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

Held at the Palais des Nations, Geneva,
from 10 to 12 October 2006

CONTENTS

Chapter I

AGREED CONCLUSIONS

Review of Practical Implementation Issues of International Financial Reporting Standards

1. At its twenty-third session, the Intergovernmental Group of Experts on International Standards of Accounting and Reporting (ISAR) reiterated the importance of principles-based, high-quality financial reporting standards, such as International Financial Reporting Standards (IFRS), for the coherence and efficient functioning of financial infrastructure, as well as the mobilization of financial resources for the development of developing countries and transition economies. It also stressed the importance of a forum such as ISAR, where member States could share their views and experiences in this area and identify best practices for guidance and further dissemination towards further harmonization of reporting requirements to facilitate investment and development.

2. The Group recognized that following the widespread adoption of IFRS in 2005 by a large number of countries and enterprises, various stakeholders, including regulators, preparers, users and auditors, continue to encounter various practical implementation challenges. In particular, it concluded that an effective regulatory regime, as well as an adequate audit system and professional education requirements, should be in place to facilitate the successful implementation of the IFRS. Implementation is a long-term process and requires a defined strategy and appropriate mechanisms in order to build an institutional and technical capacity supported by adequate resources.

3. The Group of Experts observed that the IFRS were initially formulated for large listed companies of developed financial markets. In this regard, the Group underscored that the issue of accounting by SMEs has to be addressed separately to enable the vast majority of enterprises around the world to meet their user reporting needs in a cost-effective and useful manner.

4. The Group discussed the initiatives by the International Accounting Standards Board (IASB) and other standards setters to develop standards to meet the financial reporting requirements for SMEs and resolved to support such endeavours and provide inputs into the processes, as necessary.

5. The Group identified a need to update its SMEGA 3 guidance that addresses the accounting and reporting needs of micro-enterprises, which are of particular importance in developing countries and transition economies. It requested UNCTAD to reconvene a Consultative Group to assess the feedback on the practical use of the SMEGA 2 and 3 guidance issued by ISAR in 2003; to facilitate ISAR's input into the deliberations on accounting by SMEs currently taking place within the IASB and the International Federation of Accountants (IFAC); and to update its SMEGA 3 guidance.

6. The Group also agreed to conduct additional studies and reviews to gain further insight into the challenges faced by developing countries and countries with economies in transition in meeting international requirements for high-quality and adequate standards with a view to developing guidance on good practices.

Comparability of existing indicators on corporate responsibility

7. ISAR recognized the increased interest among corporate responsibility (CR) reporters in creating more concise, more useful and more performance-oriented reports. It also acknowledged a general trend towards the inclusion of non-financial reporting as a supplement to financial information, and the increasing demand among investors for comparable and relevant data on business practices related to corporate responsibility issues.

8. The Group reviewed the secretariat report entitled “Guidance on corporate responsibility indicators in annual reports” (TD/B/COM.2/ISAR/34), and agreed that the report provided a useful contribution towards identifying core indicators and their measurement methodology for harmonized reporting on corporate responsibility information as part of annual reports.

9. The Group agreed that UNCTAD should further refine and finalize the guidance on selected corporate responsibility indicators and their measurement methodology with a view to providing a voluntary technical tool for enterprises. This guidance would include previous findings of the project regarding criteria for selection of indicators and the information needs of users. It should also take into account the cost/benefit considerations of preparing this information, and should thus be elaborated in consultation with the preparers. The Group agreed that UNCTAD should continue to coordinate this work with other international organizations active in the area of corporate responsibility reporting, along with private and public sector stakeholders. It was also suggested that, if resources permit, pilot testing of indicators could be conducted.

10. The Group recognized the usefulness of the secretariat study entitled "2006 Review of the implementation status of corporate responsibility indicators" (TD/B/COM.2/ISAR/CRP.2) in providing practical feedback for further refining and finalizing the guidance on indicators and suggested that UNCTAD should continue to conduct such reviews.

Corporate governance disclosures

11. ISAR reiterated the importance of good practices in corporate governance for promoting investment, stability and economic growth. The Group commended the secretariat for its "Guidance on good practices in corporate governance disclosure", which was noted with appreciation by UNCTAD’s Commission on Investment, Technology and Related Financial Issues.

12. In accordance with the agreed conclusions of its twenty-second session, ISAR at its twenty-third session considered the results of the annual review of corporate governance disclosure contained in the document entitled “2006 Review of the implementation status of corporate governance disclosures” (TD/B/COM.2/ISAR/CRP.3). The Group commended the survey for its quality and noted that it helped to identify a number of important trends in corporate governance reporting. The Group further recommended the voluntary use of an ISAR index on corporate governance disclosure as an innovative practical tool for improving corporate transparency.

Follow-up to environmental accounting

13. The secretariat was requested to consider updating the “Manual for the preparers and users of eco-efficiency indicators” as a complement to the corporate responsibility indicators.

Follow-up to the model curriculum

14. The Group requested UNCTAD to continue its work in this area with a view to strengthening the accountancy profession in member States, particularly in developing countries and countries with economies in transition, by taking into consideration the memorandum of understanding signed between UNCTAD and the International Federation of Accountants (IFAC).

Chapter II

OPENING STATEMENTS

15. In his opening remarks, the **Secretary-General of UNCTAD** recognized the role that ISAR had played in helping developing countries and countries with economies in transition to implement international corporate reporting requirements. He noted that since its establishment in 1982, ISAR had become an intellectual home for policymakers and other stakeholders concerned with improving corporate transparency. While welcoming recent upward trends in investments going to developing countries, the Secretary-General emphasized that corporate transparency in financial matters and other areas was crucial to the ability of those countries to continue to attract investment. The allocation of scarce capital, he observed, relied on the availability of clear and reliable information. Building an appropriate institutional framework and implementing robust corporate reporting requirements were essential.

16. The Secretary-General highlighted the key agenda items of the meeting, beginning with the review of practical implementation issues of International Financial Reporting Standards (IFRS). He stressed the importance of this work by noting that the true practicality and utility of the standards were assessed in the actual process of their implementation. He also noted the clear development implications of this work, indicating that critical challenges remained for many developing countries and economies in transition in their efforts to establish an institutional framework and build the technical capacity needed in the area of IFRS. Given the inclusive and neutral nature of the United Nations forum, he felt that ISAR was suitably placed to facilitate the exchange of experiences and views from a truly global perspective.

17. Concerning the second main agenda item, the comparability and relevance of corporate responsibility indicators in annual reports, the Secretary-General noted the proactive nature of ISAR in dealing with subjects that extended beyond exclusively financial matters. He recognized the increasing demand among investors and other stakeholders for additional non-financial information. Investors today, he observed, often spoke of environmental, social and governance issues as a distinct and interrelated area of reporting. He also recognized enterprises' need for clear, concise and concrete guidance on corporate responsibility reporting.

18. On the subject of corporate governance disclosure, the Secretary-General praised ISAR's work which had culminated in the recent publication entitled "Guidance on good practices in corporate governance disclosure". He welcomed ISAR's annual surveys in this area, noting that they provided greater insight into actual business practices. The work of ISAR on corporate governance disclosure contributed to raising awareness of good practices and assisted countries and enterprises in benchmarking their progress vis-à-vis international trends and practices, and in meeting the expectations of investors. The Secretary-General concluded by commending ISAR for its exemplary treatment of timely and critical issues of corporate reporting.

19. In his keynote address**, Mr. Alexandre Tombini,** Deputy Governor for Financial System Regulation and Organization, Banco Central do Brasil, emphasized the importance high- quality corporate transparency, and international standards for accounting and reporting. The Banco Central do Brasil played a central role in Brazil in determining economic policy through the regulation and supervision of the financial system as well as

standards of accounting and auditing. The bank was responsible for developing, implementing and evaluating the effectiveness of regulation, ensuring transparency and accountability to the public.

20. More specifically, Mr. Tombini noted that Latin America had enjoyed robust growth in recent years, accompanied by successful macro- and microeconomic reforms which had stabilized the economy of Brazil and reduced its risk perception to a record low. The Brazilian financial system, which benefited from the participation of foreign institutions, high capitalization and high levels of regulation and supervision, had successfully withstood a number of shocks in the 1990s and early 2000s. This has been achieved through strengthened regulation and supervision aimed at reducing systemic risk and enhancing market discipline, while diminishing potential conflicts of interest. Depositors' rights and defining principles of corporate governance had been a prime concern of such measures.

21. Progress in macro- and microeconomic management required market discipline. However, market discipline worked well only if basic conditions, including corporate transparency, were met. Enterprises could benefit when they provided comprehensive, accurate, relevant and timely information on their financial conditions, performance and risk controls. He emphasized that high-quality public disclosure improved the capacity of all market participants to make better economic decisions. Timely public disclosure could also reduce the severity of market disturbances by better informing market participants in order to avoid overreactions.

22. One important step towards generating reliable and useful information throughout economies was the adoption of high-quality financial reporting requirements by enterprises, built on international accounting standards that were consistent, comprehensive and based on clear principles. With the emergence of multinational corporations and transnational investment flows, international standards of reporting had become a necessity.

23. In conclusion, Mr. Tombini emphasized that high-quality corporate reporting was essential for attracting and protecting investors, particularly because of its close relationship with good governance, accountability and responsibility. He referred to high-quality standards as one of the key ingredients in the appropriate allocation and use of scarce economic resources. With the increased globalization and interdependence of the world economy, comparable financial information played a central role in investors' financial decision-making process.

24. The outgoing Chairperson of the twenty-second session of ISAR, **Mr. Aziz Dieye** (Senegal), thanked the UNCTAD secretariat for its support during his tenure of office. He provided an account of his report to the tenth session of the Commission on Investment, Technology and Related Financial Issues, noting that the report had been well received by the Commission. Mr. Dieye also reported to the Group of Experts on the results of a meeting of the accounting profession in Africa. With support from the World Bank, the African Development Bank, the International Federation of Accountants and UNCTAD, African accounting organizations had met in Nairobi at the end of September 2006. Attracting some 250 delegates from 40 African countries, the meeting had culminated in a resolution calling for the creation of a Pan African Federation of the Institutes of Chartered Accountants, recognizing the role of the accountancy profession in the economic development of the continent.

Chapter III

CHAIRPERSON'S SUMMARY OF INFORMAL DISCUSSIONS

Review of practical implementation issues of IFRS

25. In opening the discussions on this agenda item, a member of the UNCTAD secretariat provided participants with background information on UNCTAD's mandate in relation to the topic under consideration and drew participants' attention to the issues note entitled "Review of practical implementation issues of international financial reporting standards" (TD/B/COM.2/ISAR/33) and to addenda (TD/B/COM.2/ISAR/33/Add.1 through 5) which contained case studies of Brazil, Germany, India, Jamaica and Kenya respectively. She indicated that three panels would be discussing the agenda item.

26. The first panel focused on broad IFRS implementation issues and presented the perspectives of international organizations and regional regulators. In their presentations, panellists addressed progress in the implementation of IFRS since 2005, adequacy of existing standards and interpretations, progress on convergence with IFRS and concrete benefits of implementation of IFRS. A panellist who presented the perspectives of the accountancy profession stated that large transnational enterprises based in developed countries encountered fewer challenges in implementing IFRS in comparison with smaller enterprises. He cited better transparency in financial reporting as one of the benefits of IFRS. The panellist also highlighted the importance of better transparency and financial reporting among Governments, given their highly significant participation in capital markets. He emphasized the need for better accounting and reporting by government agencies and State-owned enterprises.

27. The next panellist shared his organization's experience in assessing observance of international codes and standards in the areas of accounting and auditing. He emphasized the importance of high-quality accounting and auditing standards for economic stability and for private-sector growth, job creation, poverty reduction and economic growth. The panellist noted that accounting standards formed part of a financial reporting infrastructure. Efficient functioning of the infrastructure required the strengthening of all its components, including accounting standards, the statutory framework, monitoring and enforcement, education and training, the accounting profession and ethics, and auditing standards. He discussed various obstacles to the successful implementation of IFRS and highlighted the importance of coordination among a country's regulatory regimes for the success of the implementation process.

28. The next two panellists spoke on developments at the International Accounting Standards Committee Foundation, the International Accounting Standards Board (IASB) and its Standards Advisory Council (SAC). It was noted that the "quiet period", or the interval during which no new IFRS or major amendments issued by the IASB would be required to be implemented, had been extended to 2009. This extension was expected to provide preparers with enough time to overcome initial implementation challenges. The two panellists informed participants of various ways and means by which preparers, users and other stakeholders could communicate their views to the IASB and the SAC.

29. The last panellist discussed progress in the implementation of IFRS in the European Union. He noted the importance of accounting standards in the Financial Services Action Plan of the European Union and said that the latter's policies in this area had been set with international cooperation in mind. Securities regulators played an important role in the consistent implementation of IFRS, and he cited the positive contribution of the Committee of European Securities Regulators (CESR). The panellist discussed a recently established informal round table on the consistent application of IFRS in the European Union. The purpose of the round table, which consisted of all relevant stakeholders, was to discuss problematic accounting issues relating to the actual implementation of IFRS in the member States of the European Union and to communicate those issues considered to be of common concern in the European Union to the European Financial Reporting Advisory Group (EFRAG).

30. The panellists reiterated the importance of principles-based, high-quality financial reporting standards for the coherence and efficient functioning of financial infrastructure and for the mobilization of resources needed for economic development. They noted that various preparers were claiming that their financial statements complied with IFRS as adapted in their respective jurisdictions. Such claims created confusion, since it was not possible for users to determine how significant the difference was between IFRS as adapted in a specific jurisdiction and IFRS as issued by the IASB. The panellists expressed concerns that if such a trend were to continue, the benefits that would be derived from using a single set of accounting standards across jurisdictions would not be realized.

31. During the debate, participants raised a number of questions pertaining to convergence in the area of accounting education and professional qualifications of accountants, the suitability of full IFRS for SMEs, and how the IASB decided regarding which of its standards to revise. The panellists responded that in the area of convergence in accounting education and professional qualifications, the Model Curriculum ISAR adopted in 1999 and revised in 2003 was intended to facilitate the process of convergence. Matters of mutual recognition were to be addressed bilaterally between member bodies of the International Federation of Accountants (IFAC), and further progress was still needed in the negotiations at the Word Trade Organization with respect to trade in accountancy services. The representative of the IASB stated that stakeholders could communicate to the International Financial Reporting Standards Interpretation Committee (IFRIC) certain issues that did not require major revisions of IFRS, and IFRIC could respond as appropriate by providing interpretations.

32. The second panel discussed case studies of Brazil, Germany, India, Jamaica and Kenya. The panellist who presented the case study of Brazil provided an overview of the economic situation of Brazil and historical background of financial reporting standards in that country. He identified a recent decision of the Central Bank of Brazil that required all financial institutions under its supervision to implement IFRS by 2010 and the establishment of a Committee on Accounting Procedures (CPC) in Brazil as important developments leading towards convergence with IFRS. The panellist stated that the code-law system of Brazil required significant deliberations, and that the passing of laws was necessary before reforms could be carried out in respect of the current financial reporting system. He identified the need for better coordination of the efforts of different regulatory authorities in Brazil, education and training, and wider availability of materials on IFRS in the Portuguese language as areas where further work was needed. Another panellist elaborated further on the objectives and organizational arrangements of the CPC.

33. In presenting the case study of Germany, a panellist discussed historical developments that had led to the introduction of International Accounting Standards in the country earlier than in many countries in Europe, and she outlined the positive role of the country's legislative authorities in the implementation of IFRS. The panellist further elaborated on the coexistence of IFRS and German Generally Accepted Accounting Principles (GAAP) following the wider implementation of the former. She highlighted some predominant technical issues such as classification of equities and liabilities that arose in the implementation of IFRS.

34. The next panellist presented the case study of India. He highlighted the standard-setting role of the Institute of Chartered Accountants of India (ICAI) and the legal support provided to the Institute in that role. Accounting standards in India were being formulated on the basis of IFRS, and he elaborated on various technical issues arising in the implementation phase. In concluding his presentation, the panellist said that the implementation of certain requirements in IFRS should be a gradual process; guidance needed to be provided in various cases for effective implementation; and there was a need for capacity-building prior to convergence with IFRS.

35. This was followed by a presentation on the case study of Jamaica. The panellist provided background information highlighting factors that had prompted the country to adopt IFRS in 2002. He discussed the role of the Institute of Chartered Accountants of Jamaica in the country's transition to IFRS, recognizing the limited availability of persons with the required knowledge of IFRS as one of the challenges that the country faced in the early stage of the implementation process. The panellist underscored careful planning, extensive public education, allocation of sufficient resources, a legal and regulatory support system, and institutional support with strong management systems as critical success factors in the implementation of IFRS. In response to questions from participants, he provided further information about human capacity-building efforts that the Institute of Chartered Accountants of Jamaica had undertaken. He also clarified the definition of an SME in the Jamaican business environment.

36. The final presentation was on the case study of Kenya. The speaker provided a review of IFRS implementation in Kenya, following the country's decision to adopt International Accounting Standards in 1999. She elaborated on various mechanisms that the Institute of Certified Public Accountants of Kenya (ICAPK) had used to overcome challenges it had encountered in the implementation of IFRS. These included establishing an IFRS help desk at the ICAPK and providing members with bound volumes of IFRS at a specially negotiated price that the Eastern Central and Southern African Federation of Accountants (ECSAFA) had arranged with the IASC Foundation. In response to questions from participants regarding the usefulness of establishing an IFRS help desk, the panellist said that the help desk had been used more widely and frequently at the beginning of the country's adoption of IFRS. In recent years it had often been used by small audit firms.

37. The chairperson opened the floor for general discussion on the main findings of the case studies. One participant observed that given the significant involvement of Governments in capital markets, it was important to promote good accounting and financial reporting practices in that sector. He also stressed the importance of the auditing profession in the implementation of IFRS and said that the UNCTAD secretariat could conduct studies in this area for future consideration by ISAR. In addition, he noted that some of the countries covered in the case studies had not clearly indicated a time frame for full compliance with IFRS, and he observed that adopting IFRS without using a definite time frame would not

makeit possible to enjoy the full benefits of a single common benchmark for financial reporting. Another participant questioned whether the World Bank's Reports on Observance of Standards and Codes (ROSC) should be based on IFRS. The World Bank representative responded that although in those reports national accounting and financial reporting standards were assessed for comparability with IFRS, his organization did not suggest that IFRS should be applied by all entities in a given jurisdiction. The Chairperson pointed out that one of the main findings of the case studies was the need for a clear definition of the scope of application of IFRS.

38. At the opening of the third panel discussion under this agenda item, the UNCTAD secretariat presented background information on the objectives and progress of UNCTAD–ISAR work on developing Accounting and Financial Reporting Guidelines for Small and Medium-Sized Enterprises (SMEGAs) for Level 2 and 3 SMEs, which had started in July 2000 and culminated in the publication of those two documents in 2003. The first panellist discussed the IASB's project on accounting standards for SMEs. He elaborated on its approach to developing an IFRS for SMEs, including the definition of SMEs, recognition and measurement simplifications, fall-back to full IFRS and the progress of the project in the IASB. He said that a preliminary version of an Exposure Draft of the SME standard was available on the IASB's website and that a final Exposure Draft was expected by the end of 2006. The Exposure Draft would be available also in French and Spanish. Replying to questions from participants, the panellist indicated that countries that wished to translate the Exposure Draft of the SME standard into other languages were welcome to do so. In addition, it was for each jurisdiction to decide which entities were to be required to apply the IASB's SME standard, and it was not the intention of the IASB to issue another standard for micro-entities.

39. The next panellist discussed his country's experience in implementing IFRS and the approach to addressing the needs of SMEs. He noted that, previously, "approved" IFRS had been required for all entities in his country, including SMEs. More recently, the country had adopted a three-tier approach to financial reporting, similar to the approach taken by ISAR in developing the SMEGAs. He described the thresholds applicable in categorizing entities into the three different levels.

40. Another panellist, representing a regional federation of SME accountants and auditors, highlighted the importance of SMEs in his region and shared his hands-on experience in dealing with SME financial reporting needs. He said that user needs should be emphasized in the process of addressing the accounting needs of SMEs. SME-related issues raised during earlier panel discussions at the present session in the context of developing countries were also valid with regard to developed economies. In addition, certain audit-related issues might deserve special attention in the case of SMEs or small and medium practices (SMPs).

41. The next panellist outlined the views of his organization's Committee on SMPs. He presented the Committee's assessment of the preliminary version of the Exposure Draft of the IASB SME standard. The Committee was satisfied with the high priority given to the IASB SME project, the extent of consultations and stakeholder engagement, the amount of time that was going to be provided for responding to the Exposure Draft, and the IASB's decision to conduct field-testing. Additional areas of satisfaction included the broad definition of non-public accountability, the stand-alone nature of the proposed standard and the emphasis on historical cost as a basis for measurement. However, the speaker noted several areas of concern, including the inadequacy of the analysis conducted by the IASB

on the specific needs of users of SME financial statements; the enforceability of the SME standard, given that many SMEs were exempt from audit; and the extent of fair value measurement requirements remaining in the preliminary Exposure Draft. He also discussed the financial reporting needs of micro-entities and expressed his organization's interest in cooperating with UNCTAD–ISAR in this area.

42. The next speaker indicated that there was widespread acceptance of the need to consider the special requirements of SMEs with respect to accounting and financial reporting. He gave examples of countries that had developed guidance for SMEs, including some that had looked at UNCTAD–ISAR's SMEGAs in developing that guidance. He urged participants to respond when the IASB's SME Exposure Draft was published at the end of the year. In responding to the Exposure Draft, the panellist said that participants should bear in mind that users' needs for financial information might be different; take into account cost/benefit considerations and preparers' concerns; consider the appropriateness of simplifications of recognition and measurement requirements; and assess whether there was a need for a third tier of financial reporting guidance for SMEs.

43. The third panel's last speaker discussed the experience of his region in dealing with the accounting and financial reporting needs of SMEs. He said that the accountancy profession in his region was closely following developments in the IASB with respect to the project on accounting for SMEs. The accountancy profession in his region had felt that there was still a need to provide guidance to a third level of SMEs, which the IASB SME standard was not likely to cater for. Accordingly, such guidance had been developed. Unlike the SMEGA Level 3 developed by ISAR, the guidance issued by the accountancy profession in the speaker's region required a cash-flow statement. He expressed concern that the preliminary version of the Exposure Draft of the SME standard issued by the IASB was too complex for SMEs in his region to apply.

44. In the course of the deliberations that followed the panel presentations, participants raised several issues. It was stressed that in addressing the issue of IFRS reporting a country should first decide which companies should be required to prepare a general-purpose financial statements and whether SMEs should be subject to such a requirement. Many speakers argued that the use of full IFRS for SMEs was not cost-effective. Also, it was stated that users' needs as they relate to SMEs should be further explored. In particular, some participants were of the view that the needs of SMEs' employees as users of financial statements were not adequately recognized by preparers. The broad understanding was that the definition of an entity's stakeholders and of the type of financial information to be provided was beyond the scope of discussion of an SME standard. This was a matter for regulators in their respective jurisdictions to decide. With regard to simplifying the language of the IASB's SME standard, participants were informed that efforts to that end were under way.

Comparability of existing indicators on corporate responsibility

45. The Chairperson introduced the agenda item and gave the floor to a resource person to present the topic in more detail. The resource person began with background information on ISAR's work in this area, providing a brief overview of developments at earlier sessions. It was noted that the Group of Experts had explored issues relating to users of corporate responsibility (CR) reporting and their information needs, developed selection criteria for a limited set of indicators and identified a limited set of indicators.

46. There then followed a presentation of the main elements of the background document entitled "Guidance on corporate responsibility reporting in annual reports" (TD/B/COM.2/ISAR/34). This document, it was explained, provided a draft methodology for compiling and reporting on the selected indicators on corporate responsibility. The purpose of the document was to establish a consistent measurement and reporting format to ensure comparable reporting. The document detailed the methodology for compiling and reporting each of the selected core indicators on corporate responsibility. This methodology includes two fundamental elements: a description of how each indicator should be compiled; and the definition of any technical terms required for standardizing preparation of each indicator. The resource person observed that together these factors created a practical and standardized definition for each of the indicators. She also stressed that an effort was made to be as consistent as possible with existing guidance from other organizations, including the Global Reporting Initiative, the ILO and the OECD, as well as other UN bodies.

47. The resource person also noted continuing work to further revise and refine the guidance on CR reporting, addressing both the content of the set of core indicators and the methodology. She highlighted, for example, the work of UNCTAD’s 2005 Expert Meeting on Positive Corporate Contributions to Social and Economic Development in Host Developing Countries, and recognized the value of having an indicator on the contribution of an enterprise to the development of technology, which can boost the productivity and competitiveness of the country in which the enterprise operates. It was acknowledged that there might be different ways of addressing this subject, and it was noted that several were being explored. One potential indicator in this area that was suggested was enterprise expenditure on research and development. Another potential indicator that might be subject to further refinement, the resource person noted, was an indicator on local purchasing, which had previously been considered by ISAR as an indicator of contribution to economic development. The resource person concluded her presentation of the background document by reiterating the usefulness of a performance orientation in corporate responsibility reporting, for the purpose of meeting the demands of both users and preparers of reports.

48. Following the presentation by the resource person, the Chairperson opened the floor for questions or comments on the background paper. Several comments were received, ranging from the more general to the more technical. The work carried out was welcomed, and in particular commended for its recognition of the increasing demand among both preparers and users of CR reports for more concise, comparable and performance-oriented reporting. The importance of recognizing user needs in order to avoid information overload was reiterated, as was the need for performance indicators to be presented within a broader context of corporate information, such as management discussions of strategy and policy. A number of technical refinements that could be made to further improve the methodology for compiling the CR indicators was suggested.

49. Following these initial comments on the background document, the Chairperson introduced a panel of experts to discuss the background document on corporate responsibility reporting. The panellists approached the subject from a range of professional and geographical perspectives. ISAR's work on CR reporting was supported in view of its role in promoting corporate reporting on non-financial issues that are important to investors and other stakeholders. The performance orientation of the ISAR indicators was highlighted by a panellist who emphasized that providing users with a better understanding of an enterprise's performance was the ultimate goal.

50. Many of the panellists also highlighted the usefulness of ISAR's focus on a limited set of core indicators. One explained that this focus on a core set of indicators helped to improve the comparability and relevance of CR reporting. The panellist also explained that a limited number of indicators helped to facilitate their incorporation into annual reports. A number of experts who spoke from the perspective of preparers of corporate reports indicated that the cost of preparing corporate reports needed to be taken into accounting when proposing additional reporting by enterprises. It was argued by a panellist that the production of a separate CR report constituted a burden for some enterprises, particularly in developing countries. The panellist supported ISAR's view that including CR core indicators in the annual report was both less burdensome for enterprises and more useful for investors and other stakeholders. A panellist, speaking from an investor's perspective, added that one advantage of ISAR's work in this area was that it could provide enterprises in developing countries with a practical means of reporting on CR issues, which in turn could create the investor confidence needed to attract additional capital to those countries.

51. A panellist endorsed the approach taken by ISAR, namely focusing on national reporting, rather than regionally or globally consolidated reporting. It was explained that in the panellist's country, a developing country, TNCs were mainly reporting CR information in globally consolidated reports, and this made it difficult to determine what was relevant for that particular country.

52. A number of panellists stressed the usefulness of aligning ISAR's work with that of other UN initiatives, such as the UN Global Compact and the Millennium Development Goals (MDGs). A representative of the UN Global Compact highlighted the close connection between the Global Compact and ISAR's contributions to the promotion of corporate reporting on CR issues. A panellist from a developing country emphasized the particular importance of reporting performance in the area of poverty reduction, in line with the MDGs.

53. Focusing on the development of the indicators, several panellists stressed the importance of the principles used to select the indicators for ISAR guidance. Comparability, materiality, consistency, accuracy and reliability were among the principles highlighted as necessary for providing credibility to reports, and for building value for enterprises and their stakeholders.

54. Discussions among the panellists and participants covered the range of issues above. Assurance of CR reporting was an issue raised, with questions about whether assurance of a CR report should be viewed as a potential barrier to reporting for smaller firms or as a source of additional value in that it improved the credibility of the report. There was also a discussion on the relationship between corporate responsibility and corporate governance. Several participants discussed the need for national reporting to provide usable information to stakeholders in specific countries.

55. The Chairperson called on a resource person to present the findings of the document entitled "2006 review of the reporting status of corporate responsibility indicators" (TD/B/COM.2/ISAR/CRP.2). The resource person began her presentation with an overview of the methodology employed in the survey and then provided a summary of the main findings. These findings include the observation that 25 per cent or more of the 105 enterprises surveyed provide at least partial information on 12 of the 17 selected indicators. The category "contribution to economic development" had the highest rates of reporting: 4 of the 6 indicators (excluding the test indicator on local purchasing) were addressed, at least

in part, by more than 75 per cent of the enterprises surveyed, and 5 of the 6 by at least 50 per cent. The new test indicator "local purchasing" was reported on by a small group of enterprises; the survey found slightly more enterprises in low- and middle-income countries reporting on this matter.

56. The resource person also identified a number of recent trends in the area of corporate responsibility reporting, including the increasing practice of including corporate responsibility information in annual reports, continuing growth in investor demands for corporate responsibility information and a continuing demand for guidance on clear and concise corporate responsibility reporting indicators.

57. Following the presentation by the resource person, the Chairperson opened the floor for discussion. Many of the participants commended the survey and suggested that it might be a useful tool for further refining ISAR's guidance on corporate responsibility reporting. Some suggestions were also made for additional analysis to explore some of the findings of the survey, including what factors influence different patterns of reporting in different countries, and what guidance or tools could be useful for providing assistance to enterprises.

Other business

Corporate governance disclosures

58. The Chairperson introduced the agenda item and gave the floor to a member of the UNCTAD secretariat who presented the findings of the document entitled “2006 review of the implementation status of corporate governance disclosures” (TD/B/COM.2/ISAR/CRP.3). He explained the methodology of the survey and highlighted the key findings, including good disclosure of financial information, relatively poor disclosure on auditing issues, the tendency of enterprises with an international listing to have better disclosure than enterprises with a local listing only, and the tendency of enterprises based in higher-income countries to have better disclosure than enterprises based in lower-income countries. He also highlighted the new UNCTAD publication entitled “Guidance on good practices in corporate governance disclosure” and explained that it had served as a basis for the “2006 review of the implementation status of corporate governance disclosures”.

59. The Chairperson introduced a panel of experts to discuss corporate governance disclosure. The panellists commended the 2006 survey and raised a number of important issues, including the following: emphasis on the importance of good corporate governance disclosure for attracting investment and accessing foreign capital markets; the corporate governance disclosure practices of State-owned enterprises; the need to improve transparency of remuneration and executive payment; the importance of timely disclosure; country examples in respect of implementing corporate governance rules at stock exchanges; and the impact of different legal systems on different corporate governance codes.

60. The Group of Experts further discussed the challenges and problems in enforcement of rules on corporate governance disclosures. Related to this question was a discussion on the best means of ensuring that companies comply with rules on corporate governance disclosures, for example through market mechanisms, listing requirements or regulatory

requirements. The Group also identified a number of questions raised by the survey, such as why auditing issues have lower disclosure rates in low- and middle-income countries. The Group's discussion also included consideration of corporate governance issues related to enterprises in the informal sector. On the subject of the impact of legal systems on corporate governance disclosure, participants discussed conflicts that can arise when an enterprise faces both contractual obligations requiring confidentiality and demands from investors and other stakeholders for good practices in corporate governance disclosure.

Follow-up to previous ISAR sessions

61. The UNCTAD secretariat updated participants on dissemination work conducted in the areas of environmental accounting, the ISAR Model Curriculum and accounting by SMEs. With respect to the *Manual for the Preparers and Users of Eco-Efficiency Indicators*, the secretariat noted that it had received feedback from preparers which indicated a need to update the manual. Some of the areas that needed further consideration were calculation of a number of parameters of energy use and the impact of changes in currency ratios on an entities' eco-efficiency performance when compared with prior periods. The secretariat reported that the main publications of the Group of Experts in the areas of environmental accounting, the Model Curriculum and accounting by SMEs were available for downloading on the ISAR website. A member of the faculty of the Fucape Business School in Brazil shared with participants his institution's experience in implementing the revised ISAR Model Curriculum. He said that in a rapidly globalizing business environment it was a very useful solution for his institution in preparing accountants for a changing business environment. A delegate highlighted the importance of publishing the ISAR Model Curriculum revised in 2003 as a separate publication in booklet form.

Updates by other organizations

62. A member of the secretariat of the *International Finance Corporation* (IFC) briefed participants on the IFC's activities geared towards enhancing investment flows to private sector entities in developing countries. She discussed a research project on the environmental, social and corporate governance performance of enterprises in developing countries in the context of portfolio investment. Providers of capital, she noted, recognized the importance of non-financial indicators for assessing the long-term performance of enterprises. She said that there was lack of data on the environmental, social and governance performance of enterprises in developing countries. Therefore, the IFC had launched a research project — the "Capturing Value Program" — with a view to promoting wider availability of such data. In this context, she emphasized the importance of ISAR's work in the non-financial reporting area.

63. A representative of the *European Commission* updated participants on major developments in the European Union pertaining to accounting and auditing. He noted that other than the carve-out in IAS 39 relating to hedging rules and International Financial Reporting Interpretation Committee (IFRIC) 10, which was being evaluated for endorsement, all IFRS issued so far were applicable in the European Union. He reported on the formalization of the European Union's working relationship with the European Financial Reporting Advisory Group (EFRAG), which was finalized in March 2006. The

representative also discussed further developments on issues such as the evaluation of third-country Generally Accepted Accounting Principles for equivalency to IFRS adopted in the European Union, future funding arrangements for the IASB and an updated audit directive that entered into force in the European Union in September 2006.

64. A representative of the *International Federation of Accountants* (IFAC) discussed his organization's recent activities in the areas of standard-setting, promoting the quality of services provided by the accountancy profession and international cooperation. He highlighted progress made in promoting adoption of International Standards on Auditing around the world, and elaborated on standard-setting activities in the areas of accounting education, ethics and public sector accounting. He informed participants about a resolution of the United Nations General Assembly approving the implementation of International Public Sector Accounting Standards by all 48 agencies of the United Nations system. Other activities discussed by the representative included the following: the Small and Medium Practices Committee and the Developing Nations Committee of IFAC; the Pan African Learning Event that took place in September 2006 in Nairobi, Kenya; the second phase of the Compliance Advisory Panel of IFAC; and an Internet-based research tool for accountants in business — www.ifactnet.com.

65. The Chief Executive of the *Eastern Central and Southern African Federation of Accountants* (ECSAFA) reported on a number of activities that his organization had undertaken during ISAR's intersessional period. His organization had signed a Memorandum of Understanding with the Association of Accountancy Bodies of West Africa. He also discussed the Pan African Learning Event that had taken place in Nairobi in September 2006 and acknowledged the financial contributions of the World Bank and the African Development Bank. At that event, his organization had signed a Memorandum of Understanding with the Association of Auditor Generals in the region, with a view to promoting good accounting practices in the public sector. ECSAFA was going to launch a project funded by the World Bank on conducting quality control reviews of audit practices in the region. He also informed participants about forthcoming changes in the leadership of ECSAFA.

66. A representative of the *European Federation of Accountants* (FEE) highlighted various activities that FEE had undertaken in the areas of financial reporting, auditing, corporate governance, sustainability and corporate social responsibility. She also noted that her organization was actively engaged in the areas of public sector accounting, direct and indirect taxation, professional qualifications and ethics. In the area of SMEs, she informed participants that her organization had held a congress in Versailles, France, in September 2006 to address issues of importance to SMEs in the FEE region.

Provisional agenda for the twenty-fourth session

67. During the Group's deliberations on the provisional agenda for its twenty-fourth session, review of practical IFRS implementation issues was tabled as the main agenda item. While there was general consensus on the topic proposed as the main agenda item, experts exchanged views on how it could be addressed. It was proposed that discussions include issues such as what companies should report publicly; how to achieve compliance with auditing requirements as part of reporting infrastructure; and what type and quality of legal

infrastructure and regulatory regime, including oversight mechanisms, were required. One expert was of the view that case studies looking at bilateral convergence programmes with the IASB could be prepared and discussed at the twenty-fourth session, including their strategies, timetable and implementation steps. Some suggested that in preparing case studies industry-specific issues could be taken into consideration and that case studies examining company-level practical implementation challenges could be included. It was also stated that synergies with the World Bank ROSC programme could be derived and that some of those countries that had been the subject of ROSC assessment could be selected for case studies to be prepared for the next ISAR session.

68. There was also general consensus that within the main agenda item the issue of accounting and financial reporting needs of SMEs would be addressed. At various points during the discussions, a number of experts underscored the importance of the SME sector for the economic development of member States, particularly developing countries and countries with economies in transition, and they emphasized the need to provide appropriate accounting and financial reporting guidance to the sector. Some experts expressed the view that IFRS were relevant only for a small percentage of entities in a given economy. Others considered that while the IASB's efforts to develop an accounting standard for SMEs were welcome, the standard being developed was not likely to meet the needs of smaller entities, particularly micro-enterprises in developing countries and countries with economies in transition. A number of experts called on ISAR to update SMEGA Level 3. The Group of Experts requested UNCTAD to reconvene a consultative group on accounting by SMEs to update SMEGA Level 3 and to provide input into the IASB's work on its SME standard. It was indicated that the private sector should be consulted and involved in the discussions.

69. Some experts suggested that topics such as public sector accounting, implementation of the International Audit Standards, accounting for extractive industries and training of accounting technicians be considered for the future agenda of ISAR.

70. One delegation sought clarification about why corporate responsibility reporting was not proposed as a second main agenda item. The secretariat explained that in the past the Group had normally focused on one main agenda item and that since work on corporate social responsibility reporting was approaching completion, it would be discussed under "other business" at the twenty-fourth session of the Group, as had been done for corporate governance disclosure.

Chapter IV

ORGANIZATIONAL MATTERS

Election of officers

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

Chairperson: Mr. Rudolf Muller (Switzerland)

Vice-Chairperson-cum-Rapporteur: Ms. Silvia Marques B Silva (Brazil)

B. Adoption of the agenda and organization of work

72. At its opening plenary, the Intergovernmental Working Group adopted the provisional agenda for the session (contained in TD/B/COM.2/ISAR/32). 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
6. Provisional agenda for the twenty-fourth session
7. Adoption of the report

C. Outcome of the session

73. At its closing plenary meeting, on Thursday, 12 October 2006, 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

74. 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-FOURTH 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. Other business
5. Provisional agenda for the twenty-fifth session
6. Adoption of the report

Annex II
ATTENDANCE*

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

Afghanistan
Albania
Angola
Austria
Azerbaijan
Bangladesh
Belgium
Benin
Bosnia and Herzegovina
Brazil
Bulgaria
Burkina Faso
Cambodia
China
Cyprus
Czech Republic
Democratic People's Republic of Korea
Democratic Republic of the Congo
Ecuador
Egypt
Ethiopia
France
Gambia
Germany
Ghana
Greece
Haiti
Hungary
India
Iran (Islamic Republic of)
Italy
Jordan
Kazakhstan
Kenya
Kyrgyzstan
Lao People's Democratic Republic
Lebanon
Lithuania
Madagascar
Malta
Mexico
Morocco
Namibia
Nigeria
Peru
Philippines
Poland
Portugal
Republic of Korea
Romania
Russian Federation
Slovakia
Sudan
Spain
Sri Lanka
Sweden
Switzerland
Tajikistan
Thailand
Timor-Leste
Trinidad and Tobago
Tunisia
Uganda
Ukraine
Venezuela (Bolivarian Republic of)
Zimbabwe

* For the list of participants, see TD/B/COM.2/ISAR/INF..9.

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

Common Market for Eastern and Southern Africa
European Commission

3. The following United Nations agencies were represented at the Meeting:

Economic Commission for Africa
Global Compact

4 The following specialized agency and related organization were represented at the Meeting:

International Labour Organization
World Bank

5. The following non-governmental organization was represented at the Meeting:

General Category
International Federation of Free Trade Unions

6. The following panelists attended the Meeting:

Tuesday, 10 October 2006

Mr. Alexandre Tombini, Deputy Governor for Financial System Regulation and Organization, Central Bank of Brazil

Review of practical implementation issues of IFRS

Mr. Ian Ball, IFAC
Mr. John Hegarty, World Bank
Mr. Robert Garnett, IASB
Mr. Nelson Carvalho, IASB SAC
Mr. Remo Croci, European Commission
Mr. Paulo R. Lustosa, Professor, University of Brasilia, Brazil
Ms. Kati Beiersdorf, German Accounting Standards Board, Germany
Mr. Sunil Talati, ICAI, India
Mr. Dennis Brown, Icaj, Jamaica
Ms. Caroline Kigen, Chief Executive, ICPAK, Kenya

Wednesday, 11 October 2006

Mr. Paul Pacter, Director, Standards for SMEs, IASB
Mr. Federico Diomeda, President, European Federation of Accountants and Auditors for SMEs
Mr. Paul Thompson, IFAC SMP Committee, Technical Manager
Mr. Richard Martin, Head, Financial Reporting, ACCA
Mr. Ndungu Gathinji, ECSAFA
Mr. Syed Asad Ali Shah, Institute of Chartered Accountants, Pakistan
Ms. Nancy Kamp-Roelands, Ernst & Young, Netherlands
Ms. Justine Bentham, KPMG, United Kingdom
Mr. Stephen Hines, EIRIS, United Kingdom
Ms. Parveen Mahmud, PKS Foundation, Bangladesh
Mr. Alan Knight, AccountAbility, United Kingdom
Ms. Ambreen Waheed, Responsible Business Initiative, Pakistan
Mr. Hani Sarie El Din, Capital Market Authority, Egypt
Mr. Georg Kell, United Nations Global Compact (by video link)

Thursday, 12 October 2006

Corporate governance disclosures

Ms. Jennifer Walmsley, Hermes, United Kingdom
Mr. Lin Dairen, China Life Insurance, China
Mr. Ashraf Gamal El-Din, Egyptian Institute of Directors, Egypt
Ms. Evelynne Change, NEPAD-APRM, South Africa
Mr. André Baladi, International Advisory Board of the Euronext Exchange