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

Held at the Palais des Nations, Geneva, from 24 to 26 October 2018

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Introduction

The thirty-fifth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting was held at the Palais des Nations in Geneva, Switzerland, from 24 to 26 October 2018.

I. Agreed conclusions

A. Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

(Agenda item 3)

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting,

Underlining the essential role that enterprise accounting and reporting plays in the attainment of the Sustainable Development Goals,

Taking note of recent trends in enterprise reporting, including the implications of developments in information technology and digitalization,

Recalling the UNCTAD mandate to advance its work in the area of sustainability reporting, as enshrined in the Nairobi Maafikiano,

1. *Commends* the UNCTAD secretariat for its work in sustainability and Sustainable Development Goal reporting, as outlined in document TD/B/C.II/ISAR/85, and in particular on presenting its guiding document on core indicators for company reporting on its contribution to the Sustainable Development Goals, as a tool to assist countries in their efforts to develop a monitoring mechanism on the attainment of the Sustainable Development Goals;

2. *Requests* the UNCTAD secretariat to finalize its work on the guidance on core Sustainable Development Goal indicators for enterprise reporting in alignment with the Sustainable Development Goal monitoring framework, and to conduct pilot testing of the core indicators at the country level and by supporting member States through capacity-building initiatives in this area;

3. *Encourages* the UNCTAD secretariat to continue its work in developing metadata guidance for indicator 12.6.1 of the Sustainable Development Goals, “number of companies publishing sustainability reports”, in coordination with the United Nations Environment Programme, and to submit a proposal for indicator reclassification to the Inter-Agency and Expert Group on Sustainable Development Goal Indicators;

4. *Invites* the UNCTAD secretariat to continue to facilitate the identification and sharing of international best practice in enterprise reporting on sustainability and the Sustainable Development Goals, in partnership with other relevant stakeholders, including as part of the Honours initiative of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

26 October 2018

B. Issues of practical implementation of international standards of accounting and reporting in the public and private sectors

(Agenda item 4)

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting,

Considering that the implementation of international standards of accounting and reporting in the public and private sectors provides an essential contribution to promoting an enabling investment climate and fostering well-informed decision-making processes,

Recognizing recent trends in standard-setting and in the practical implementation of International Financial Reporting Standards and International Public Sector Accounting Standards,

1. *Expresses* its satisfaction for the breadth and depth of the discussions under the agenda item, as outlined in document TD/B/C.II/ISAR/86, prepared by the UNCTAD secretariat;

2. *Requests* the UNCTAD secretariat to continue facilitating the sharing of good practices on the implementation of international standards of accounting and reporting in the public and private sectors, in particular with a view to assisting developing countries and countries with economies in transition in their capacity-building efforts towards high-quality and international comparable enterprise reporting.

C. Other business

(Agenda item 5)

Accounting Development Tool implementation experiences

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting,

Recalling the mandate of UNCTAD in the Nairobi Maafikiano requesting UNCTAD to promote best practices in corporate transparency and accounting, including through the use of the Accounting Development Tool,

Acknowledging the relevance and effectiveness of the Accounting Development Tool as a key capacity-building initiative to assess national accounting infrastructures and strengthen the enterprise-reporting environment at the country level,

Welcoming the efforts of the UNCTAD secretariat in updating the Accounting Development Tool based on feedback from member States, as well as good practices in the areas of sustainability reporting and the Sustainable Development Goals, and accounting for microenterprises and small and medium-sized enterprises,

1. *Requests* the UNCTAD secretariat to continue its efforts on the implementation of the Accounting Development Tool in interested countries with a view to assisting them in strengthening their regulatory, institutional and human capacity in an integrated and comprehensive manner, with a view to achieving high-quality reporting by enterprises;

2. *Encourages* the UNCTAD secretariat to continue its fundraising efforts to extend the implementation of the Accounting Development Tool to additional countries, and to further raise awareness of the role of reporting in sustainable and inclusive growth.

Closing plenary meeting
26 October 2018

II. Chair's summary

A. Opening plenary meeting

1. In her opening remarks, the Deputy Secretary-General of UNCTAD highlighted the important role played by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) in promoting reliable and comparable financial and non-financial reporting. The body had addressed a variety of issues over the years – financial reporting, environmental accounting and reporting, corporate governance, accounting for small and medium-sized enterprises (SMEs), and corporate social responsibility, for example. UNCTAD, too, had done valuable work on the guidance on core indicators for reporting on the contribution of the private sector to the implementation of the Sustainable Development Goals. In addition, UNCTAD had recently launched a new initiative called ISAR Honours, which aimed to identify, recognize and disseminate good practices in enterprise reporting on sustainability issues.

2. In his keynote speech to the session, a representative of the International Integrated Reporting Council stated that businesses and investors understood how the relationship between business, society and the planet contributed to long-term value creation. In the context of a changing corporate-reporting landscape, the integration of financial and non-financial reporting could be achieved through the alignment of current reporting frameworks. The guidance on core indicators was a crucial driver of this integration. The Council enjoyed ongoing collaboration with other key organizations in financial and non-financial areas through the Corporate Reporting Dialogue, including a statement of common principles of materiality and a common position on the recommendations of the Task Force on Climate-related Financial Disclosures. A major alignment project between frameworks with a view to enhancing comparability would be launched on 7 November 2018.

3. In reply to various queries by participants, he said that leaders in sustainability reporting included some countries in the Americas; the BRICS countries (Brazil, the Russian Federation, India, China and South Africa) and the Group of 20. Some countries provided sustainability information with their financial filings, others separately. As to whether the information should be reported on a voluntary or mandatory basis, he emphasized it should be a market-led exercise. Regulatory endorsement was an important factor. Taking note of one expert's suggestion regarding the need to establish a United Nations standard because of fragmentation within and outside the United Nations system, he said that the work of UNCTAD on the metadata guidance for indicator 12.6.1 was a good start.

4. A high-level panel composed of representatives of the International Financial Reporting Standards (IFRS) Foundation, the International Organization of Securities Commissions, the European Union High-level Expert Group on Sustainable Finance, the Brazilian Development Bank and the law firm Eubelius discussed key trends in accounting and reporting and their impact on inclusive and sustainable development.

5. One expert said that corporates today could do business around the world using IFRS. Such standards had been adopted for SMEs by 86 jurisdictions, and all major standards on the agenda of the International Accounting Standards Board had been finalized. All reporting required standards that brought accountability, reliability and transparency; fostered trust and long-term financial stability; and contributed to the implementation of the Sustainable Development Goals. However, there was still work to be done to ensure consistent implementation. The International Accounting Standards Board's Practice Statement, *Management Commentary*, had been updated. The Board was ready to contribute to the evolution of non-financial reporting by cooperating with other bodies. There was, however, a need for political legitimacy.

6. Another expert stressed that sustainability issues affected financial markets and its participants, creating risks and opportunities. Corporate reporting would need to evolve to keep up with the pace of changes. The International Organization of Securities Commissions had published different standards to deal with these evolving changes. Investors were increasingly advocating the adoption of a longer-term perspective and inclusion of environmental, social and governance factors. The Organization had decided to launch a

network on the disclosure of sustainable aspects to determine to what extent a consensus-based approach to disclosure on quality information to be provided to users could be employed. In this respect, materiality was a major challenge.

7. One expert highlighted the need for regulation and invited ISAR to work with the World Benchmarking Alliance to develop a ranking on companies' impacts on the Sustainable Development Goals. In capital markets, there had been a sharp increase in policy interventions in sustainable finance, and the Sustainable Development Goals were an important part of this process. In 2012, his company had produced a sustainable finance policy toolkit. UNCTAD work on the guidance on core indicators was a first step but it required further development. In his view, the data points should be more sophisticated. For instance, disclosure on the number of women board members was insufficient to evaluate progress on Sustainable Development Goal 5 on gender equality. Although a company's impacts were not always material to cash flows, they should be disclosed, and externalities should be embedded in the reports. In this respect, however, one expert noted that the guidance on core indicators was an effective means of encouraging companies to engage in sustainability reporting; however, it would be difficult for companies to obtain data on their environmental impacts.

8. In his presentation, one expert summarized the outcomes of the recent workshop on digital currencies and blockchain and their implications for accounting that had been held prior to the thirty-fifth session of ISAR. Risks of technologies such as these were money laundering, volatility, financing of terrorism and speculation. Opportunities included the integration of audit transactions and automatization of contracts. With regard to digital currencies, financial reporting perspectives should be harmonized, and regulatory and legal systems needed to evolve.

9. In Brazil, integrated reporting was required on a report-or-explain basis and was mandatory for State-owned companies. Further, the International Auditing and Assurance Standards Board was considering issuing a standard on assurance for integrated reporting. The guidance on core indicators could convey an instantaneous message for those who were unable to read long integrated reports.

10. One delegate wished to know whether the investment climate had improved as a result of the implementation of integrated reporting and whether professionals received instruction on how to prepare these reports. In reply, one expert said that reports could be improved and that Brazil was trying not to disincentivize their preparation. Further, it was important to incorporate integrated reporting in university studies. Another said that the Chartered Financial Analyst Institute had in 2008 provided guidance for managers on how to integrate environmental, social, and governance issues into their investment processes but that the examination had not been changed. In addition, the International Organization of Securities Commissions had launched a sustainable finance network to facilitate the sharing of experience.

11. One delegate said that under the 2030 Agenda for Sustainable Development, companies were considered to be corporate citizens and that the use of economic resources and reporting on them was also important for the community. In particular, the United Kingdom of Great Britain and Northern Ireland had taken steps to make progress in matters related to the environment, society and governance. Enforcement and comparability remained significant challenges.

12. Another delegate asked whether the International Accounting Standards Board would provide a disclosure mechanism for reporting on the Sustainable Development Goals. In reply, one panellist said that under the Board's *Management Commentary*, it would possible to deal with non-financial issues.

B. Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

(Agenda item 3)

13. Introducing the agenda item, the Head of the Enterprise Branch of the Division on Investment and Enterprise of UNCTAD said that UNCTAD had been working towards progress in enterprise reporting on sustainability issues to assist Governments in collecting information on the private sector's contribution to the implementation of the Sustainable Development Goals. The proposal to establish core indicators was aimed at selecting a limited number of indicators as a baseline, based on prevailing enterprise reporting practices and frameworks, reflecting the integration of the Goals into business models and strategies, in alignment with the relevant Sustainable Development Goal macroindicators. The guidance on core indicators was an entry point, with indicators covering four areas of enterprise performance: economic, social, environmental and institutional.

14. An expert panel on enhancing the comparability of sustainability reporting was composed of representatives of the following entities: the Association of Chartered Certified Accountants; Brazilian Stock Exchange; Climate Disclosures Standards Board; Deloitte; Directorate-General for Financial Stability, Financial Services and Capital of the European Commission; Johannesburg Stock Exchange and World Federation of Exchanges; Office of the President of Brazil; Permanent Mission of Guatemala; Sustainable Development Goal Commission of the Government of Colombia; and Tax Justice Network.

15. One expert described the Sustainable Development Goal monitoring framework in his country. The country's voluntary national review (2018) included a document about the private sector and the Goals, using the Global Reporting Initiative framework. Lessons learned showed a need to strengthen the measurement and systematization of information on sustainability within the private sector on the intensity of resource use and environmental impacts.

16. Another expert said that a national commission for the Sustainable Development Goals had been set up in her country. Implementation of the 2030 Agenda for Sustainable Development was an opportunity to achieve convergence between government policies and civil society through internalization and a local approach to the Goals.

17. One expert stated that framework fatigue and the proliferation of information were not necessarily useful for decision-making. The baseline indicators developed by ISAR would indeed be a good starting point. The Sustainability Working Group of the World Federation of Exchanges had developed guidance and indicators similar to the guidance on core indicators, but more along the lines of traditional environmental, social and governance frameworks. Integrated thinking allowed companies to adjust their business model to achieve sustainable development. A survey conducted by the World Federation of Exchanges showed that nine exchanges were reporting on the Sustainable Development Goals.

18. There were many initiatives under way. For example, the Reporting Exchange Initiative of the World Business Council for Sustainable Development tracked sustainability reporting requirements and examined their comparability with the Sustainable Development Goals. One expert suggested that it would be useful to consider the indicators developed by ISAR, test them in the field and determine their compatibility with the needs of member States.

19. The Brazilian Stock Exchange had launched a number of initiatives to encourage listed companies to disclose sustainability information. These included voluntary reports and explanations about the Sustainable Development Goals initiative, launched in 2017 in Brazil. Results showed that 26 per cent of companies in Brazil were correlating their results with the Goals.

20. A memorandum of understanding had been established between the Government of Guatemala and a private sector association to coordinate the collection of data and reporting on the contribution of companies to the Sustainable Development Goals. In addition, a regional entity had created sustainability indicators that were applicable to all of Central

America. Regional Governments envisaged converging their reporting requirements with the indicators from ISAR.

21. Feedback from clients of a private sector firm in the European Union on the implementation of the Sustainable Development Goals indicated that the main motivations for reporting were regulation, risk management, opportunities, reputation and benchmarks. Challenges included the lack of a common definition, a materiality approach and common metrics; the difficulty in the relationship between social or environmental impacts and the economic part; and with regard to SMEs, capacity and costs. Possible solutions were to strengthen the corporate governance code, to actively engage with governance committees and to provide assurance.

22. Recent findings indicated a low level of reporting on the Sustainable Development Goals in Africa. Nevertheless, some progress was being made; for example, the Alibaba cloud research service was turning traditional businesses into platform and technology companies working on sustainability issues.

23. One expert said that domestic revenue mobilization was a means of implementing the Sustainable Development Goals and that tax was fundamental for development. However, the tax rate was close to zero in a group of jurisdictions, and the revenue declared corresponded to activities that took place elsewhere. He suggested ISAR should put tax before corporate social responsibility and include a standard for country-by-country reporting.

24. In the discussion that followed, one expert asked for examples where tax incentives were considered by companies in pursuing Sustainable Development Goal reporting. In reply, one expert said that the business model disclosure made it possible to assess the value created to society, and one indicator was the tax payment.

25. One participant noted that since January 2018, companies with more than 250 employees in member countries of the Organization for the Harmonization of Business Law in Africa were required to report on social, environmental, labour and gender issues.

26. There was a need for bilateral partnerships with countries to assess core indicators through supply chains, which would help to address the needs of SMEs and the informal sector. The informal sector represented a major problem with regard to the Sustainable Development Goals, as it was related to poverty. In the European Union, there were requirements for public interest entities that covered topics of the Goals, which, in the view of one expert, should include consideration of supply chains.

27. One expert enquired whether UNCTAD work on the metadata guidance of indicator 12.6.1 would help measure sustainability practices and their effectiveness. A representative of the UNCTAD secretariat said that it would be necessary to demonstrate good sustainable practices to obtain adequate scores for this indicator.

28. As to whether Governments and regulatory authorities required certain metrics for the preparation of integrated reports, one expert said that in Brazil, for example, integrated reporting was mandatory only for State-owned companies.

29. In her presentation, a representative of the UNCTAD secretariat described the concept behind the guidance on core indicators for entity reporting on the contribution towards the achievement of the Sustainable Development Goals. She outlined the selection criteria, the approach behind the concept and provided an overview of all indicators by reporting area, highlighting the importance of the inclusion of SMEs in implementing sustainability reporting practices. Further, she said that this set of global indicators could also inform private sector progress on indicator 12.6.1.

30. An expert panel on the draft guidance on core indicators on Sustainable Development Goal reporting was composed of representatives of the following entities: Academy of Financial Management of Ukraine, ADEC Innovations, Best Practices Board, Blue Orchard, Brazilian Institute of Geography and Statistics, Ernest and Young, Global A.I. Corporation, International Integrated Reporting Council, International Labour Office, International Organization for Standardization, KMPG, Novo Nordisk, Principles for Responsible Investment/Global Compact, Statistics Denmark, UNCTAD, United Nations Environment

Programme, United Nations Department of Economic and Social Affairs and United Nations Global Compact.

31. One expert said that the guidance on core indicators provided a means of including private sector data in the monitoring framework for the Sustainable Development Goals and agreed that the UNCTAD–ISAR core indicators for the Sustainable Development Goals were a good starting place to measure performance of the private sector against the 2030 Agenda.

32. Another expert spoke on enhancing the comparability of Sustainable Development Goal reporting from a statistical point of view. Reporting on the Goals was a complex undertaking, which required partnerships for the collection of relevant data. This included collaboration with the private sector on its contribution to the global Goals. He presented an analysis of consistency between reporting of a pharmaceutical company and statistical needs. Although the proposed indicators appeared to a good start towards producing comparable data, it was doubtful that businesses would be capable of reporting on all suggested indicators. If the burden to the private sector became ponderous, national statistics agencies would not be able to obtain the required data from companies.

33. In the view of one expert, artificial intelligence and data-driven tools could enhance sustainability reporting and measure performance of business on core indicators. A global analysis of extracting relevant information from companies on core indicators that identified gaps in reporting aggregated at sector and country levels revealed that certain sectors lacked indicators for multiple reasons. At the regional level, Africa and Oceania exhibited the largest reporting gaps. Core indicators were an essential tool for harmonizing standards for comparability and benchmarking of reporting on the Sustainable Development Goals. To address the lack of reporting incentives and high data collection costs common to the private sector, he suggested that automated crowdsourcing tools and transparency ratings should be used to incentivize companies and countries to measure their contribution to the achievement of the Goals.

34. Introducing a survey on key statistics of Sustainable Development Goal reporting from the perspective of an assurance practitioner, one expert said that large companies were increasingly reporting on the Goals. However, the disclosure of indicators to measure Sustainable Development Goal performance was still at a low level, as the translation of support for the Goals into specific metrics continued to be a challenge for many companies. Credibility of non-financial reporting assurance would be enhanced with the development of relevance and reliability of reporting.

35. With regard to the role of integrated reporting in sustainable development, one expert emphasized the importance of aligning the Goals with the value-creation process. While there was no single solution applicable to Sustainable Development Goal reporting, the UNCTAD guidance on core indicators would be a good basis for the further piloting and better alignment with the needs of statistical agencies. He expressed concerns regarding the development of large databases for this purpose and encouraged the adoption of innovative approaches of data companies.

36. Another expert shared the perspective of business reporting on Sustainable Development Goals aligned with the 10 principles of the United Nations Global Compact and Global Reporting Initiative standards. Companies often referred to the Sustainable Development Goals without necessarily adding value to reporting. Therefore, materiality should reflect risks to people and the environment in the long term. On the other hand, companies were expressing the need for sustainability standards and regulation and requesting assurance. In this context, the guidance on core indicators was a good step towards measuring impact on the implementation of the Goals, though additional indicators might be required. There was a need to promote Sustainable Development Goal reporting among SMEs and to establish a sound data collection system to monitor progress on target 12.6.1.

37. One expert said that the labour perspective should be included in reporting initiatives and that the principle of materiality in the reporting framework should relate to the welfare of the community – it should not only correspond to the material risks to the company. Indicators could evolve with the improved reporting capabilities of companies. Given that national statistics did not prioritize support for private sector reporting, she encouraged the

UNCTAD secretariat to investigate the gaps in the social indicators that were not currently covered by companies.

38. Policy work played an essential role in developing transparency as a key objective for developing high-quality reporting on the Sustainable Development Goals. The Principles for Responsible Investment welcomed the work of UNCTAD on the guidance on core indicators and confirmed the need for baseline reporting to enable comparability and benchmarking. While it was encouraging to see large companies reporting on the Goals, it was necessary to involve SMEs in the dialogue on Sustainable Development Goal reporting.

39. In addition, the investor community was instrumental in educating companies about Sustainable Development Goal impact reporting. One expert said that her company's social performance impact reporting and intelligence tool and the guidance on core indicators were aligned. Indeed, the guidance on core indicators was an important step towards attaining the enhanced comparability of sustainability reporting. However, the players were still highly fragmented across the target markets, and resources and capacity to systematically collect this information might not be sufficient. She drew attention to the lack of aggregated information, poor quality and limited amount of data collected, as well as the considerable delay between data collection and reporting.

40. Another expert pointed to the importance of explaining Sustainable Development Goal reporting to companies, sustainability practices for investors and millennials' demand for transparent and impactful data to establish trust among counterparts. According to an investors' survey, there was room for improvement in corporate reporting because companies did not adequately disclose all risks, and reporting was not properly aligned with the objectives and requirements of the 2030. She suggested it would be preferable to trust and understand digital reporting data than to develop new databases.

41. There were two issues to be considered in the assessment of the guidance on core indicators: whether indicators led to a culture of governance that could deliver a sustainable future and whether they were helpful in understanding the outcomes of governance in relation to the Sustainable Development Goals. One expert said that the current set of governance indicators provided a reasonable list of input measures, but that it had not yet included any metrics on the activities and processes of corporate boards to provide useful information as a baseline. Although indicator 12.6.1 was aimed particularly at large companies, the set of baseline indicators should take account of all types of organizations, including SMEs.

42. In Ukraine, the results of ISAR activity were crucial in the reform process. It was important to have organizational support for entities' reporting, such as information bases for reporting, and better interaction between users and preparers of reports. The indicators proposed in the ISAR guidance were universal, reflecting the current practice of cross-cutting existing standards, enterprise capabilities, investors' requirements and the need for alignment with the Sustainable Development Goal monitoring mechanism. Based on a comparative analysis, it appeared that companies reported on the majority of indicators stated in the ISAR guidance. ISAR should encourage Governments to consider national peculiarities of the legal framework and requirements of international initiatives in developing national reporting guidelines on the contribution towards the attainment of the Sustainable Development Goals.

43. There was a need to align corporate sustainability disclosures with Sustainable Development Goal indicators. Noting a lack of common standards and comparability of reporting metrics and methods, one expert said that a set of core indicators would be helpful before developing more complex frameworks where harmonization was necessary. It was important for UNCTAD and the United Nations Environment Programme to work together to develop metadata for target 12.6.1 that not only measured the contribution of the private sector to sustainable development, but also promoted high-quality corporate reporting and integration of sustainable practices into the business cycle.

44. In Brazil, the incorporation of Sustainable Development Goal indicators was under way, and a national commission for the Sustainable Development Goals had been set up to monitor performance on indicators and prepare reports on the Goals. An official platform had also been launched for the collection, production, dissemination and analysis of data that made it possible to assess progress in the implementation of the Goals by geographical regions.

45. One expert was in favour of incorporating Sustainable Development Goals into official statistics and aligning corporate and national natural capital accounting. The central framework of the System of Environmental-Economic Accounting could be used to monitor a number of environmental-economic Sustainable Development Goal indicators in an integrated way. Further, corporate sustainability accounting was an important information source for statistics to support national-level monitoring of the Goals. However, corporate sector contributions to achieving the Goals would require a harmonized monitoring effort. Other gaps could be filled by aligning terminology and classifications, developing common valuation methodology and data validation techniques, and working towards a standardized collection process.

46. Governments and business faced common challenges in managing data, dealing with reporting fatigue and enabling value creation. Commendable efforts were being made to develop integrated reporting. The data side of reporting, however, required further development. As with all new opportunities provided by artificial intelligence, there was still a need for human intelligence. It was necessary to bring sustainability into the mainstream, where it would be considered "business as usual".

47. In addition to what information should be disclosed and why, it was important to consider how to access information globally. With regard to extensive business reporting language, it was difficult to extract essential information. Technology was a solution that could replace paper-based reporting in the future and could be useful to align financial and non-financial information. Data production, distribution and consumption were both problems and solutions in sustainability reporting.

48. In response to a query about the progress of developing standards on natural capital accounting aligned with the System of Environmental-Economic Accounting, one expert said that the System was not part of the accounting framework, given that it was a statistical standard; however, certain concepts could be aligned with accounting requirements and bring benefits to the public and private sectors. Some 80 countries were already applying such accounts today, but they did not envisage making it a mandatory requirement.

49. With regard to the private sector, one delegate wished to know whether the Goals helped companies to map their risks more effectively and provided balance and accuracy to their reporting practices. One expert said that that Sustainable Development Goals added other dimensions to reporting, bringing improved customer engagement and helping to embrace internal ethical policies for companies. Another expert considered the 2030 Agenda to be a valuable communication tool, in particular because of its support for defining value proposition within large supply chains. Another expert stated that reporting was currently very limited and faced the problem of granularity; further efforts would be necessary to improve the quality of impact reporting.

50. In reply to a query concerning local network engagement as a tool for supporting members in the implementation of the Sustainable Development Goals, one expert said that 70 local networks were engaged with Governments and other stakeholders, including SMEs. As implementation of the Goals was high on their agenda, they provided local training sessions and disseminated Sustainable Development Goal reporting tools. One expert suggested that all stakeholders be invited to discuss how to qualify data and build an understanding on different data used by Governments, statistics agencies and other counterparts. Another expert said it would useful for member States to learn how the network of Global Compact offices worked together and encouraged the Global Compact to inform them.

51. One delegate expressed doubt about the link between some of the indicators and outcomes on Sustainable Development Goals, such as the indicator on average hours of training and the Goal on quality of education. He wished to know whether the minimum number of core indicators was necessary to track progress of the Goals, suggesting that principles-based requirements should be considered. A representative of the UNCTAD secretariat said that ISAR indicators were not detached from the principles developed with the consultative group convened by ISAR to develop the core indicators. One expert said that as a co-custodian of Goal indicator 12.6.1, the task force convened by UNCTAD and the United Nations Environment Programme was divided on whether it is needed to focus on

certain metrics or only on principles to enable the harmonization of corporate reporting. One expert recalled that reporting should not be considered a ranking for companies, while another expressed support for the principles-based system to ensure comparability and consistency of reporting. According to one expert, an analysis and ranking of the sustainability reports of 8,000 companies showed that the private sector reported on core indicator metrics or at least provided a narrative in that regard.

52. To a query on how to encourage SMEs to engage in sustainability reporting without placing an additional burden on them, one expert suggested placing this item on the ISAR agenda for further development of the metadata guidance on indicator 12.6.1. Another expert highlighted the need for capacity-building tools that would include training programmes and manuals for SMEs. Yet another drew attention to the practical guidance for SMEs that had been developed in cooperation with the Global Reporting Initiative. In addition, strong motivation for reporting on Sustainable Development Goals for SMEs stemmed from impact investing, given that public and private investors were willing to extend funds to sustainable companies.

53. With regard to a query on the means of implementing sustainability reporting in the field of natural resources that were available to developing countries, a representative of the UNCTAD secretariat said that a Development Account project would provide opportunities for the practical implementation of guidance in four beneficiary countries. Changes had recently been made to the Accounting Development Tool concerning the incorporation of sustainability reporting in its assessment framework. Further, UNCTAD was willing to cooperate with other countries to promote reporting on the Sustainable Development Goals.

ISAR Honours

54. The Head of the Enterprise Branch of the Division on Investment and Enterprise of UNCTAD said that the ISAR Honours initiative recognized efforts made to enhance companies' reporting on sustainability issues and good practices on publishing and collecting data on companies' contribution to the Sustainable Development Goals. Out of 19 applications, a committee of experts selected the top seven initiatives, which received special recognition. Representatives of the initiatives gave testimonies on the importance of the initiative in raising awareness and promoting best practices on enterprise reporting on sustainability issues and explained their motivation for participating.

C. Issues of practical implementation of international standards of accounting and reporting in the public and private sectors

(Agenda item 4)

55. Introducing the agenda item, the UNCTAD secretariat drew attention to document TD/B/C.II/ISAR/86, which was the basis of discussion by a panel of experts. In particular, they described the current state of implementation of IFRS. The panel was composed of representatives of the following entities: the Asian–Oceanian Standard-Setters Group, European Financial Reporting Advisory Group¸ Group of Latin American Accounting Standard-Setters¸ International Accounting Standards Board, Pan-African Federation of Accountants and Price Waterhouse Cooper.

56. Member States had made great strides in the past decade and half in adopting IFRS. In this respect, 144 of 166 jurisdictions surveyed by the International Accounting Standards Board required IFRS for all or most publicly accountable companies. However, some large economies, such as China and Japan, did not require companies listed in their jurisdictions to apply such standards in the preparation of their financial statements. National accounting standards applicable in China were more or less equivalent to IFRS, with minimal differences. In Japan, listed companies were allowed to prepare their financial statements in accordance with Japanese Generally Accepted Accounting Principles, Japan's Modified International Standards, United States of America Generally Accepted Accounting Principles or IFRS. The latter were being implemented by a growing number of Japanese companies, which would account for more than 50 per cent of the Tokyo Stock Exchange in a few years' time.

57. The global implementation of IFRS had yielded a number of key benefits. For example, it had enhanced the comparability and quality of financial information; enabled investors and other market participants to make informed economic decisions; strengthened reliability by reducing the information gap between the providers of capital and the people to whom they had entrusted their money; provided information needed to hold management accountable; made it possible to compare financial information on a global basis; provided vital information for regulators around the world; created economic efficiency by helping investors to identify opportunities and risks across the world; and lowered the cost of capital and the cost of international reporting for preparers.

58. Member States were faced with various challenges during the implementation of IFRS: lack of regulatory backing; weakness or absence of institutions empowered to enforce implementation; lack of a critical mass of professional accountants and experts in related fields, such as actuaries; and scarcity of books and other training materials in languages other than English. Key challenges faced by regional bodies in facilitating the implementation of IFRS were as follows: member countries were at different stages of implementation; capital markets were at different stages of development and had different information needs; and there was a lack of legal authority to promote consistent implementation of such standards on a regional basis. One expert said his organization was conducting research on topics such as accounting for digital currencies, consolidation and Islamic finance.

59. The panellists also discussed the practical implementation of new IFRS 9, 15, 16 and 17.

60. Under IFRS 9 on financial instruments, which went into effect in January 2018, entities were required to apply the forward-looking, expected-loss model with respect to loans on their books. This approach would make more consistent assessment of losses on loans in comparison with the predecessor incurred-loss model, which was subject to variations in different jurisdictions. The Bank for International Settlements considered the standard to be the most important development in the history of financial reporting by banks. The International Accounting Standards Board would continue monitoring implementation of the standard and conduct a post-implementation review in a few years when more data became available.

61. IFRS 18 on revenue, the predecessor to IFRS 15, lacked detail. The International Accounting Standards Board worked with the Financial Accounting Standards Board in the United States to develop a converged standard on revenue. IFRS 15, which became effective in January 2018, used a single model for revenue recognition. Unlike IFRS 9, IFRS 15 affected every reporting entity that had revenue – which in practical terms could mean every business entity that applied IFRS. The application of IFRS 15 became more complex when there were multiple deliverables arising from a contract with a customer. Since it had gone into effect, the standard had resulted in more clarity for investors in revenue recognition, and anecdotal feedback indicated that some reporting entities had a better understanding of their business and the contracts they entered into. The converged approach of the International Accounting Standards Board and the Financial Accounting Standards Board in developing IFRS 15 meant that the top line of the income statement appeared to be consistent worldwide.

62. IFRS 16 on leases would become effective in 2019. Leases could be one of the main sources of off-balance sheet financing for businesses. In 2018, listed companies around the world had $3.3 trillion in leases. One delegate stated that the standard did not address accounting and reporting for the lessor. According to one expert, users did not raise issues with lessor accounting and thus the Board did not take measures in this particular dimension. In a response to a question, the expert stated that the International Accounting Standards Board had no active projects on developing an IFRS on cryptocurrencies but would continue monitoring developments on this issue. One expert reported that his organization was conducting a study on digital assets.

63. Under International Accounting Standard 17 on leases, the predecessor to IFRS 16, over 85 per cent of this amount would be categorized as operating leases and would not be accounted for in the balance sheet of the reporting entities understating their financial obligations or liabilities. During the financial crisis of 2007 and 2008 for example, some major retail chains became bankrupt because they were unable to adjust quickly to the new

economic reality. They had considerable long-term operating lease commitments on their stores, yet had deceptively lean balance sheets. In fact, their off-balance lease liabilities could have been up to 50 times more than the amounts they reported on their balance sheets. Thus, the accounting requirements applicable for leases at that time did not reflect economic reality. To rectify this approach to accounting for leases, the International Accounting Standards Board and the Financial Accounting Standards Board decided to develop a new accounting standard for leases that eliminated the distinction between operating and finance leases, bringing all leases onto the balance sheet. Further, the new standard on leases, IFRS 16, was expected to enable better informed investment decisions by investors and more balanced decisions by management between lease and buy options. It would also result in better capital allocation leading to economic growth. Entities implementing the new standard would incur costs, in particular by updating their information systems. The standard exempted short-term and small-amount leases from the new accounting and reporting requirements. This approach was expected to reduce implementation costs of the standard.

64. The new IFRS on insurance (17) was aimed at providing one accounting model for all insurance contracts in all jurisdictions. The standard was due to become effective in 2021, and it had already been endorsed for implementation by many countries, including Australia, Canada, Malaysia, New Zealand, Singapore, South Africa and Switzerland. The standard was expected to generate significant benefits by promoting more consistent accounting and reporting on insurance contracts and higher quality of information by providing better insight into recent insurance activities of reporting entities. The standard was expected to facilitate better investment decision-making and support financial stability. In 2018, there were 450 listed insurers with total assets worth $13 trillion that applied IFRS in preparing their financial statements.

65. One expert expressed support for the life-cycle approach taken by the International Accounting Standards Board in developing IFRS. According to the findings of an impact assessment of the implementation of IFRS 16 conducted by his organization, 25 per cent of lessees were expected to renegotiate borrowing covenants; 50 per cent of analysts expected to continue making adjustments to numbers based on the standard; and a modest decline in demand for leases was projected, along with the limited renegotiation of lease terms.

66. Another panel of experts discussed the practical implementation of International Public Sector Accounting Standards. The panel consisted of representatives of the Association of Chartered Certified Accountants, Centre for Public Financial Management at the Zurich University of Applied Sciences, General Secretariat of the International Organization of Supreme Audit Institutions/Austrian Court of Audit, International Public Sector Accounting Standards Board, Office of the Auditor General of Kenya and Philippines Commission on Audit.

67. One expert updated the session with regard to the status of practical implementation of such standards; the growing use of the accrual basis of accounting in government financial reporting; and the 2019–2023 work plan and strategy of the International Public Sector Accounting Standards Board. With regard to implementation on the ground, other players such as entity staff, consultants, contractors, and supranational and regional organizations had a more significant role to play than the International Public Sector Accounting Standards Board.

68. With regard to the implementation of International Public Sector Accounting Standards, there were many practical considerations that member States should bear in mind. In the Philippines, for example, the standards had been implemented over a 10-year period. One expert estimated that successful implementation of the standards would take six to eight years. National public sector accounting standards-setting boards played a pivotal role in the implementation of the standards. In the view of one expert, budgeting based on such standards was essential to gain full benefits of implanting the standards. There was a need for a clear legal or constitutional support for financial reporting based on such standards, as well as a need for integrated thinking and reporting in order for the public sector to contribute towards the attainment of the Sustainable Development Goals.

69. One participant asked whether the International Accounting Standards Board would codify the IFRS literature, as the Financial Accounting Standards Board had done. In reply,

one expert said that the former had no plans to codify. The Board had been continuously updating its taxonomy to support reporting on the basis of Extensible Business Reporting Language. Further, the European Securities and Markets Authority was going to require filings based on such language in the coming years. One delegate asked whether the countries that adopted the standards were requiring it for financial reporting by individual entities or consolidated accounts for groups of entities. One expert replied that that such standards were intended for consolidated reporting. However, some countries, for example Brazil and Italy, allowed individual or single entities to apply the standards. Another expert noted that the International Accounting Standards Regulation (2002) had been issued in the European Union to address consolidated accounts only. However, member States of the European Union had the option to allow use of the standards for separate accounts.

70. With regard to the prospects of developing an accounting standard on natural capital, one expert indicated that there were protocols on natural and social capital. One delegate recalled the need for capacity-building to train accounting experts and to translate IFRS documents into other languages. Another delegate, responding to a query on how the departure of the United Kingdom from the European Union would affect future IFRS, said that the standards would continue to be operational in that country.

D. Other business

(Agenda item 5)

Accounting Development Tool implementation experiences

71. Under this agenda item, a representative of the Ministry of Finance of Belarus shared practical examples of implementing the Accounting Development Tool in her country. Implementation of the tool was under way.

72. With regard to the requirement in that country that chief accountants obtain professional qualification, the expert from Belarus said that the implementation of IFRS revealed that accountants in Belarusian companies were not sufficiently qualified to apply international standards of reporting in practice. Therefore, to help educate professionals in this field, certification for chief accountants had been introduced, which encouraged the study of disciplines such as IFRS, international audit standards, national regulation for tax and legal issues, professional ethics and management accounting. With the introduction of this new requirement, knowledge and competence had significantly improved.

73. In response to a query from one delegate, the expert from Belarus said that IFRS were not applicable to SMEs in that country but that these firms followed national standards of accounting. A transition to IFRS for this category of entities would require changes not only in accounting, but also in systems of taxation and statistics.

74. One delegate requested clarification on how auditors operated in Belarus if such standards did not apply to all type of entities. The expert from Belarus explained that though the standards were practised, they had not yet been incorporated in the official regulation in that country, a gap that was expected to be filled by 2019.

75. With regard to one delegate's query on the experience of other countries in achieving institutional coordination of stakeholders that implemented the Accounting Development Tool, a representative of the UNCTAD secretariat said that the tool had recently been launched in Colombia. The launch and joint assessment exercises should have helped to facilitate stakeholder dialogue and thus institutional coordination. In the delegate's view, the exercises had been useful but institutional issues remained difficult to tackle. It would be useful to know how to overcome institutional barriers and obtain policy and financial support to achieve it.

76. In the Philippines, for example, the Professional Regulatory Board of Accountancy coordinated institutional building; it had a number of mandates, including setting rules, qualifying professionals and working on educational accounting matters. However, it lacked sufficient resources to efficiently report on its mandates. The country was in the process of designing legislation to allocate these activities among several organizations.

77. According to one delegate, there was a need to distinguish between regulation of accounting and regulation of the accounting profession, coordinated by different institutions in the region. Inter-institutional coordination, ensuring coverage of all economic aspects in implementing accounting standards, was also important. In the countries of one regional organization, decisions were often made at the regional level because such coordination did not always exist at the national level. For example, the Organization for the Harmonization of Business Law in Africa had created a committee on standardization of accounting norms and encouraged representatives of 17 countries to work together to ensure their implementation. Noting that even in the developed economies, the institutional aspect of coordination among stakeholders was a dynamic and ongoing process, a representative of the UNCTAD secretariat suggested that guidance for the country's final plan of action could be useful and encouraged other member States to share their successful experiences with Colombia.

78. One participant said that it might be necessary to envisage stricter licensing requirements for auditors in Belarus if the country planned to connect with the international capital markets.

79. The expert from Belarus stated that the country would take into consideration the experience of the Organization for the Harmonization of Business Law in Africa, as it could be useful for countries of the Commonwealth of Independent States. Local State companies in Belarus were engaged with national capital markets but did not have exposure to international capital markets. The Government would strive to build a link with international capital markets in the future.

III. Organizational matters

A. Opening of the session

80. The thirty-fifth session of ISAR was opened on 24 October 2018 by Mr. David Obwaya Gichana (Kenya), Chair of the thirty-fourth session.

B. Election of officers

(Agenda item 1)

81. At its opening plenary meeting, ISAR elected the following officers:

Chair:	Mr. Andrew Staines (United Kingdom)
Vice-Chair-cum-Rapporteur:	Ms. Arman Bekturova (Kazakhstan)

C. Adoption of the agenda and organization of work

(Agenda item 2)

82. Also at its opening plenary meeting, ISAR adopted the provisional agenda for the session (TD/B/C.II/ISAR/84). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Enhancing the comparability of sustainability reporting: Selection of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals
4. Issues of practical implementation of international standards of accounting and reporting in the public and private sectors
5. Other business

6. Provisional agenda for the thirty-sixth session

7. Adoption of the report

D. Outcome of the session

83. At its closing plenary meeting on Friday, 26 October 2018, ISAR adopted its agreed conclusions and agreed that the Chair would summarize the informal discussions. It also approved the provisional agenda for its thirty-sixth session (annex I).

E. Adoption of the report

(Agenda item 7)

84. ISAR authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex I

Provisional agenda for the thirty-sixth session

1. Election of officers

2. Adoption of the agenda and organization of work

3. Practical implementation, including measurement, of core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals: Review of case studies

4. Review of current developments in international standards of accounting and reporting in the public and private sectors

5. Other business

6. Provisional agenda for the thirty-seventh session

7. Adoption of the report

Annex II

Attendance*

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

Algeria
Argentina
Austria
Belarus
Benin
Brazil
Cambodia
Cameroon
China
Colombia
Congo
Czechia
Côte d'Ivoire
Denmark
Djibouti
Egypt
France
Guatemala
Hungary
Kenya
Kuwait
Latvia
Lebanon
Lithuania
Madagascar
Malta
Mauritius
Morocco
Namibia
Niger
Nigeria
Oman
Panama
Philippines
Qatar
Republic of Korea
Russian Federation
Saudi Arabia
Spain
Sri Lanka
Sweden
Togo
Tunisia
United Kingdom of Great Britain and Northern Ireland
Zambia
Zimbabwe

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

African, Caribbean and Pacific Group of States
Organization of Islamic Cooperation

3. The following United Nations organs, bodies and programmes were represented at the session:

Department of Economic and Social Affairs
Department of Management
United Nations Environment Programme
World Food Programme

4. The following specialized agencies and related organizations were represented at the session:

International Labour Organization

5. The following non-governmental organizations were represented at the session:

General category

International Network for Standardization of Higher Education Degrees
Tax Justice Network – Africa

* This list contains registered participants only. For the final list of participants, see TD/B/C.II/ISAR/INF.11.