United Nations TD/B/C.II/ISAR/54

United Nations Conference on Trade and Development

Distr.: General
29 October 2009

Original: English

Trade and Development Board
Investment, Enterprise and Development Commission
Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
Twenty-sixth session
Geneva, 7–9 October 2009

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its twenty-sixth session

Held at the Palais des Nations, Geneva, from 7 to 9 October 2009

Contents

I. Agreed conclusions

Review of practical implementation issues of International Financial Reporting Standards

1. At its twenty-sixth session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) continued its review of practical implementation issues regarding International Financial Reporting Standards (IFRS). The Group of Experts noted that the financial crisis had put an unprecedented focus on accounting and reporting standards. This topic had become so significant that it had been featuring on the agenda of the leaders of the G8 and G20 countries. The Group of Experts emphasized that accounting and reporting standards – although not particularly a cause of the financial crisis – played a critical role for international financial stability and for establishing a governance and transparency system that would help to restore investor confidence and prevent such financial shocks in the future. The Group of Experts reiterated the importance of a single set of high-quality global financial reporting standards for strengthening the international financial regulatory system, as was highlighted by the G20 leaders in their Pittsburgh Summit statement.

2. ISAR stressed the growing interconnectedness and interdependence of the international financial system. In this regard, experts underscored the growing importance of the open, neutral and all-inclusive forum that ISAR provides for member States, to enhance the involvement of various stakeholders and to take into account the views of developing countries and countries with economies in transition regarding enhancement of the international accounting and reporting system.

3. In the course of their consideration of this agenda item, delegates exchanged views on a number of accounting and financial reporting issues that had emerged during the financial crisis, especially on fair value, and on the ways in which they could be addressed. Experts noted that a new group of issues had emerged with regard to financial reporting in a distressed economic situation. These issues had added to previously existing challenges for all countries, but particularly for those countries with less developed financial markets. Delegates therefore called upon the International Accounting Standards Board (IASB) to facilitate further its efforts to provide guidance on implementation of the IFRS in order to ensure their consistent application around the world. ISAR highlighted the critical need for institutional and technical capacity-building in the area of accounting and reporting that is faced by developing countries and countries with economies in transition. Delegations expressed appreciation for the high quality of the panel discussants, which facilitated deliberations on this agenda item.

The accounting and financial reporting needs of small and medium-sized enterprises

4. The Group of Experts welcomed with appreciation the publication of the *International Financial Reporting Standard for Small and Medium-sized Entities* by the IASB. Delegates noted the positive impact of ISAR’s work on the IASB’s project on IFRS for small and medium-sized enterprises (SMEs), which deals with accounting carried out by SMEs. In concluding their deliberations on this agenda item, delegates at the twenty-sixth session of ISAR agreed on the need to consider withdrawing SMEGA Level 2 as a result of the publication of the IFRS for SMEs by the IASB. They also requested the UNCTAD secretariat to continue compiling feedback on practical implementation of the revised SMEGA Level 3. ISAR further requested the UNCTAD secretariat to conduct studies on

practical implementation of the IASB's IFRS for SMEs, with a view to facilitating the sharing of experiences gained in different regions of the world.

Capacity-building in corporate accounting and reporting

5. At the twelfth session of the United Nations Conference on Trade and Development (UNCTAD XII), which took place in Accra, Ghana, in April 2008, member States requested the organization to assist developing countries and countries with economies in transition with implementing international accounting and reporting standards and codes. In this context, at the twenty-fifth session of ISAR, delegates deliberated on the growing demand for technical and institutional capacity-building in the areas of financial reporting, auditing, corporate governance disclosure and corporate responsibility reporting. SMEs' needs for technical assistance in the area of accounting and financial reporting were discussed too.

6. The twenty-sixth session of ISAR deliberated on the capacity-building needs of member States in the area of accounting and reporting. The Group of Experts agreed on the need for further work in this area, with a view to developing a capacity-building framework. It requested the UNCTAD secretariat to reconstitute a consultative group to work on this issue and to propose an approach for consideration by the twenty-seventh session of ISAR. Delegates also indicated increased interest in International Public Sector Accounting Standards and in the accounting and reporting needs of non-profit organizations. They requested the UNCTAD secretariat to organize workshops and seminars on these topics and to further explore means of integrating discussions on these issues in future ISAR deliberations.

7. The Group of Experts recognized the potential role of quantitative measurement tools for assisting developing countries and countries with economies in transition to further strengthen their accounting infrastructure, assess progress, and identify priorities in the area of accounting and reporting. It encouraged UNCTAD to conduct research in this area.

Corporate governance disclosure

8. ISAR reiterated the importance of corporate governance disclosure for promoting investment, stability, and sustainable economic development. The Group of Experts recognized that high-quality reports in this area added value for policymakers, shareholders and other stakeholders, and promoted more stable economic development.

9. In accordance with the agreed conclusions of its twenty-fifth session, ISAR at its twenty-sixth session considered the results of the annual review of corporate governance disclosure. ISAR commended the studies for their quality and noted that they helped to build on ISAR's earlier work in this area, by providing important data and analysis to allow for international benchmarking and the sharing of country experiences. The Group of Experts requested UNCTAD to continue to gather and disseminate data on corporate governance disclosure practices around the world, with a focus on providing relevant information to policymakers, investors and other stakeholders. The Group of Experts also considered the country case study of corporate governance disclosure in Pakistan. It welcomed the study and requested UNCTAD to conduct country case studies in partnership with local institutions wherever possible.

10. ISAR also discussed the regulatory developments in the wake of the financial crisis and the implications for corporate governance disclosure. The Group of Experts recognized

that recent regulatory developments stemming from the financial crisis may have significant implications for corporate governance and disclosure.

Corporate responsibility reporting

11. In accordance with the agreed conclusions of its twenty-fifth session, and in accordance with paragraph 156 of the Accra Accord, ISAR considered issues of corporate responsibility reporting and climate change–related disclosure. The Group of Experts recognized that environmental reporting was an important integral part of corporate responsibility reporting. The delegates commended the study for its usefulness, and noted in particular that international efforts to address climate change would benefit from the promotion of a harmonized approach to the use of environmental accounting and reporting. ISAR requested UNCTAD to continue to contribute to the field of environmental reporting frameworks, particularly those related to climate change issues, with a view to promoting a harmonized approach among member States. The Group of Experts agreed that UNCTAD should continue to coordinate this work with other international initiatives active in the area of corporate responsibility reporting, along with private and public sector stakeholders.

12. ISAR also considered a case study of Brazil on corporate responsibility indicators. It welcomed the study and recommended that the UNCTAD secretariat continue working with local partners to conduct country case studies wherever possible.

II. Opening statements

13. The Chair invited the UNCTAD secretariat to introduce the agenda items that the session would be dealing with. In his introductory remarks, the Director of the Division on Investment and Enterprise provided a broader context within which the work of ISAR was being undertaken in UNCTAD. He indicated that UNCTAD's work consisted of three pillars, i.e. research, consensus-building and technical cooperation. He highlighted a number of flagship products that the Division on Investment and Enterprise had been producing over the years, including the *World Investment Report*. He identified ISAR as one of the flagship activities, and highlighted the importance of ISAR's work in the context both of the Division on Investment and Enterprise and of UNCTAD.

14. The Head of the Enterprise Development Branch provided an introduction and background to the agenda items that the twenty-sixth session was about to deal with. In respect of agenda item 3, which was entitled "Review of practical implementation issues of International Financial Reporting Standards", she indicated that the UNCTAD secretariat had organized a conference on the implications of the financial crisis for the international financial reporting infrastructure and financial stability. The conference had taken place in Geneva on 1 July 2009. She drew participants' attention to the issues note with the symbol TD/B/C.II/ISAR/53, stating that it had been prepared on the basis of inputs provided by panellists and participants at the conference. She highlighted the extensive attention that fair value recognition and measurement issues had been attracting during the financial crisis, and indicated that the panel discussion about to take place would focus on that topic.

III. Chair's summary

A. Review of practical implementation issues relating to International Financial Reporting Standards

(agenda item 3)

15. Following the introduction of the agenda items by the UNCTAD secretariat, a panel of experts made presentations on recent developments in the area of the practical implementation of IFRS in the aftermath of the financial crisis. The first speaker, a representative of the World Bank, highlighted the global impact of the financial crisis including on global GDP, trade investment, net private capital flows, poverty, and infant mortality. In discussing causes of the financial crisis, the speaker indentified optimism supported by a long period of high growth, low real interest rates, volatility, and policy failures. With regard to policy failures, he spoke about financial regulation, macroeconomic policies, and the fragmentation of surveillance systems in the global financial architecture. The speaker discussed the responses of the International Monetary Fund and the G20, and initiatives under way in the European Union. The speaker underscored the fundamental importance of enforcement of high-quality accounting and auditing standards in strengthening the financial regulatory system. Furthermore, he highlighted the importance of strengthening all the supporting pillars of the financial reporting architecture, including accounting standards, statutory and governance frameworks, monitoring and enforcement, education and training, the accounting profession and ethics, and auditing standards.

16. The next speaker, a representative of the European Commission, began his presentation by providing background information on the implementation of IFRS in the European Union. He elaborated on the European Union's International Accounting Standards regulation (EC/1606/2002) and noted that this regulation was applicable in all 27 member States of the European Union. He also elaborated on the endorsement mechanism and related endorsement criteria applicable in the European Union, and the reclassification amendment that the IASB had made in October 2008 on IAS 39 and IFRS 7. He discussed the IASB's guidance on fair value of financial instruments, as well as impairment rules, fair value options and embedded derivatives. He noted the growing concern at European Union level regarding the need for closer cooperation between the IASB and the Financial Accounting Standards Board (FASB) in the United States, to address key issues and to avoid risks of competitive distortions. He discussed the IASB's exposure draft on the classification and measurement of financial instruments. He also discussed loan loss provisioning.

17. The next speaker, a representative of the International Accounting Standards Board, noted that in 117 jurisdictions around the world, domestic companies were either required or permitted to use IFRS. He elaborated on the structure of the International Accounting Standards Committee Foundation, the constitutional review, and the IASB's consultation process in setting standards. He also elaborated on a number of IASB projects that were aimed at addressing technical issues that had emerged in the course of the financial crisis. He noted that the IASB had published proposals in relation to derecognition, fair value measurement and credit risk in liability measurement. The IASB was in the process of developing documents addressing issues such as consolidation and financial instruments.

18. The next speaker, from Bruegel, highlighted the success of the IASB in formulating a global set of standards that were being widely adopted. He expressed satisfaction with the broadening geographical base from which board members were being recruited. He noted that the IASB's efforts were geared towards achieving a single set of high-quality accounting standards. However, whether the IASB's standards were of high quality or not could not be determined without clearly defining who the IASB's constituents were. The

speaker was of the view that in the international accounting standard-setting arena, emerging economies should be treated on equal basis with developed markets. He also noted the importance of playing a proactive role in the standard-setting process for emerging markets. He expressed concern that the IASB's funding and accountability were shifting more towards governments than the private sector. He also cautioned on the possible negative impacts of convergence efforts between the IASB and FASB.

19. The last speaker, from the International Federation of Accountants (IFAC), focused his presentation on practical implementation of International Standards on Auditing (ISAs) and the Code of Ethics for Professional Accountants. He noted that the strategic objectives of the IFAC included setting high-quality standards and assisting its member bodies with the adoption and implementation of standards. The speaker noted that in March 2009, the International Auditing and Assurance Standards Board had completed a suite of 36 ISAs as well as an International Standard on Quality Control (ISQC 1). These standards were scheduled to come into effect for audits in 2010. The speaker said that the clarified ISAs were scalable and made special consideration for smaller entities and practices. He informed participants about the implementation assistance resources that were available at the IFAC's Clarity Centre website. He continued his presentation by discussing the revised and redrafted Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). He also discussed the IFAC's small and medium practices committee, statements of membership obligations, and compliance advisory panel.

20. The Chair opened the floor for questions. Several delegates raised specific questions regarding the adoption and implementation of IFRS. Some participants were of the view that adapting IFRS to national needs was a preferable initial implementation step, rather than full adoption. On this issue, one of the panellists noted that adapting IFRS does not provide the full benefit of implementing IFRS as issued by the IASB. One expert noted that his country was in the process of implementing IFRS by 2011 and highlighted the fact that adopting IFRS was not a mere technical exercise but rather a major undertaking that required the involvement of various stakeholders at the national level.

21. On the question of the European Union's endorsement criteria in relation to competitiveness, one of the panellists cited the example of endorsement of the IFRS 8 on segment reporting. He indicated that the European Commission had had to examine the potential risk that European companies would face if they were going to be required to reveal competitive business information in order to comply with IFRS 8. The panellist further noted that at the end of the process, it was determined that the standard (IFRS 8) did not pose such risks, and so it was endorsed for implementation.

22. One delegate raised the implications of IFRS for Islamic financial institutions. Delegates exchanged views on the issue. The Chair explained that in his view accounting standards needed to be religion-neutral, as the purpose of standards is to ensure accurate reporting of business performance and financial position. One participant cited the experience of Malaysia, where IFRS-based financial reporting standards coexisted with financial reports prepared in compliance with religious requirements.

23. One participant expressed concern that the IASB and FASB were moving in different directions in developing a revised standard in the area of financial instruments. He noted that this divergence was contrary to the call by the G20 for a single set of global standards. One of the panellists responded that the two Boards were working in close consultation, with a view to avoiding divergence.

24. The Chair invited another panel of experts to share their views on fair value measurement requirements and on the most significant challenges in applying fair value requirements that had emerged during the financial crisis. The first panellist, a technical

partner in a Big Four accounting firm, elaborated on some misconceptions about the role of fair value accounting in the financial crisis. She cited a number of studies showing that fair value had not caused the financial crisis. With regard to the relationship between fair value and procyclicality, the panellist cited findings that indicated that financial statements were being used too crudely in the calculation of regulatory capital requirements. The speaker highlighted the following weaknesses/difficulties in fair value accounting: the difficulty of applying fair value accounting in illiquid markets; delayed recognition of loan losses, structured credit products and other financial instruments; the extraordinary complexity of standards for financial instruments; the inability to determine whether declines in value are related to changes in liquidity or to probable credit losses; and insufficient best practice guidance and disclosure. She discussed various actions that the IASB and FASB had taken in the area of fair value accounting in response to the financial crisis. She also elaborated on a number of considerations that auditors need to make in relation to fair value–based measurements in the aftermath of the financial crisis.

25. The next speaker, from the IASB, elaborated on IFRS that required fair value measurement either at initial recognition or subsequent measurement, and on IFRS that permitted fair value measurement as an option. He noted that the financial crisis had revealed various challenges in applying fair value measurement requirements. In his discussion of the IASB’s project on fair value measurement guidance, he emphasized that the proposed guidance did not introduce new fair value requirements, nor did it change the measurement objectives in existing IFRSs. It was intended to provide guidance on how to meet fair value measurement requirements. He elaborated on the proposed definition of fair value, highlighting the exit price element. He also discussed valuation techniques and fair value hierarchy contained in the proposed guidance.

26. The next speaker, from the Chartered Financial Analyst (CFA) Institute, discussed the importance of fair value–based information for investment decision-making. He noted that fair value provided relevant information for all rational economic decision-making. In his view, other value measurement methods were less useful for investors, because they did not provide the information needed for forward-looking resource allocation decisions. He also discussed some common objections to fair value accounting, which included the introduction of unacceptable measurement errors, the paradox of recognizing a gain when a firm’s debt was downgraded, the high cost of obtaining fair value prices, and procyclicality. The speaker then presented the following arguments against the objections: measurement errors would occur if fair value measurements were to be compared to historical cost – and historical cost was not relevant in his view; the gain recognized on downgrading of own debt would be offset by the higher cost of refinancing as a result of the downgrade; when businesses are managed on a fair value basis, the cost of obtaining fair value would not be an issue; and fair value does not contribute to procyclicality – this occurs in the context of highly leveraged financial institutions and strictly held capital requirement rules. In respect of the financial crisis and accounting standard-setting, the speaker elaborated on three interrelated aspects, namely transparency, stability and complexity. He noted that transparency was important for investors, but that it had the potential for reducing inherent systemic stability. If accounting standards were to be developed to ensure economic stability, then the standards would become more complex and less useful, i.e. less transparent for investors. He highlighted the need for recognizing the limitations of accounting standards and identifying priorities and catering for secondary objectives by other means, such as modified capital requirement rules or separate accounting for regulatory purposes.

27. The next panellist, who represented a business school in Brazil, described the challenges in applying fair value measurement requirements in developing countries. His discussion focused on the Latin American and Caribbean region. He pointed out that the debate about fair value was often conducted with developed capital markets in mind. As a

result, the special circumstances of developing markets had not adequately been taken into consideration. In describing the main characteristics of enterprises based in the Latin American and Caribbean region, the speaker noted that the countries in the region were at different stages of economic development, capital markets were often small and businesses were often funded by loans from financial institutions, one or a few investors controlled voting rights, the legal environment was based on civil law, and accounting standards were often rules-based. The adoption of IFRS was still being discussed in many of the region's countries. Brazil had decided to implement IFRS by 2010, Argentina by 2011, and Mexico by 2012. Thus, in the region, fair value was one among several other accounting topics – such as leases, intangible assets, and business combinations – that were being debated in the region. He noted that in Brazil the debate on fair value was focused on financial assets, financial instruments and financial institutions. He indicated that illiquid markets were more common in developing countries and that most fair value measurements were likely to be based on Level 2 and 3 inputs. He emphasized that developing countries could contribute to better implementation of fair value measurement by sharing their experiences in developing valuation models. For example, Brazil could share its experiences in developing valuation models for biological assets.

28. The last speaker, who represented the Nigerian Accounting Standards Board, described the challenges to applying fair value measurement requirements in Nigeria. In describing the Nigerian capital market, he noted that there were few listed securities compared to developed markets, fewer market makers, and low trading volumes relative to market capitalization; that prices were sensitive to even very small trades, that large blocks of shares were held by a small number of shareholders, and that there was significant information asymmetry and a weak regulatory and institutional environment. It was, therefore, difficult to estimate fair value in a reliable manner, as required by a number of IFRS such as IFRS 2, IAS 19, and IFRS 3. There were few qualified professionals who could apply measurements on fair value basis. The number of qualified actuaries was limited, too. There was no active secondary market for government bonds.

29. The Chair opened the floor for questions. One delegate noted that in his region, some countries that did not have stock exchanges were requiring all enterprises to implement full IFRS – regardless of their size. One of the panel members responded that the IASB's standard for small and medium-sized entities (IFRS for SMEs) would be a feasible solution for such countries. Another delegate noted that out of 24 banks in his country, 15 were facing serious financial problems. He further indicated that the audit reports on those banks had failed to provide users with warning signals. A delegate whose country was scheduled to implement IFRS in a few years' time expressed concern with respect to the impact of fair value measurement at the time of conversion and the potential for fraudulent financial reporting. One participant cited as an example the transition of the central bank in his country to IFRS, which had resulted in a considerable gain due to fair value measurement. One of the panellists indicated that in the area of accounting, standard-setting was a long-term process, and he expressed hope that ultimately the mixed attribute model would be eliminated.

30. Another panellist emphasized that the role of the accountancy profession was to portray the financial position of business entities as of a specific date, and their financial performance over a specific time period. The role of the profession was not to predict potential increases or decreases in valuations. It was not the task of the profession to second-guess the market. The panellist was also of the view that the accounting profession had an important role to play in improving the quality of the financial information that was being fed to financial markets.

B. The accounting and financial reporting needs of small and medium-sized enterprises

(agenda item 4)

31. The Chair invited a panel of experts to share their views on recent developments in the area of accounting by small and medium-sized enterprises (SMEs), focusing on the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) that the IASB had published a few months earlier. The IASB director of the IFRS for SMEs highlighted the various stages of the project that had led to the publication of the IFRS for SMEs. He noted that the 230-page-long standard was a completely standalone standard, with the exception of a fallback option to full IFRS in the case of IAS 39. That would be the case only if an entity were to choose to apply IAS 39 instead of the financial instruments section of the IFRS for SMEs. He noted that the simplified IFRS for SMEs had been developed by omitting topics that were not relevant for SMEs, including only the simpler options where the full IFRS had options, simplifying recognition and measurement requirements, reducing disclosures, and simplifying drafting. In response to a question about implementation plans for the IFRS for SMEs, the speaker indicated that out of 51 jurisdictions, 19 indicated that they planned to require the IFRS for SMEs, 11 planned to permit it, 10 indicated that they may require it, while 11 had no plans to either require or permit the standard. The speaker highlighted plans for train-the-trainer sessions on the IFRS for SMEs that were scheduled to take place over the coming months in different regions of the world.

32. The Chair opened the floor for questions and comments. Several delegates highlighted the positive impact that ISAR's work on accounting by SMEs had had on the IASB's IFRS for SMEs project. Some delegates were of the view that the IFRS for SMEs would be difficult for smaller entities to implement. One delegate asked whether there were plans to organize train-the-trainer events in Africa. The panellist who discussed the IFRS for SMEs responded that some jurisdictions could allow very simplified accounting for smaller entities. He assured African delegates that plans were under way to organize train-the-trainer events in Africa. In response to a question about how the recent developments that had impacted a number of IFRSs would affect the IFRS for SMEs, another panellist responded that preparers could count on a four-to-five year period of a stable platform before any changes were introduced to the IFRS for SMEs. He also indicated that the European Commission was planning to hold consultations, including on prospects for implementing the IFRS for SMEs.

33. The next speaker, from the Association of Chartered Certified Accountants, discussed proposals for implementing the IFRS for SMEs in the United Kingdom and in Ireland. He noted that the Accounting Standards Board in the United Kingdom had made a proposal to adopt a three-tier system starting from 2012. The IFRS for SMEs would replace full UK standards, and would be adopted in full without amendments. The Financial Reporting Standard for Smaller Entities (FRSSE) would be retained for the foreseeable future. Smaller entities would have a choice between the IFRS for SMEs and the FRSSE. He discussed a number of the differences between the IFRS for SMEs and the FRSSE.

34. In discussing the prospects for implementing the IFRS for SMEs, a representative of the Eastern, Central and Southern African Federation of Accountants noted that a majority of the countries in his region intended to adopt or consider adopting the IFRS for SMEs. Some of the practical implementation considerations were in relation to legislative changes, sensitizing regulators about the IFRS for SMEs, defining SMEs and determining which ones would qualify to apply the IFRS for SMEs, training users and preparers, and developing implementation guidelines. In cooperation with the IASB, his regional professional accountancy organization was planning to carry out training for trainers.

35. The speaker from the European Federation of Accountants discussed a number of activities that an accountancy organization for her region had been undertaking to meet the accounting and financial reporting needs of SMEs. She highlighted various initiatives that had been undertaken to simplify the accounting carried out by SMEs. She noted that her organization had not taken a final position on the IFRS for SMEs. However, she indicated that her organization was of the view that SMEs with cross-border activities, branches and subsidiaries would benefit from implementing the IFRS for SMEs. Furthermore, her organization took the view that regional directives should not form an impediment for countries in her region that wished to implement the IFRS for SMEs.

36. The speaker representing the IFAC emphasized the importance of the SME sector for economic development, highlighting its contribution to GDP, employment and innovation. He noted that his organization had been closely monitoring the IASB's project on IFRS for SMEs and welcomed the issuance of the standard. He further noted that the international response to the publication of the IFRS for SMEs had been highly positive. He noted that a smooth transition to the IFRS for SMEs required education and training, information, guidance and tools, as well as the sharing of experiences.

37. The Chair opened the floor to additional questions and comments. Several delegates indicated that smaller entities would need a different reporting system, such as ISAR's Accounting and Financial Reporting Guidance for Level 3 SMEs (SMEGA Level 3). There was a general understanding that the IFRS for SMEs would not be suitable for not-for-profit organizations. Some delegates suggested that ISAR could contribute on this topic. Some delegates suggested that the UNCTAD secretariat could explore extending the ISAR mandate, with a view to incorporating issues of public sector reporting into its agenda. With respect to the cooperatives sector – such as credit unions – one panellist indicated that in his country, such entities were required to apply full IFRS, since they were considered to be financial institutions.

38. In concluding its deliberations on this agenda item, the Group of Experts welcomed with appreciation the publication of the *International Financial Reporting Standard for Small and Medium-sized Entities* by the IASB. Delegates stressed the role that ISAR had played in persuading the IASB to develop an IFRS for SMEs. ISAR agreed on the need to consider withdrawing SMEGA Level 2 as a result of the publication of the IFRS for SMEs by the IASB. They also requested the UNCTAD secretariat to continue compiling feedback on practical implementation of the revised SMEGA Level 3. ISAR further requested the UNCTAD secretariat to conduct studies on practical implementation of the IASB's IFRS for SMEs with a view to facilitating a sharing of the experiences gained in different regions of the world.

C. Capacity-building in accounting and reporting
(agenda item 4)

39. The Chair introduced the agenda item and gave the floor to a member of the secretariat to outline UNCTAD's work on capacity-building in the area of corporate transparency and accounting. It was noted that member States had called on UNCTAD during its twelfth ministerial conference in Accra, Ghana, in 2008, to assist developing countries in building the technical capacity and institutions needed for the implementation of corporate transparency and accounting codes and standards. The secretariat's presentation outlined the objectives and potential scope of capacity-building in the area of accounting and reporting, its institutional and technical dimensions, and qualitative and quantitative tools to assess the progress in capacity-building and to identify areas that need further development. A range of past projects and donors were highlighted to illustrate the type of work that UNCTAD has conducted in this area. The secretariat encouraged delegates to make their requests in this area known to the UNCTAD secretariat.

40. The Chair then gave the floor to a speaker from CARANA Corporation, who briefed participants on the company's work sponsored by the United States Agency for International Development (USAID) to develop a quantitative assessment tool to measure the accountancy development of countries around the world. The speaker explained the usefulness of quantitative research in this area for assisting development partners and developing countries in better identifying specific capacity-building needs.

41. Following this presentation, the Chair gave the floor to a representative of the Global Reporting Initiative (GRI), who spoke about that organization's efforts to build SMEs' capacity to produce sustainability reports for their key stakeholders (e.g. the transnational corporations that purchase their products). GRI explained the development of this project, and highlighted the challenges faced by SMEs in this area (e.g. lack of specialized staff and skills). GRI also reminded delegates of the memorandum of understanding signed between UNCTAD and GRI in 2008, and reiterated its intention to work with UNCTAD on this project in the future.

42. The next speaker was the executive director of the Egyptian Institute of Directors, who spoke about the efforts of the Egyptian Government, the Egyptian Institute of Directors and international development partners to raise awareness and improve technical capacity in the areas of corporate governance disclosure and social and environmental reporting. He elaborated on a number of practical measures aimed at education, training, and skills development, while also highlighting challenges that could be addressed with the help of development partners. He noted the role that UNCTAD had played in providing expertise on corporate transparency issues and in contributing to training courses in the country.

43. The next speaker, who represented a regional accountancy organization in West Africa, discussed the capacity-building challenges that her organization faced. She indicated that in a world economy that was increasingly becoming interconnected, there was a need to strengthen the accountancy profession both in developed and in developing countries. She stated that the main challenge was how her organization would go about improving the quality of services that accountants in her region provided to their customers. She elaborated on the capacity-building efforts of her organization, at the pre-qualification and post-qualification level for accountants, and also with regard to institutional development. The speaker indicated that her organization's needs for technical support included access to a pool of experts and funding for awareness-raising and implementation activities.

44. The last speaker was a member of the UNCTAD secretariat and Head of UNCTAD's Empretec programme. She highlighted the work of Empretec and its international network of training centres. It was observed that the subject of accounting could usefully be included in Empretec training courses to strengthen the technical capacity and the skills of entrepreneurs, in order to better manage their finances, track their business operations and access new sources of finance.

45. Following the contributions by these panellists, the Chair opened the floor, inviting comments and questions from delegates about capacity-building in this area. In concluding its deliberations on this agenda item, the Group of Experts agreed on the need for further work in this area, with a view to developing a capacity-building framework. It requested that the UNCTAD secretariat reconstitute a consultative group to work on this issue and to propose an approach for consideration by the twenty-seventh session of ISAR. Delegates also indicated increased interest in International Public Sector Accounting Standards and in the accounting and reporting needs of non-profit organizations. They requested the UNCTAD secretariat to organize workshops and seminars on these topics and to further explore means of integrating discussions on these issues into future ISAR deliberations. The Group recognized the potential role of quantitative measurement tools for assisting

developing countries and countries with economies in transition to further strengthen their accounting infrastructure, assess progress, and identify priorities in the area of accounting and reporting. It encouraged UNCTAD to conduct research in this area.

D. Corporate governance disclosure

(agenda item 4)

46. The Chair introduced the agenda item and gave the floor to a member of the secretariat, who presented the findings of the "2009 review of the implementation status of corporate governance disclosures: an examination of reporting practices among large enterprises in 12 emerging markets" (TD/B/C.II/ISAR/CRP.6). The papers provided useful data on the current state of corporate reporting on non-financial subjects in emerging markets.

47. Following this presentation, the Chair introduced an invited expert from the University of Stirling, who presented the findings of a joint UNCTAD/Stirling paper entitled "2009 review of the implementation status of corporate governance disclosures: an inventory of disclosure requirements in 24 emerging markets" (TD/B/C.II/ISAR/CRP.8). This paper was an update to the inventory conducted by UNCTAD in 2007.

48. The Chair then called on an invited expert from the Institute of Chartered Accountants of Pakistan, who presented the findings of a country case study produced jointly by UNCTAD and the Institute of Chartered Accountants of Pakistan entitled "2009 Review of the implementation status of corporate governance disclosures: case study Pakistan" (TD/B/C.II/ISAR/CRP.5). The study highlighted the corporate governance disclosure practices in Pakistan among leading large enterprises.

49. The Chair introduced two additional panellists, one from Fund Votes (a corporate governance research organization) and one from the World Bank's corporate governance department. The founder of Fund Votes presented an overview of regulatory developments in the wake of the financial crisis that will impact on corporate governance and disclosure. The World Bank representative commented on UNCTAD's studies of corporate governance disclosure and the impact of the financial crisis on developments in the area of corporate governance and disclosure. With regard to UNCTAD's research, he praised the work for its unique and valuable contribution to the field. He indicated that he was in agreement with the comments from the floor about the need to measure the quality of disclosure, in addition to its existence, noting that this is a very difficult issue to address from a research perspective and one that the World Bank itself struggles with. On the financial crisis, the World Bank representative noted that many aspects of the crisis were unique to the larger financial markets where it had originated, but that there was still a need for further examination of what lessons from this crisis, and resulting reforms, could be applied in emerging markets. For example, he noted that in some cases, emerging market regulators were already drawing conclusions about state intervention in the economy based on what was taking place in the more developed countries at the centre of the crisis; he suggested that further debate should take place about the utility of such policy decisions in emerging markets before firm conclusions could be drawn.

50. After the panellists had made their presentations, the Chair opened the floor, and a broad discussion on the subject of corporate governance disclosure ensued. Several delegates commented on the three studies presented, recognizing their usefulness and making suggestions for improvements and future research in that area.

51. Broad discussion was also sparked by questions about the impact of the financial crisis on corporate governance and disclosure. The specific issues addressed included the role of corporate boards of directors in risk management, and the design of executive compensation packages. There were also questions on the unique conditions of developing

countries, such as family ownership and government shareholding, and the relevance of the lessons learned from this financial crisis to corporate governance practices in emerging markets. Several participants stated that while the situation in developing countries was different in respect of some corporate governance issues (e.g. executive compensation), there were nevertheless important lessons to be learned from this crisis, such as ensuring that executive compensation, whatever its form or absolute value, does not create counterproductive incentives that could endanger the long-term viability of the enterprise. The Group of Experts concluded its discussion with calls for the secretariat to continue its work in this area.

E. Environmental and corporate responsibility reporting

(agenda item 4)

52. The Chair introduced the agenda item, and gave the floor to a member of the UNCTAD secretariat who presented the findings of the “2009 review of corporate responsibility reporting: the largest transnational corporations and climate change related disclosure” (TD/B/C.II/ISAR/CRP.7). The paper provided an overview of climate change–related reporting among the 100 largest transnational corporations, taken from UNCTAD’s *World Investment Report 2008.*

53. Following this presentation, the Chair introduced an invited expert from the University of Fortaleza, who presented the findings of a joint UNCTAD/Fortaleza paper entitled “2009 review of the reporting status of corporate responsibility indicators: case study Brazil” (TD/B/C.II/ISAR/CRP.4)**.** The report used ISAR’s *Guidance on Corporate Responsibility Indicators in Annual Reports* as a benchmark to study the reporting practices of large Brazilian companies.

54. After the panellists had made their presentations, the Chair opened the floor and a general discussion on the subject of environmental and social reporting ensued. A number of delegates highlighted the urgent need for more work on climate change and carbon emissions reporting, with a view to improving and harmonizing reporting on environmental issues, and urged the Group of Experts and UNCTAD to continue to work in this space.

F. Updates by other organizations

(agenda item 4)

55. The Chair invited a panel of speakers to provide updates on the respective activities of their organizations that were carried out during the intersession period of ISAR. A representative of IFAC discussed a number of activities that international standard-setting boards and committees of his organization had undertaken during the intersession period. He highlighted the completion of the clarity project of the International Audit and Assurance Standards Board. He also discussed the convergence plans of the International Public Sector Accounting Standards Board with all IFRS as at December 2008. Furthermore, he discussed activities undertaken by several IFAC constituency committees, the compliance programme, and support in the areas of adopting, translating and implementing international standards.

56. A representative of the European Federation of Accountants highlighted a number of activities that her organization had undertaken in the areas of financial reporting, sustainability reporting and corporate governance. She indicated that in 2008–2009, the main issues for members of her organization were in the areas of the financial and economic crisis, accounting for financial instruments, prudential regulation versus general purpose financial reporting, the implementation of Statutory Audit Directives, the simplification of corporate law, accounting for SMEs, competition and choice, public

oversight, and climate change. She discussed a number of activities carried out by her organization in the area of financial reporting, including commenting on various drafts, and issuing policy statements.

57. This was followed by a presentation by the chief executive of the Eastern, Central and Southern African Federation of Accountants. He noted that in February 2009, his organization had participated in the launching of the Institute of Certified Public Accountants of Rwanda. His organization had admitted the Institute of Certified Public Accountants of Zimbabwe. The Eastern, Central and Southern African Federation of Accountants had held meetings with government officials in Lesotho, South Africa and Swaziland to discuss matters pertaining to government accounting, financial management and accountability. He elaborated on a number of networking activities that members of his organization had undertaken during the intersession period of ISAR. He emphasized that his organization supported a three-tier approach to financial reporting.

58. A representative of the Carbon Disclosure Standards Board provided an overview of the work of that organization in promoting improved corporate reporting on climate change–related emissions. She explained that the Carbon Disclosure Standards Board was not designing new standards in this area, rather, it was seeking to promote and harmonize the use of existing standards, including the work of ISAR on eco-efficiency indicators.

IV. Organizational matters

A. Election of officers

(agenda item 1)

59. At its opening plenary meeting, the Intergovernmental Working Group elected the following officers:

Chair:	Mr. Syed Asad Ali Shah (Pakistan)
Vice-Chair-cum-Rapporteur:	Ms. Nancy Kamp-Roelands (Netherlands)

B. Adoption of the agenda and organization of work

(agenda item 2)

60. At its opening plenary, the Intergovernmental Working Group adopted the provisional agenda for the session (contained in TD/B/C.II/ISAR/52). The agenda was thus as follows:

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. Other business
5. Provisional agenda for the twenty-seventh session
6. Adoption of the report

C. Outcome of the session

61. At its closing plenary meeting on Friday, 9 October 2009, the Intergovernmental Working Group adopted its agreed conclusions (see chapter I). It also agreed that the Chair would summarize the informal discussions (see chapter III).

D. Adoption of the report

(agenda item 6)

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

Annex I

Provisional agenda for the twenty-seventh session

1. Election of officers
2. Adoption of the agenda and organization of work
3. Capacity-building framework for practical implementation of International Financial Reporting Standards
4. Other business
5. Provisional agenda for the twenty-eighth session
6. Adoption of the report

Annex II

Attendance*

1. Representatives of the following States members attended the session:

Albania
Algeria
Angola
Armenia
Bangladesh
Belarus
Belgium
Benin
Bosnia and Herzegovina
Brazil
Cambodia
Cameroon
Canada
Central African Republic
China
Congo
Cyprus
Czech Republic
Democratic Republic of the Congo
Egypt
France
Gabon
Gambia
Georgia
Germany
Ghana
Grenada
Hungary
India
Iraq
Italy
Kazakhstan
Kenya
Kuwait
Kyrgyzstan
Lao People's Democratic Republic
Lebanon
Lithuania
Malta
Mexico
Morocco
Namibia
Netherlands
Nigeria
Pakistan
Panama
Peru
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation
Rwanda
Senegal
Slovakia
South Africa
Spain
Sri Lanka
Sudan
Switzerland
Thailand
Tunisia
Turkey
Uganda
Ukraine
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Venezuela (Bolivarian Republic of)
Zimbabwe

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

European Commission
OPEC Fund for International Development

* For the list of participants, see TD/B/C.II/ISAR/Inf.2.

3. The following specialized agency attended the session:

World Bank

4. The following non-governmental organization was represented at the meeting:

General category:

Union of Arab Banks

5. The following panellists made contributions to the meeting:

Mr. Nelson **Carvalho**, Chair, Twenty-fifth session of ISAR, Brazil
Mr. Syed **Asad Ali Shah**, Pakistan
Ms. Nancy **Kamp-Roelands**, Vice-Chair-cum-Rapporteur, Ernst and Young, Netherlands
Ms. Julie A. **Erhardt**, United States Securities and Exchange Commission
Mr. John **Hegarty**, World Bank
Mr. Remo **Croci**, European Commission
Mr. Michael **Stewart**, International Accounting Standards Board
Mr. Nicolas **Véron**, Bruegel
Mr. Paul **Thompson**, International Federation of Accountants
Ms. Veronica **Poole**, Deloitte, United Kingdom
Mr. Michael **Stewart**, International Accounting Standards Board
Mr. Christian **Dreyer**, Chartered Financial Analyst Institute
Mr. Fábio **da Costa**, FUCAPE Business School, Brazil
Mr. Jim **Osayande Obazee**, Nigerian Accounting Standards Board
Mr. Paul **Pacter**, International Accounting Standards Board
Mr. Richard **Martin**, Association of Chartered Certified Accountants
Ms. Saskia **Slomp**, Federation of European Accountants
Mr. Paul **Thompson**, International Federation of Accountants
Mr. Vickson **Ncube**, Eastern, Central and Southern African Federation of Accountants
Mr. Bill **Phelps**, CARANA Corporation
Mr. Gregory **Elders**, Global Reporting Initiative, Netherlands
Mr. Ashraf **Gamal El-Din**, Institute of Directors, Egypt
Ms. Elizabeth **Adegite**, Accountancy Bodies in West Africa
Mr. Kevin **Campbell**, University of Stirling, United Kingdom
Ms. Saira **Nasir**, Institute of Chartered Accountants of Pakistan
Ms. Jacqueline **Cook**, Fund Votes, Canada
Mr. Alexander **Berg**, Corporate Governance Department, World Bank
Ms. Marcelle **Colares Oliveira**, Universidade de Fortaleza and Universidade Federal do Ceará, Brazil
Ms. Lois **Guthrie**, Carbon Disclosure Standards Board