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

Held at the Palais des Nations, Geneva,
from 21 to 23 November 2005

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Chapter I

AGREED CONCLUSIONS

Review of practical implementation issues of International Financial Reporting Standards

1. In light of the transition to International Financial Reporting Standards (IFRS) in 2005 by an extraordinary number of enterprises and countries around the world, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) decided to review practical implementation issues of IFRS at its twenty-second session.

2. At the twenty-second session, the Group reiterated the importance of a common set of principles-based and high-quality financial reporting standards in support of the coherence and consistency of the international financial system for mobilizing and efficient allocation of financial resources and for facilitating investment needed for the economic development of member States. Sound and internationally comparable corporate financial reporting meeting the requirements of financial markets improves investor confidence, facilitates risk assessment in making investment decisions, and helps to reduce the cost of capital. However, in order to reap the full benefits of harmonized global reporting standards and their consistent application in countries with different economic and business environments, a number of practical implementation challenges need to be addressed first to assist developing countries and countries with economies in transition in meeting internationally recognized standards, particularly in the area of institutional and technical capacity building.

3. The Group of Experts agreed that the practical implementation of the IFRS is a long-term process and requires a number of steps aimed at building an institutional and regulatory framework, as well as technical expertise and capacity, and providing access to related technical materials at an affordable cost, particularly in developing countries and countries with economies in transition. The Group suggested that further efforts are needed to ensure broader participation of main stakeholders of these countries in the global standard-setting process and to facilitate their input into the process, especially with regard to the implementation challenges they face in seeking convergence with the IFRS. The Group also agreed that the reporting needs of non-listed companies and SMEs should be one of the priorities in this regard.

4. The deliberations of the Group of Experts on this agenda item were facilitated by the UNCTAD secretariat's issues note on the "Review of practical implementation issues of International Financial Reporting Standards" (TD/B/COM.2/ISAR/28) and by panel discussions. The issues note highlighted major practical implementation issues, such as institutional challenges, enforcement mechanisms, technical issues, scarcity of human resources and lack of technical materials. Participants commended the secretariat for this issues note, as it clearly articulated the various practical challenges, and welcomed the high quality of the panel discussions on this topic.

5. The Intergovernmental Group of Experts recognized the importance of ISAR as a forum for member States to exchange their experiences and views on international harmonization of enterprise accounting and financial reporting practices. It was agreed to conduct further reviews of the practical implementation challenges of IFRS, as well as ways

to meet these challenges; this could be done by, among others, preparing country case studies with a view to developing guidance on good practices in IFRS implementation that could assist policymakers, regulators and others in considering feasible implementation strategies to meet international standards in enterprise financial reporting and enhance their input into the process of international convergence in this area.

Comparability of existing indicators on corporate responsibility

6. ISAR identified reporting on corporate responsibility as an important emerging issue in the area of corporate transparency. The increasing demand for information on corporate responsibility is placing increasing pressure on enterprises as they try to respond to various stakeholders. The Group therefore recognized the need for harmonized reporting that meets the common needs of users of annual reports, that is comparable and relevant, and that does not impose unreasonable burdens on enterprises in developing countries and in economies in transition.

7. In accordance with the agreed conclusions adopted at its twenty-first session, ISAR continued its discussions on the users and uses of corporate responsibility information, the criteria for selecting topics, and the related limited number of core indicators selected on the basis of suggested criteria. In this context, ISAR reviewed the secretariat report on "Guidance on corporate responsibility indicators in annual reports" (TD/B/COM.2/ISAR/29). This report was commended, as it provides useful guidance on improving the relevance and comparability of corporate responsibility information as part of annual reports. The Group agreed that this work should continue to reflect corporate contributions to the economic and social development of host countries, as well as the need for capacity-building. It suggested a number of refinements to the report related to the titles of some of the topics and to additional information that could be provided in the report to enhance the usefulness of such information.

8. The Group suggested that the UNCTAD secretariat should conduct a review of enterprise reporting practices based on selected indicators with a view to refining and finalizing the report. It also suggested that follow up work on measurement methodology for selected indicators could be conducted to ensure consistent reporting on these issues.

Corporate governance disclosures

9. ISAR has recognized the importance of good practices in corporate governance for promoting investment, stability and economic growth. The Working Group acknowledges that good disclosure in this area adds value to shareholders and other stakeholders, and promotes sustainable economic development.

10. In accordance with the agreed conclusions of its twenty-first session, ISAR at its twenty-second session considered the updated secretariat report on "Guidance on good practices in corporate governance disclosure" (TD/B/COM.2/ISAR/30). ISAR also discussed the results of the survey on the "2005 Review of the implementation status of corporate governance disclosures" (TD/B/COM.2/ISAR/CRP.1) prepared by the secretariat on the basis of the guidance document. The Group commended both documents for their high quality and usefulness for improving corporate governance and transparency.

11. In particular, the Group recognized that the updated guidance includes important recent developments in good disclosure practices and contributes to the promotion of

convergence of the content of corporate governance disclosure by providing a comprehensive and well balanced illustration of good practices in this area. Its principles-based approach allows for global applicability and implementation according to local market needs and regulations. A discussion on the guidance on good practices in corporate governance disclosure concluded that it could be a useful voluntary tool for promoting increased transparency and improved corporate governance. It was agreed that the secretariat should prepare the guidance for publication and disseminate it as widely as possible.

12. The Working Group suggested that consideration be given to the possibility of carrying out further work on the practical implementation of some of the good practices of corporate governance disclosure outlined in the report.

13. The Group acknowledged that the results of the survey provide a useful indication of corporate governance disclosure and the added value at the enterprise level and agreed to continue its annual review of corporate governance disclosure.

Follow-up to accounting by SMEs

14. The Group agreed that the secretariat should continue to disseminate guidance to level 2 and level 3 SMEs, as well as monitoring and compiling feedback on their implementation and field-testing the guidance for level 3 SMEs.

Follow-up to the Model Curriculum

15. The Group welcomed the report on the assessment of the Model Curriculum conducted by the Education Committee of the International Federation of Accountants. It encouraged further cooperation and coordination between UNCTAD and the Education Committee of IFAC. It requested UNCTAD to continue its work in this area with a view to assisting member States, particularly developing countries and countries with economies in transition, in meeting international qualification requirements.

Follow-up to environmental accounting

16. The UNCTAD secretariat was requested to continue disseminating the Group's work on environmental accounting and eco-efficiency indicators and to compile feedback on the implementation experience of entities that are implementing the manual for preparers and users of eco-efficiency indicators.

Chapter II

OPENING STATEMENTS

17. The **Secretary-General of UNCTAD** recalled that, at the World Summit in New York in September 2005, leaders had underscored the importance of mobilizing resources for economic development; reaffirmed their commitment to good governance at all levels; and reiterated their support at national efforts to create a transparent, stable and predictable domestic investment climate. In this regard, he underlined the importance of high-quality, harmonized corporate reporting for mobilizing financial resources, attracting and protecting investors, reducing financial volatility and enhancing the stability of an increasingly interdependent global economy.

18. Addressing the issue of practical implementation of the International Financial Reporting Standards (IFRS), he stated that the existence of a global benchmark enabled direct comparisons of financial reports between jurisdictions and enhanced stakeholders' confidence in accounting numbers by allowing economic transactions of a similar nature to be treated in the same manner around the globe. However, in order to implement the IFRS successfully, the varying capacity of countries to adopt the standards should be considered, and ways needed to be identified to help developing countries and transition economies meet these increasingly sophisticated international requirements.

19. With regard to disclosures on corporate responsibility and corporate governance, he said that comparable and relevant corporate responsibility indicators in annual reports would enhance the transparency of enterprises and allow for a better assessment of their contribution to economic, social and sustainable development. Good corporate governance disclosure added value to shareholders and other stakeholders, and the Group's work provided a useful input in terms of raising awareness and disseminating good practices in this area.

20. The outgoing **Chairman of the twenty-first session** of ISAR briefed participants on the main UNCTAD/ISAR activities that had taken place during the intersessional period with a view to promoting harmonization of corporate reporting and disseminating good practices. He commended UNCTAD on its vision in assisting developing countries and economies in transition in their efforts to meet international requirements in the area of corporate transparency.

Chapter III

CHAIRPERSON'S SUMMARY OF INFORMAL DISCUSSIONS

Review of practical implementation issues of International Financial Reporting Standards

17. In introducing the agenda item, the representative of the UNCTAD secretariat drew the attention of participants to the issues note on the "Review of practical implementation issues of International Financial Reporting Standards" (TD/B/COM.2/ISAR/29) prepared by the UNCTAD secretariat to facilitate the deliberations of the Group of Experts. She gave an overview of the note and informed participants that, in order to enrich the deliberations on the issue and take on board the views of a wide range of stakeholders, two panels would address the session.

18. The first panel featured experts who presented the perspectives of international financial institutions, international standard-setters and international and regional regulators. A representative of an international financial institution underscored the importance of high-quality international financial reporting standards for the coherence, stability and efficient functioning of the international financial system. He noted that, in the domain of international financial institutions, sound accounting and disclosure were essential for high-quality financial and supervisory reporting, accurate capital calculations and ratios, transparency and promoting stable financial systems.

19. Another panellist presented the perspectives of the International Accounting Standards Board (IASB) on the development and implementation of IFRS, and highlighted the fact that the aim of the IASB was to develop principles-based standards. However, an acknowledgement was made that some of its standards were lengthy and seemed more rules-based. Mention was made of the IASCF's education initiative and the growing number of countries that either required or permitted the use of IFRS by enterprises in their jurisdictions.

20. A presentation followed on the implications of the implementation of IFRS on the work of auditors. A panellist stated that there was a considerable shortage of expertise in the IFRS area, and the disparity in skills posed a significant risk that had to be managed. The panellist highlighted several International Standards of Auditing that were of particular relevance in the implementation of IFRS. These covered issues such as quality control, risk assessment and communicating with those responsible for governance. He noted that IFRS endorsement processes could result in endorsed IFRS that were different from those issued by the IASB. Such situations required auditors to take additional considerations into account in conducting their audit work and in preparing their reports. If countries that adopted only some IFRS required auditors to attest that financial statements prepared by entities in their jurisdictions were prepared in accordance with IFRS as adopted in that particular country, the situation would create major confusion and negatively impact the benefits of financial reporting on the basis of a common set of high-quality standards.

21. The panel discussion continued with a presentation on the implementation of IFRS in the European Union. A panellist provided an overview of the IAS Regulation (1606/2002/EC) and the IFRS implementation process in the European Union, including the scope and the endorsement process, as well as the legal, political and administrative challenges and complexities arising in the endorsement process and implementation efforts.

The ‘carve outs’ on IAS 39 made during the endorsement process created year-end issues in relation to audit statements. The task of translating IFRS into 20 languages was another challenge. A period of relative stability in the field of standard-setting was desirable in order to allow entities to cope with IFRS implementation.

22. Another panellist discussed the regulatory and enforcement dimensions of IFRS implementation from an international and a regional perspective. The panellist stated that IFRS created a level playing field among issuers, easier comparability of financial statements, enhanced transparency, and deeper and safer financial markets. IFRS also provided better regulatory oversight tools. He underlined several challenges in the implementation and enforcement of IFRS that posed significant challenges, including: the limited number of interpretations; the influence of national accounting cultures; possible differences in the views of audit firms in jurisdictions where dual audit opinions were required; and the need for consistent enforcement and transparent decision-making by regulators.

23. During the second panel discussion, the presentations focused on different experiences and strategies adopted by selected countries aiming towards convergence with IFRS. In sharing his country's experience, one of the panellists stated that, as part of its plan to converge with IFRS, in early 2006 his country would issue a set of accounting standards based on IFRS. These would be adapted to the specific economic and legal realities in his country and would be applicable to large and medium-sized companies. The implementation strategy included a grace period of one year before the standards would come into effect. This time interval would allow for adjustments to be made to the standards, in light of any implementation issues that might arise. The panellist noted that his country was engaged in discussions with the IASB on fair value measurement requirements, identification of related parties in related-party transactions and certain impairment issues. He further noted the important role that multilateral institutions and forums like ISAR could play in the implementation of IFRS and called for further cooperation and coordination among such entities.

24. The next panellist also shared his country's experience with the implementation of IFRS. He noted that the accounting standards applicable in his country were about 97 per cent in compliance with IFRS. His country's plan was to move to full IFRS compliance by 2006, when these standards would become a requirement for listed companies. The panellist stated that developing countries were under-represented in the international standard-setting process. Once international standards were set, they became applicable for all regardless of whether or not those required to implement them had a say in the standard-setting process. Thus, developing countries needed to be represented in all international standard-setting bodies and at all levels. The IFRS did not take into account the specific economic realities of developing countries, and several examples were given of this.

25. Another panellist discussed developments in standard-setting at the IASB from the perspective of developing countries. The sweeping changes in standards posed a significant challenge for the implementation process. For example, 13 International Accounting Standards had been amended simultaneously, bringing about consequential amendments to other standards in the context of the IASB ‘Improvements Project’. Taken together, about 20 standards were affected by this. Such frequent changes did not allow for real-life examples of best practice to emerge. The mixed attribute measurement model of IFRS and the trend towards more fair value based measurements did not allow for like things to be compared on the same basis. He cited a number of IFRS requirements that were difficult to interpret and

implement. For example, the use of the word ‘influence’ in the definition of ‘close members of the family’ in IAS 24 on Related Party Disclosures could mean different things to different people.

26. The next panellist shared his company's experience in implementing IFRS in 2005. His company (a financial institution that belonged to a large European group) had embarked on the implementation process in early 2004. Prior to that, it had prepared financial statements in accordance with national accounting standards for local regulators and IFRS-based financial statements for its parent company. One of the first clarifications his entity had sought was whether it qualified as a first-time adopter in accordance with IFRS 1. Since his company had previously prepared IFRS-based financial statements for its parent company, it did not qualify as a first-time adopter and was therefore not eligible for exemptions in IFRS 1. Ongoing interactions with the parent company, financial analysts and customers were needed to determine the appropriate format and level of detail for its IFRS-based financial statements. Segment information was of particular importance in this respect. The company also sought to adopt best practices by reviewing the reporting procedures of other regional financial institutions. Major adjustments still needed to be made in the valuation of the loan portfolio, goodwill, investing in subsidiaries, and changes in the classification of financial instruments.

27. Several delegates shared their countries’ experiences in implementing IFRS. One delegate stated that adoption of IFRS was an important consideration for his country in its quest for accession to the World Trade Organization and eventual membership of the European Union. Another expert stated that implementing IFRS without putting proper infrastructure in place would only create more problems. Another expert noted that, when adopted in certain jurisdictions, IFRS formed part of national commercial law and would therefore have an impact on other national regulations. In such circumstances, additional consideration and preparation were required before entering the implementation phase.

28. Among the issues raised in the course of ensuing discussions was that the accounting needs of SMEs should be an integral part of the IFRS implementation strategy adopted by member States. Some participants felt that the emphasis placed on the implementation of IFRS for large listed companies, particularly in the context of developing countries, failed to take into consideration the needs of unlisted SMEs, which constituted a vital part of their economies. Many delegates were keen to learn from the experiences of others on how to deal with the question of SMEs.

29. Many participants raised the issue of the shortage of educational and training materials on IFRS. Participants were informed that the IASC Foundation had made available educational and training material in the bookstore section of IASB’s website. The material included a guide on each IFRS/IAS intended for members of boards of directors and audit committees, a CD-ROM on the conceptual framework, and a volume on financial instruments. The IASC Foundation had decided that this material should be sold to cover the costs incurred by the Foundation in preparing them. An expert asked about the rationale for the changes in the wording of IFRS requirements from ‘should’ to ‘shall’. A panel member explained that the change was made to avoid any ambiguity about requirements, particularly from the perspective of enforcement.

30. Various experts raised the issue of fair value measurement requirements in the implementation of IFRS in the context of developing countries and countries with economies in transition. One panel member said that this issue was raised frequently in the context of his

country's efforts to converge with IFRS. His country adopted a flexible approach that took into account national economic and legal factors. An expert from a developing country where entities were required by law to provide defined post-retirement benefit plans to their employees stated that actuarial valuations posed special challenges to preparers. Given the shortage of actuarial experts in many developing countries, he called on the IASB to provide guidance material on this subject.

31. Participants expressed their appreciation for the secretariat's issues note, which clearly articulated the various practical challenges in implementing IFRS, as well as for the high quality of the panel discussions on the issue. It recognized the positive role that the ISAR forum played in facilitating the exchange of views and experiences among member States. The Group of Experts agreed to review further the practical implementation of IFRS, as well as the available ways and means to meet challenges. It also requested a discussion on accounting in SMEs as part of its deliberations on the IFRS implementation process.

Comparability and relevance of existing indicators on corporate responsibility

32. By way of introduction, background information was provided on ISAR activities in the area of corporate responsibility (CR) reporting, including the development of the eco-efficiency indicators, previous ISAR sessions and the agreed conclusions of the twenty-first session. A resource person clarified the differences between CR and corporate governance and between shareholders and stakeholders, with reference to the conference room paper "Users of corporate responsibility reporting and their information needs" (TD/B/COM.2/ISAR/CRP.2).

33. In a presentation of the material in the background document "Guidance on corporate responsibility indicators in annual reports" (TD/B/COM.2/ISAR/29), the resource person explained how the topics addressed by the indicators had been chosen. The topics included those identified in previous ISAR sessions, including in the area of economic development. The criteria for selecting indicators included universality, comparability, relevance and an incremental approach.

34. In the ensuing discussion, comments were made on the concept of stakeholders and how it was defined. One delegate requested more information on the categorization of stakeholders, and another suggested specific definitions for certain stakeholder groups. Another set of comments concerned the special circumstances of subsidiaries and enterprise size: one expert suggested that a distinction between large and small companies might be useful. Another expert referred to the situation of TNCs, whose globally consolidated reports could obscure the view of a local subsidiary's operations; it was suggested that any guidance should request subsidiaries to report individually, or at least nationally.

35. The resource person then focused on each group of indicators in turn. The first group was entitled 'Contribution to Economic Development'. In the discussion, some comments concerned the measurement and definition of indicators, some concerned presentation issues, and others suggested possible new indicators. One delegate raised the issue of the repetition of certain information within annual reports. On measurement and definitions of indicators, one delegate questioned whether social security contributions should be included within taxes and government fees, or within employee compensation and pension schemes; the delegate observed that social security systems varied between countries and that in some countries there might be little or no difference between such systems and pension plans, whereas in others, social security contributions could be compared to a government tax. On the topic of

possible new indicators, a delegate suggested one indicator for measuring the transfer of technology and another for measuring reinvestment of earnings. Another delegate suggested that some measure of ‘degree of integration’ of a firm's economic activities could be used to supplement or replace the indicator on the value of imports versus exports. The delegate also suggested the use of a measurement on ‘value added’ to replace the indicator on total sales. Another expert cautioned, however, against the use of a value added statement, arguing that it might cause confusion among users of reports.

36. In response, the Chairperson and the resource person suggested that the repetition of information in an annual report should not be considered a problem, as a report had several distinct sections catering to different types of users. Concerning the suggested use of the of a value added statement, it was recommended that the use of information resulting from complex calculations be avoided, as such information could cause confusion or undermine clarity.

37. The resource person then presented the category of indicators on ‘human rights’ and the indicator on security arrangements. The most frequent source of enterprise complicity in human rights abuses stemmed from security operations, and while it was recognized that enterprises had a legitimate obligation to provide security for their personnel and assets, it was equally acknowledged that enterprises also had a responsibility to exercise proper management, training and oversight in the use of armed security.

38. Several delegates and experts discussed the role and obligations of enterprises in the area of human rights. Some delegates observed that protecting human rights was the responsibility of Governments and not private enterprises. Several experts argued, however, that human rights considerations fell within the responsibilities of enterprises and could present legal and financial liabilities for enterprises. Another expert remarked that a large proportion of enterprise activity in the area of corporate responsibility revolved around the question of how enterprises could better avoid instances of complicity in human rights abuses.

39. In response, the resource person made a distinction between the responsibility to protect human rights (which is the responsibility of Governments) and the responsibility to avoid complicity in human rights abuses (which is the responsibility of all individuals and organizations, including enterprises).

40. With regard to the three indicators within the category of ‘labour practices’, some participants suggested new indicators and some raised questions to do with compilation or presentation. On the issue of equal opportunity, a reference was made to the possibility of adding an indicator on different types of discrimination such as race, age, religion or physical disability. Another suggestion for a new indicator was to record the ratio of the highest paid employee to the lowest paid employee (or something similar, such as the ratio of the average or median manager's salary to the average or median worker's salary). With regard to the compilation or presentation of the labour practice indicators, questions were raised as to why the number of female employees was not presented as a percentage of the total employees, and why, when presenting the total number of employees generally, this could not be done in terms of the percentage of permanent versus temporary employees.

41. The resource person recalled that the selection criteria included universality; and it was observed that several issues of equal opportunity, such as race and religion, were highly specific to a region or country and did not lend themselves to universal application and

comparability. It was recognized, though, that indicators on age and physical disability would meet the selection criteria and could be added. Similarly, the suggestion for reporting the ratio of the highest to the lowest paid employee was recognized as meeting the selection criteria, and could be a useful indicator of pay equity. On the questions relating to compilation or presentation, it was acknowledged that many of these issues would benefit from further clarification.

42. Concerning the two indicators for ‘human capital development’, a number of participants recommended deleting the word ‘internal’ from both of these indicators, on the grounds that it was insufficiently clear. The resource person recognized that these indicators could be better explained using different language, while at the same time maintaining the focus on employee training rather than supplier or customer training. An expert suggested that an indicator on training expenditures should be presented as a ratio, e.g. expenditure or hours of training per employee, rather than as an absolute number. A general discussion ensued on the use of the term ‘human capital’ as several participants felt uncomfortable with this term and suggested ‘human resource development’ as an alternative.

43. With regard to the two indicators on ‘health and safety’, questions were raised on how to identify what would be considered as an expenditure on safety: did, for example, spending on security qualify as expenditure on employee safety? The use of the word ‘expenditure’ was also questioned, and suggestions were made to use the terms ‘cost’ or ‘spending’. The resource person recognized that further work was needed on identification and compilation issues, but argued that the term ‘expenditure’ had a place in existing financial accounting practices and was relevant in this situation. A general discussion took place on the distinction in the area of healthcare between spending on prevention and spending on treatment.

44. Concerning the indicator on ‘community support’, a number of delegates suggested that the word ‘donations’ be replaced with the word ‘contributions’. It was also suggested that this indicator should be placed in context by, for instance, expressing it as a percentage of pre-tax profits or value added.

45. On the indicator on an enterprise’s ‘value chain’, one delegate asked how this indicator might be reported, and a number of delegates suggested that the indicator should only report the absolute number of enterprises, without giving names. For the sake of improved clarity, it was also suggested that the wording be changed to ‘number of dependent enterprises in the value chain’. It was generally recognized that defining “dependent” would require further work and would probably rely on some percentage of sales or purchases between the reporting firm and the enterprise in the value chain.

46. With regard to the final indicator on ‘corruption’, a number of delegates suggested adding an additional indicator to this category, simply noting whether or not an enterprise had some sort of code of conduct or other relevant internal policies. The resource person reminded delegates that, while such information could usefully be reported by an enterprise as additional information, policy-oriented indicators did not fall within the selection criteria of the indicators, except when the focus was on outcomes or impacts. On the question of compilation and reporting, a delegate asked whether or not materiality (e.g. the size of a fine) would apply to this issue. The resource person observed that the indicator reported both the number of corruption-related convictions and the amount of fines paid. In this sense, the incidence of a corruption-related conviction would be material, regardless of the amount of the fine associated with it. A conviction would therefore serve as an indication of the quality

of internal control procedures and other potential future liabilities (since the size of fines for any future conviction could, in some jurisdictions, be influenced by repeat offences).

47. The deliberations on the corporate responsibility indicators ended with a few general suggestions from participants. Recognizing ISAR's past work on eco-efficiency indicators, one expert suggested that the social indicators presented in document TD/B/COM.2/ISAR/29 left a gap in the area of environmental reporting, which was widely understood to be an element of corporate responsibility. This expert suggested that an annex be added to the document listing the five eco-efficiency indicators, along with a reference to the publication “A manual for the preparers and users of eco-efficiency indicators” (UNCTAD/ITE/IPC/2003/7). Another delegate suggested that it would be a good idea to begin testing the indicators based on existing corporate reporting practices, with a view to developing guidance for preparing and reporting the indicators.

Other business

Corporate governance disclosures

48. A resource person presented the UNCTAD document on “Guidance on good practices in corporate governance disclosure” (TD/B/COM.2/ISAR/30), which was an update of the 2002 paper on “Transparency and disclosure requirements for corporate governance” (TD/B/COM.2/ISAR/15). The original document had been very up to date for its time, but significant developments in corporate governance disclosure had occurred in the intervening years, including updated disclosure requirements in the area of changes in control and transactions involving significant assets, as well as new disclosure items on the internal audit function. The purpose of the guidance document was to assist enterprises in attracting investment; the document was of high quality and merited wide dissemination.

49. A second resource person presented the findings of the “2005 review of the implementation status of corporate governance disclosures” (TD/B/COM.2/ISAR/CRP.1), beginning with an explanation of the enhanced methodology of the survey, including the increased sample size and the use of a broader range of sources of corporate governance information. He drew attention to the relatively low frequency of auditing-related disclosures; the tendency of enterprises with an international listing to have better disclosure than enterprises with a local listing only; the tendency of enterprises in higher-income countries to have better disclosure than enterprises in lower-income countries; and finally, the tendency of state-owned enterprises to disclose less corporate governance information than their private sector counterparts. The resource person also provided a brief overview of recent developments in the area of corporate governance disclosure, highlighting the growth of increasingly influential governance monitoring services provided by members of the financial industry.

50. A panel of experts on corporate governance disclosure then raised several important issues such as: the need for quality corporate governance disclosure to ensure compliance with new and existing corporate governance codes; the example of a country that included most of its corporate governance code within stock market listing requirements rather than government regulations; problems associated with limited or differential voting rights; the need to improve corporate governance in developing countries as a priority for economic development; and finally, recent developments within EU legislation, along with a suggestion for future work on the issues of internal control and risk management.

51. Many participants commended both the new guidance document and the 2005 review, and specific suggestions were made to improve the review. Several delegates were in favour of removing the regional analysis because of the insufficient country sample size and the distorting effect that grouping multiple countries together could have on the impression of corporate governance disclosure in any one country.

52. A discussion took place on existing or potential mechanisms, other than legislation, that could be used to implement stakeholder control in unlisted companies. Related to this question was a discussion of the potential gap in corporate governance practices that might emerge between listed and unlisted enterprises, if corporate governance requirements were located primarily within listing requirements. With regard to one panellist's recommendation for more guidance on internal control and risk management, this subject was generally considered to be beyond the scope of the current guidance document, but the Group recognized that this was a potential strand of future work. A request was made for more guidance on the practical implementation of corporate governance disclosure, particularly 'how' to disclose rather than 'what' to disclose. Such practical implementation guidance should be suitable for both listed and unlisted enterprises, with a specific focus on helping enterprises in developing countries or in economies in transition to bridge the gap in disclosure practices that generally existed between them and the enterprises of more developed countries. A final widely discussed topic focused on minority shareholders and their rights. This discussion included the question of how one might evaluate not only directors' independence from management, but also the independence of directors from majority shareholders.

Follow-up on previous ISAR sessions

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

53. The UNCTAD secretariat reported that work on translation and publication of both guidance materials on accounting by SMEs (SMEGA Levels 2 and 3) had been completed during the intersessional period. The secretariat noted the growing demand for the SMEGAs. The secretariat also reported on cooperation with the IASB on its project on accounting by SMEs, as well as with the Developing Nations Committee of the International Federation of Accountants on SMEGA Level 3. The secretariat requested delegates to send their feedback on the dissemination and implementation of the guidance documents.

Sixteenth session – update on the ISAR Model Curriculum

54. With respect to further work on the ISAR Model Curriculum, the secretariat reported on feedback it had received from the Education Committee of the International Federation of Accountants (IFAC) on the usefulness of the Model Curriculum in implementing International Education Standard No. 2 (IES2), "Content of Accounting Education Programs", issued by the Education Committee of IFAC. The Education Committee considered the Model Curriculum to be a useful resource in interpreting the requirements of IES2, and expected that it would be of significant benefit to professional accountancy bodies, education providers and others involved in the education of professional accountants. The Education Committee had also provided UNCTAD with recommendations and suggestions on updating the Model Curriculum in the future. The secretariat also provided a progress report on a USAID-funded technical assistance project to develop a regional qualification for the Commonwealth of Independent States based on the ISAR Model Curriculum.

Fifteenth session – update on environmental accounting

55. With respect to follow-up work on environmental accounting, the secretariat reported that it had continued disseminating the "Manual for the preparers and users of eco-efficiency indicators". A representative of a speciality chemicals company that had implemented the guidelines reported that his company continued to receive positive reviews from various users, including the media. He also provided feedback on aspects of the manual that could benefit from further refinement and updating.

Updates by other organizations

56. The Head of the *United Nations Environment Programme Financial Initiative* (UNEP-FI) briefed participants on a UNEP-FI project on 'Principles for responsible investment' (PRI). The PRI sought to identify and act on the common ground between the goals of institutional investors and the sustainable development objectives of the United Nations, as well as provide a global platform for institutional investors to learn and collaborate on environmental, social and corporate governance issues. The project was divided into two phases: the first phase in 2005 revolved around developing best-practice principles for responsible investment; in 2006, phase two will seek to build support and capacity from within the global investor and policy-making communities.

57. A representative of the *European Commission* updated participants on various Commission activities in the areas of accounting and auditing. During the ISAR intersessional period, the Commission had been actively engaged in facilitating the implementation of IFRS as a basis for consolidated financial reporting for European-listed companies. The Commission was working towards enhancing the EU's accounting infrastructure by providing inputs to the IASB's standard-setting process, as well by working closely with the European Financial Reporting Advisory Group (EFRAG). The representative of the Commission also touched upon a number of other topics such as convergence issues; the equivalence of major third-country Generally Accepted Accounting Principles to IFRS, as adopted in the European Union; reconciliation requirements of the United States' Generally Accepted Accounting Principles; legislative developments in relation to the Fourth, Seventh and Eighth Directives; audit issues; and the accounting needs of unlisted entities. The representative of the European Commission also reported that the Commission would be conducting an evaluation of the IAS Directive in 2006.

58. The Chairman of the *Standards Advisory Council of the International Accounting Standards Board* informed participants about changes in the composition of the Standards Advisory Council (SAC). The new SAC was composed of 40 members, as opposed to 60 in the previous SAC. As a result of the rotation of its membership, two-thirds of the members of the current SAC were newly appointed. A new feature of the current SAC was the appointment of an independent Chairman. The Chairman emphasized the important role that experts from developing countries and countries with economies in transition could play in the standard-setting process of the IASB and highlighted the different ways that such experts could contribute to the standard-setting process.

59. The representative of the *International Federation of Accountants* (IFAC) presented a comprehensive update on a number of developments that had occurred in his organization during the intersessional period of ISAR. One of the major developments was the establishment of an independent Public Interest Oversight Board in February 2005 to oversee IFAC's standard-setting activities. IFAC's leadership had been actively engaged in raising

awareness of the importance of the accountancy profession for economic development and stability. IFAC had also launched its member body compliance programme and made significant progress in the first phase of the programme, which assessed the regulatory and standard-setting framework of its member organizations. The representative highlighted the growing cooperation and coordination activities between UNCTAD and IFAC under the umbrella of the Memorandum of Understanding signed between the two organizations in November 2005.

60. A representative of the *European Federation of Accountants* reported on various activities that her organization had undertaken during the intersessional period of ISAR. These related to: financial reporting, auditing, capital markets, ethics, taxation, public sector accounting, sustainability issues, regulation and liberalization of the accountancy profession, and small and medium-sized enterprises. The application and enforcement of IFRS in Europe by 2005 continued to pose challenges to the accountancy profession in Europe, and her organization continued to be actively engaged in the standard-setting process by working closely with the European Commission, the IASB and its trustees, IFAC, EFRAG and others.

61. A representative of the *Global Reporting Initiative* (GRI) provided an introduction to GRI and its recent activities in the area of sustainability reporting guidelines. The GRI was a multi-stakeholder organization made up of over 225 organizations from a large number of countries. The principle activity of the GRI had been the development of guidelines for non-financial sustainability reporting. In 2006, GRI planned to introduce the latest update to its guidelines. Known as ‘G3’, this update would seek to improve upon the earlier set of guidelines (published in 2002), by making the guidelines more user-friendly and the indicators within them more relevant, comparable, auditable, performance-focused and universal.

62. A representative of the *Institute of Social and Ethical Accountability* (AccountAbility) provided an introduction to the principal activities of AccountAbility and its ongoing research in the area of sustainable development. AccountAbility was a non-profit organization that worked with partners in business, civil society and Governments to develop new ways to ensure that organizations were accountable for their social and environmental impacts. One of AccountAbility's core areas of activity consisted of setting standards on corporate communications (known as the AA1000 Assurance Standard) and corporate engagement with stakeholders (known as the AA1000 Stakeholder Engagement Standard). These standards were developed to complement the work of organizations such as the Global Reporting Initiative and the International Standards Organization.

Chapter IV

ORGANIZATIONAL MATTERS

A. Election of officers

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

Chairperson:	Mr.Aziz Dieye (Senegal)
Vice-Chairperson-cum-Rapporteur:	Ms. Valeriy Nikolaevitch Parhomenko (Ukraine)

B. Adoption of the agenda and organization of work

64. 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 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

C. Outcome of the session

69. At its closing plenary meeting, on Wednesday, 23 November 2005, the Intergovernmental Working Group adopted its agreed conclusions (see chapter I). It also agreed that the Chairperson should summarize the informal discussions (see chapter III).

D. Adoption of the report

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

Annex I

PROVISIONAL AGENDA FOR THE TWENTY-THIRD 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
6. Provisional agenda for the twenty-fourth session
7. Adoption of the report

Annex II

ATTENDANCE*

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

Algeria
Angola
Argentina
Bahrain
Bangladesh
Belgium
Benin
Bosnia-Herzegovina
Brazil
Bulgaria
Canada
China
Cyprus
Czech Republic
Democratic People's Republic of Korea
Democratic Republic of the Congo
Egypt
Ethiopia
France
Georgia
Germany
Greece
Honduras
Hungary
India
Italy
Jordan
Kazakhstan
Kenya
Latvia
Lebanon
Lesotho
Lithuania
Madagascar
Malawi
Malaysia
Malta
Mexico
Morocco
Namibia
Nepal
Netherlands
Pakistan
Paraguay
Philippines
Poland
Portugal
Republic of Korea
Republic of Moldova
Romania
Russian Federation
Saudi Arabia
Senegal
Serbia and Montenegro
Slovakia
Spain
Sri Lanka
Sudan
Switzerland
Syrian Arab Republic
Thailand
The Former Yugoslav Republic of Macedonia
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom of Great Britain and Northern Ireland
United States of America
Viet Nam
Yemen
Zimbabwe

* For the list of participants, see TD/B/COM.2/ISAR/INF.8.

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

European Commission

3. The following related organization was represented at the meeting:

United Nations Industrial Development Organization

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

General Category:

International Federation of Free Trade Unions
International Organization of Employers

5. The following panellists attended the meeting:

M. André Baladi, Financier Fondateur, International Corporate Governance Network, (ICGN), Berne
Mr. Nelson L. Carvalho, Professor, University of São Paulo, Brazil
M. Philippe Danjou, Director, French Securities Regulator, Paris
Mr. Aziz Dièye, Senior Partner and Director, Dakar, Senegal
Mr. Gerald Edwards, Senior Advisor, Financial Stability Forum, Bern, Switzerland
Ms. Elizabeth Hickey, Director of Technical Activities, International Accounting Standards Board, London
Mr. John Kellas, Chairman, International Auditing and Assurance Standards Board, London
Mr. Jun Wang, Vice Minister of Finance, Beijing, China
Mr. Ulf Linder, Deputy Head of Unit, European Commission, Brussels
Mr. Abbas Ali Mirza, Technical Adviser, Gulf Cooperation Council Accounting and Auditing Organization, United Arab Emirates
Mr. Thirachai Phuvanatnaranubala, Secretary-General, Securities and Exchange Commission, Bangkok, Thailand
Mr. Witold Skrok, Head of Controlling, BPH Bank, Warsaw
Mr. Christian Strenger, Director, DWS Investment, Frankfurt, Germany

6. The following special invitees attended the Meeting:

Asian Development Bank

Ms. Kathleen Moktan, Head, Manila Branch
Ms. Samuela Tukuafu, Financial Specialist, Manila

Association of Accounting Technicians (AAT)

Mr. Adam Harper, Director, London
Mr. John Vincent, Council Member, London

Association of International Accountants (AIA)

Mr. Edward Gillespie, Council Member, London

Body of Expert and Licensed Accountants (CECCAR)

Mr. Marin Toma, President, Bucharest
Mr. Andreia Manea, translator for the President, Bucharest

Ethos Swiss Investment Foundation

Mr. Jean Laville, Deputy Director for Sustainable Development
Ms. Caroline Schum, analyst

European Bank for Reconstruction and Development

Mr. Andrew Ostaszewski, London

European Federation of Accountants (FEE)

Mr. Saskia Slomp, Technical Director, Brussels

Greek Accounting and Auditing Oversight Board (GAAOB)

Mr. Theodoros Xentes, Member, Athens
Mr. Panagiotis Vroustouris, Member, Athens

International Accounting Standards Board (IASB)

Mr. Robert Garnett, Board Member, London

Institute of Chartered Accountants in England and Wales (ICAEW)

Mr. Robert E. Langford, Sustainability Project Manager, London
Mr. Richard Spencer, Corporate Responsibility Manager, London
Mr. Caroline Beer, IFRS Senior Manager, London

Institute of Chartered Accountants of India

Mr. Kamlesh S. Vikamsey, President, New Delhi
Mr. T. N. Manoharan, Vice President, New Delhi
Mr. Ashok Haldia, Secretary, New Delhi

KPMG

Mr. Mohamed Yehia, Managing Partner, Cairo, Egypt

Pall-Karna-Sayahak Foundation (PKSF)

Mr. Parveen Mahmud, Deputy Managing Director, Dhaka

Responsible Business Initiative

Ms. Ambreen, Executive Director, Lahore

OPEC Fund for International Development

Mr. Fahmi Bilal, Controller, Vienna, Austria

Union of Chambers of Certified Public Accountants (TURMOB)

Mr. Nail Sanli, Ankara
Mr. Orhan Celik, Ankara
Mr. Cemal Ibis, Advisor, Ankara
Mr. Serdar Ozkan, Advisor, Ankara

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