors
Chulalongkorn University
Ciba Specialty Chemicals Inc.
Clarke & Asociados
Comissão de Valores Mobiliarios
Compagnie Nationale des Commissaires aux Comptes
Copenhagen Business School
Corps des Experts Comptables et des Comptables Agréés de Roumanie (CECCAR)
Department of Accounting and Methodology (Kiev, Ukraine)
Eastern, Central and Southern African Federation of Accountants
Ernst & Young
Fédération des Experts Comptables Européenne
Fédération Internationale des Experts Comptables Francophones (FIDEF)
Financial Supervisory Service
GPA Investment Bankers
German Accounting Standards Committee
Gulf Cooperation Council Accounting and Auditing Organization
Institute of Chartered Accountants in England and Wales
Institute of Chartered Accountants of India
Institute of Chartered Accountants of Nigeria
Institute of Chartered Secretaries and Administrators
Institute of Cost and Management Accountants of Bangladesh
Institutes des Reviseurs d'Entreprises
Instituto Brasileiro de Governança Corporativa
International Accounting Standards Board
International Corporate Governance Network
International Organisation of Securities Commissions
IRRCG
Islamic Financial Services Board
KLD Research & Analytics Inc.
KPMG
Korea Accounting Standards Board
Lebanese Association of Certified Public Accountants
Malaysian Institute of Accountants
Moscow State University
National Economic University
Nexia International Middle East and Africa
Office of the Auditor General
Ordre des Experts Comptables de Tunisie
Pricewaterhouse Coopers SA
Responsible Business Initiative
Romanian Chamber of Financial Auditors
Russian Institute of Directors
SAM Research AG
SCI Koimburi Tucker & Co.
Serbian Association of Accountants and Auditors
Social Responsibility in Business and Investment
Sudanese Association of Certified Accountants
Thammasat University
Universidade Federal do Rio de Janeiro
University of Lodz