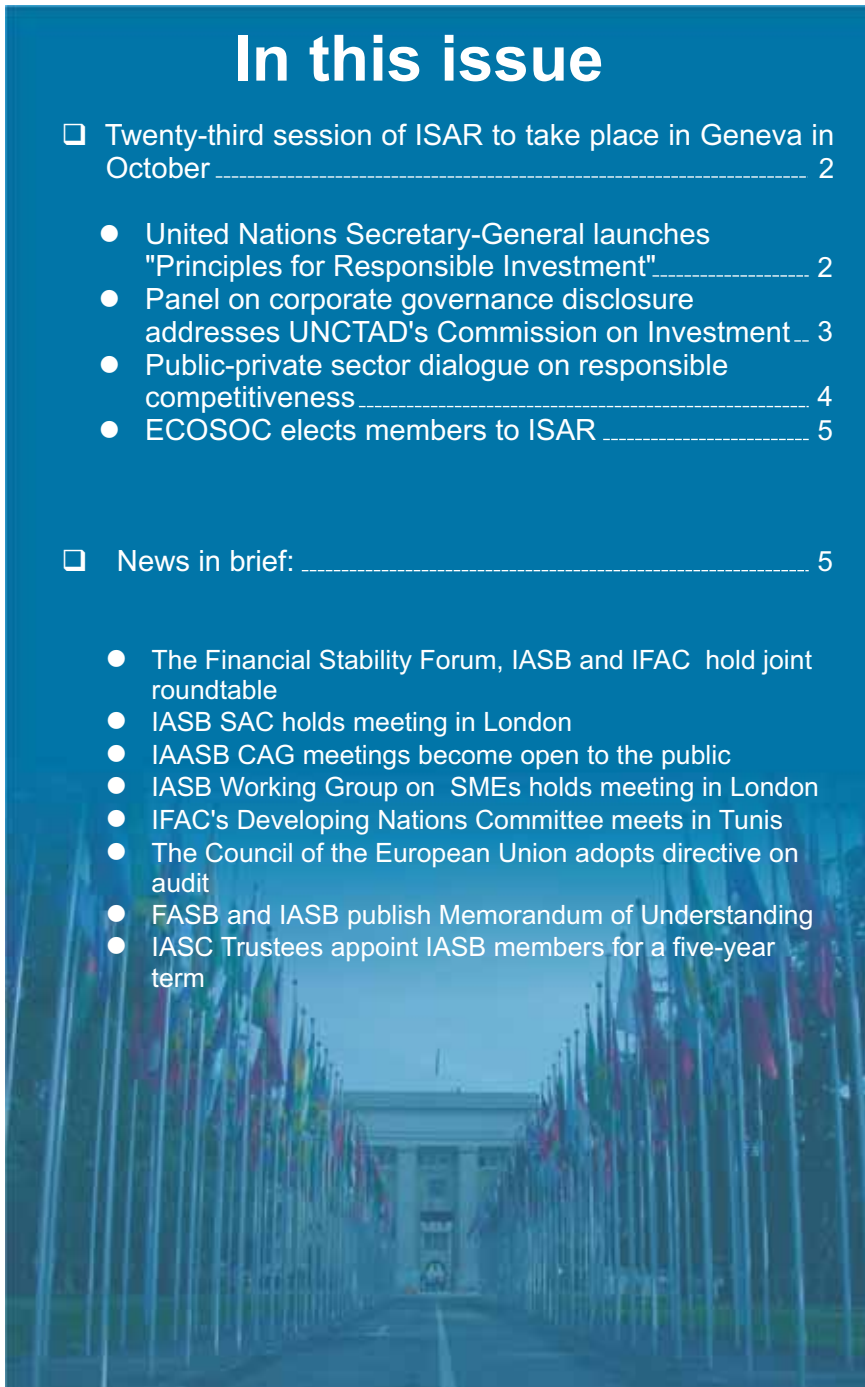




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***ISAR was established by a resolution of the Economic and Social Council of the United Nations in October 1982.***



## Twenty-third session of ISAR to take place in Geneva in October 2006

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at UNCTAD will hold its twenty-third session from 10 to 12 October 2006 at the Palais des Nations in Geneva. This session of ISAR will review the practical implementation of International Financial Reporting Standards (IFRS), including the accounting and financial reporting needs of small and medium-sized enterprises and the comparability and relevance of existing indicators on corporate responsibility. ISAR will also review recent developments on corporate governance disclosures, as well as surveys on corporate governance disclosure and corporate responsibility indicators.

On 9 October 2006, on the eve of the twenty-third session of ISAR, a technical workshop on IFRS will be held at the Palais des Nations in Geneva. The main theme of the workshop will be fair value measurement issues in the application of IFRS.

## United Nations Secretary-General launches the Principles for Responsible Investment

In a historic development for global financial markets, United Nations Secretary-General Kofi Annan launched the Principles for Responsible Investment (PRI) at the New York Stock Exchange on 27 April 2006.

The heads of leading financial institutions from 16 countries, representing more than \$2 trillion in assets owned, officially signed the Principles at a special launch event at the New York Stock Exchange. The Principles were developed during a year-long process convened by the UN Secretary-General and coordinated by the UN Environment Programme Finance

Initiative (UNEP FI) and the UN Global Compact.



*United Nations Secretary-General Kofi Annan opening the New York Stock Exchange on 27 April 2006.*

"These Principles grew out of the understanding that, while finance fuels the global economy, investment decision-making does not sufficiently reflect environmental, social and corporate governance considerations - or put another way, the tenets of sustainable development," the Secretary-General said.

He added: "Developed by leading institutional investors, the Principles provide a framework for achieving better long-term investment returns and more sustainable markets. I invite institutional investors and their financial partners everywhere to adopt these Principles."

In joining with institutional investors to develop the Principles, the United Nations collaborated with some of the world's most influential financial institutions - many of them public pension funds - involved in investment activities worldwide. It is estimated that pension funds alone - public and private - account for up to 35 per cent of total global investment.

More than 20 pension funds, foundations and special government funds, backed by a group of 70 experts from around the world, held meetings in Paris, New York, Toronto,

London, and Boston over an eight-month period to craft the Principles.

"We are proud to endorse the Principles, which recognize that social and environmental issues can be material to the financial outlook of a company and therefore to the value of our shares in that company," said Denise Nappier, Treasurer of the State of Connecticut, who is the principal fiduciary of \$23 billion in pension fund assets. "Financial markets tend to focus too heavily on short-term results at the expense of long-term and non-traditional financial fitness factors that could affect a company's bottom line. For many institutional investors it is the long-term that matters and in this context environmental, social and governance issues take on new meaning."

The six overarching Principles, which are voluntary, are underpinned by a set of 35 possible actions that institutional investors can take to integrate environmental, social and corporate governance (ESG) considerations into their investment activities. These actions relate to a variety of issues, including investment decision making, active ownership, transparency, collaboration and gaining wider support for these practices from the whole financial services industry.

"We manage assets for future generations and acknowledge the link between long-term return and the governance of companies, markets and economies," said Knut N. Kjaer, Executive Director of the Norwegian Government Pension Fund, which holds assets of more than \$250 billion. He added that "we are engaged in developing these Principles to broaden the understanding of what drives long-term fund performance. Investors must collaborate to support well-regulated markets and sustainable development."

UNEP FI is a regular participant at ISAR's annual sessions in Geneva, and provided a

pre-launch introduction to the PRI for participants at ISAR's twenty-second annual session held from 21 to 23 November 2005.

UNEP-FI and ISAR share common views on the promotion of corporate transparency. Members of the UNEP-FI secretariat participated in the drafting of ISAR's position on social indicators; furthermore UNEP-FI and UNCTAD are jointly developing collaborative partnerships to promote improved corporate reporting in the area of environmental, social and corporate governance indicators.

Source: UNEP FI <http://www.unepfi.org>  
<http://www.unpri.org>

### **Panel on corporate governance disclosure addresses UNCTAD's Commission on Investment**

On 9 March 2006 delegates at the Commission on Investment Technology and Related Financial Issues were given an update on ISAR's work on corporate governance disclosures and a panel presented on "The Role of Corporate Governance Disclosure in Facilitating Investment". The panel included Mr Colin Melvin, Director of Corporate Governance at Hermes Pensions Management who commended ISAR's document on Guidance on Good Practices in Corporate Governance Disclosure. He stressed that this guidance document should be actively promoted in order to assist enterprises and regulators in promoting improved corporate governance disclosure. Such disclosure, Mr Melvin explained, was crucial to the improved performance of enterprises and the economies in which they operate. The strong link between improved corporate governance disclosure and stronger enterprise performance was the finding of a recent study prepared by Mr Melvin. He highlighted other research that found that a premium in the value of capitalization exists for enterprises with good corporate

governance disclosure, and that this premium is especially pronounced in developing countries or countries with economies in transition.

The panel also included Mr Maged Shawky Sourial, Chairman of the Cairo & Alexandria Stock Exchanges (CASE) who illustrated the usefulness of guidance on corporate governance disclosure with the example of recent reforms in Egypt's stock exchange listing requirements. With assistance from international organizations, Egypt has carried out a comprehensive reform of its stock exchange listing requirements. CASE significantly raised its listing requirements by basing its corporate governance rules on international standards of corporate governance. While the higher requirements lead to the delisting of approximately 50 per cent of the firms listed on the CASE, the new requirements stimulated a doubling in the total market capitalization. The improved corporate governance requirements have lead to a strengthening of Egypt's best governed firms through higher capitalizations. These reforms had the overall effect of creating a much more transparent and accountable corporate sector, which has subsequently succeeded in attracting significant foreign investments. Mr Sourial further noted that as more foreign investors enter the Egyptian securities market, they are transferring additional knowledge and skills on corporate governance disclosure.

The discussion with the panellists focused on the complementary roles of voluntary guidance and government regulation. As capital markets themselves play a strong role in rewarding good governance disclosure, the question is not so much between voluntary versus mandatory rules, but rather about the mix of rules and guidance which can best position companies to attract investments and contribute economic benefits to the economies in which they operate.

The Commission on Investment Technology and Related Financial Issues noted with appreciation the Guidance on Good Practices in Corporate Governance Disclosure prepared by ISAR, and recommended wide dissemination of the Guidance as a useful voluntary tool to improve corporate governance disclosures in order to facilitate investment and enhance transparency and the stability of the investment environment.

### **Public-private sector dialogue on responsible competitiveness**

Can responsible business practices enhance enterprise competitiveness? This question was the subject of a public-private sector dialogue hosted by UNCTAD in Geneva on 23 January 2006.

The event featured a presentation by the London-based think-tank AccountAbility on the main findings of their new report: Responsible Competitiveness: Reshaping Global Markets through Responsible Business Practices. The report combines case studies of particular business sectors with quantitative research that seeks to measure the impact of corporate responsibility practices on national competitiveness. The results suggest that enterprise competitiveness can actually be enhanced by taking social, economic and environmental impacts into account.

Mr Sok Siphana, the former Secretary of State for Commerce in Cambodia, presented a pioneering example of responsible competitiveness - an agreement among the Cambodian textile industry, the ILO and the United States. This agreement gave Cambodian producers increased access to lucrative markets in the United States. In exchange, Cambodian manufacturers made a commitment to observe international labour standards.

UNCTAD Deputy Secretary-General, Mr Dirk Bruinsma, emphasized the need for more research and analytical work on the relationship between enterprise competitiveness and social and environmental policies, in particular with regard to the needs of developing countries. ISAR's work on corporate responsibility indicators was referred to during the discussions as an example of the useful tools that are available to enterprises wishing to improve their business practices.



*Seen from left to right at the public-private sector dialogue hosted by UNCTAD are: Mr Simon Zadek, Chief Executive, AccountAbility, Ms Tatiana Krylova, Head, Investment and Enterprise Competitiveness Branch; Mr Khalil Hamdani, Officer-in-Charge, DITE, and Mr Dirk J. Bruinsma, Deputy Secretary-General of UNCTAD.*

Other panellists at the event were Mr Robert Jacobson, a Senior Vice President of the Unilever Corporation; Professor Carlos Arruda, the Associate Dean of the Brazilian business school Fundação Dom Cabral; and Ms Elisabeth Dahlin, the Swedish Ambassador representing the Swedish Foreign Ministry's Global Partnership Initiative.

### **ECOSOC elects members to ISAR**

In May 2006, the Economic and Social Council of the United Nations elected Benin, Burundi, Cyprus, Nigeria, Poland, Slovakia, Sri Lanka and Tunisia to ISAR. Some vacant seats of official ISAR members are still available in the following groups: two in Asian States, five in Latin American and Caribbean States and three in western European and other states. You can obtain further information on how your country can

become a member of ISAR or on how to renew existing membership by contacting the UNCTAD secretariat.

### **News in brief:**

#### **The Financial Stability Forum, IASB and IFAC hold joint roundtable**

On 16 February 2006, the Financial Stability Forum, the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC), held a joint roundtable in Paris hosted by the World Bank. The roundtable dealt with topics such as the experience of implementing IASB and IFAC standards and related regulatory challenges, international convergence and harmonization, issues associated with using fair values in the financial reporting model, and risks and vulnerabilities arising from the financial reporting chain. In his remarks at the roundtable, Mr Roger W. Ferguson, Jr., Vice-Chairman of the Board of Governors of the Federal Reserve System of the United States of America and Chairman of the Financial Stability Forum stressed the need to continue to implement approaches that not only improve international accounting and audit standards, but also encourage, through the implementation of these standards, an enhancement in actual international accounting and audit practices. Ms Tatiana Krylova, Head of the Investment and Enterprise Competitiveness Branch, represented UNCTAD at the roundtable.

Further information is available at <http://www.fsforum.org>.

## **IASB SAC holds meeting in London**

The Standards Advisory Council (SAC) of the International Accounting Standards Board, of which UNCTAD is a member, held a meeting in London from 27 to 28 February 2006. During this meeting, the SAC deliberated on issues such as the agenda-setting process of the IASB, consultations with constituents, implementation and interpretations of International Financial Reporting Standards (IFRS), its work programme, convergence with United States Generally Accepted Accounting Principles, business combinations and conceptual framework. The SAC of the IASB is chaired by Professor Nelson Carvalho of Brazil.

## **IAASB CAG meetings are now open to the public**

The Consultative Advisory Group (CAG) of the International Auditing and Assurance Standards Board (IAASB) has opened its meetings to the public starting in May 2006.

The IAASB CAG is composed of organizations that are interested in the development of high-quality international standards on audits, quality control, reviews and other assurance engagements designed to serve the public interest. Members include international organizations that represent users and preparers of financial statements and regulators. The CAG provides inputs to and assists the IAASB by advising on its work programme - including project priorities - and offers technical advice on projects as agenda items evolve and on other matters. UNCTAD is a member of CAG and is represented by Mr Yoseph Asmelash. Its last meeting took place 11-12 May 2006. The main topics discussed at the IAASB CAG meeting in May 2003 included clarity of IAASB Standards, modifications to the independent auditors report, materiality, group audits,

communication with those charged with governance, using the work of an expert and special audit reports.

According to the IAASB CAG, opening its meeting to the public will provide organizations other than the CAG members and the general public an opportunity to observe the discussions and follow the various points of view put forward. This may assist them in preparing responses to documents issued by the IAASB for public consultation. Secondly, this will help individuals or organizations to better understand how the public interest is represented in the development of international auditing and assurance standards.

## **IASB Working Group on SMEs holds meeting in London**

The Working Group on Small- and Medium-sized Enterprises of the International Accounting Standards Board held a meeting in London from 30 to 31 January 2006. The SME Working Group advises the IASB on developing an International Financial Reporting Standard for SMEs. During its January meeting, the Working Group reviewed a preliminary IASB staff draft of an exposure draft of an International Financial Reporting Standard for SMEs. UNCTAD is a member of the working group.

## **IFAC's Developing Nations Committee holds meeting in Tunis**

The Developing Nations Committee of the International Federation of Accountants (IFAC) held a meeting in Tunis from 15 to 16 February 2006. The objective of the Committee is to support all countries where the accountancy profession is developing, or where the profession may not formally exist, particularly in developing countries and countries with economies in transition.

The Committee deliberated on a number of issues pertaining to the accountancy profession in developing countries, including a needs assessment of countries in the area of accountancy, a good practice guide for developing countries and a translation of a toolkit, and the IFAC member body compliance programme and future projects. One of the major outcomes of the meeting was an agreement with the African Development Bank - which has its temporary headquarters in Tunis - to host an African region conference in Nairobi in September 2006. The theme of the conference will be The Role of the Profession in Economic Development. The Committee is chaired by Mr Ndung'u Gathinji (Kenya) and it reports directly to the IFAC Board. UNCTAD has a seat on the Committee as an observer.

### **The Council of the European Union adopts directive on audit**

In April 2006, the Council of the European Union adopted a directive on the auditing of company accounts. The new directive broadens the scope and application of existing European Union legislation contained in the Eighth Directive (84/253/EEC). It specifies the duties of statutory auditors, their independence and ethics, introduces requirements for external quality assurance - with a view to ensuring better public oversight over the audit profession. The new measures are intended to help improve the quality of audits within the EU and foster confidence in the functioning of EU capital markets. Another purpose of the new measures is to provide a basis of cooperation with oversight bodies of countries outside the EU.

One of the key provisions of the directive is that the statutory auditor and audit firm are defined separately in order to provide more clarity in the scope of the legislation. Some of the provisions specifically deal with audit firms. With respect to registration, the directive calls for an electronic public register

of statutory auditors and audit firms to be maintained and updated by member states of the EU. Audit firms that carry out statutory audits of public interest entities are required to provide a detailed public report about the firm and its network. Auditors and audit firms based outside the EU which issue audit reports in relation to securities traded in the EU, are now required to be registered in the EU. With respect to the fees paid to the auditor or audit firm, the directive requires disclosure of total fees paid, with a breakdown of payments for audit services, other assurance services, tax services and other non-audit services.

Further information can be obtained at: [http://ec.europa.eu/internal\\_market](http://ec.europa.eu/internal_market).

### **FASB and IASB publish Memorandum of Understanding**

At the end of February 2006, the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) published a Memorandum of Understanding that reaffirms their shared objectives of developing high quality, common accounting standards for use in the world's capital markets. Both FASB and IASB stated that they believe that a common set of high quality accounting standards will enhance the consistency, comparability and efficiency of financial statements, thereby enabling global capital markets to move with less friction.

In announcing the publication of the MOU, the FASB and the IASB stated that the MOU is a further elaboration of the objectives and principles first described in the Norwalk Agreement that both Boards signed in October 2002. The MOU reflects the context of the "roadmap" for the removal of the reconciliation requirement for non-US companies that use International Financial Reporting Standards (IFRS) and whose securities are registered in the United

States. The MOU also reflects the work undertaken by the Committee of European Securities Regulators (CESR) to identify areas for improvement of accounting standards.

Both Boards point out that their work programmes are not limited to the items in the MOU. The FASB and the IASB will follow their normal due process when adding items to their agendas.

According to the MOU, the FASB and the IASB will examine several topics for short-term convergence - some of them jointly and others separately. Topics that both will examine jointly are impairment and income tax. The FASB will examine fair value option, investment properties, research and development, and subsequent events. The IASB will examine borrowing costs, government grants, joint ventures and segment reporting.

*Source:* FASB-IASB press release, Further information can be found at <http://www.iasb.org>.

## **IASB Trustees appoint IASB members for a five-year term**

In June 2006, the Trustees of the International Accounting Standards Committee (IASC) Foundation appointed Mr Philippe Danjou (France) to the International Accounting Standards Board. He will join the IASB in November 2006, replacing Mr Geoffrey Whittington (United Kingdom). The Trustees also reappointed Mr Hans-George Bruns (Germany), Mr Warren McGregor (Australia) and Mr Tatsumi Yamada (Japan). All will serve as Board members until June 2011. The IASB consists of 14 board members.

Further information can be found at <http://www.iasb.org>.

## **Your comments are welcome!**

We would like to hear from you so that we can improve the newsletter as needed.

Please send your comments to:

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