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Preface

Member States have long recognized the critical importance of the private sector in attaining economic and social development goals, including the Millennium Development Goals. The productive capacity of the private sector has a direct bearing on the kinds of goods and services that a country can make available for domestic consumption as well as for international trade. To do this in a sustainable manner, a vibrant private sector needs access to sufficient financial resources at a reasonable cost. Reliable and comparable corporate reports facilitate the mobilization of domestic and international financial resources and foster investor confidence.

High-quality corporate reporting requires strong institutional and technical capacity at the entity as well as macro-level regulation. One of the implications of the rapidly globalizing world economy has been the proliferation of international corporate reporting standards and codes. Member States have been persistently challenged to keep pace with this trend. Developing countries and countries with economies in transition have been facing additional difficulties in building the necessary human and institutional capacity. UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has developed a framework for high-quality corporate reporting and deliberated on it at its twenty-seventh session. A coherent approach towards capacity-building in accounting and corporate reporting is an important first step that would help developing countries and countries with economies in transition adopt and implement corporate reporting standards in a successful manner.

Corporate reporting gives a more comprehensive view of an enterprise when it incorporates both financial and non-financial aspects. In this regard, a pressing issue is climate change. In particular, more comparable and reliable reporting on green house gas emissions disclosures could enhance the effectiveness of policy measures such as cap-and-trade mechanisms and carbon-taxes and provide critical information that policymakers need to set targets in order to meet international commitments.

I am pleased to present to readers this volume, which contains the deliberations of ISAR on the timely issues raised above and on related corporate reporting topics and recent developments.

Supachai Panitchpakdi

Secretary-General of UNCTAD

Introduction

This volume contains a review of the main developments in the area of accounting and reporting, and the proceedings of the twenty-seventh session of ISAR, which was held in Geneva at the Palais des Nations from 13 to 15 October 2010. The session was well attended by delegates representing regulators, standard-setters, the private sector, academia and a number of regional and other international organizations.

The first chapter of this volume presents the key developments in accounting and reporting that occurred during the intersessional period of ISAR. The main agenda item of the twenty-seventh session of ISAR was a capacity-building framework for high-quality corporate reporting. The framework presented to the twenty-seventh session of ISAR and summaries of the deliberations of the Group of Experts on this topic are contained in the second chapter of this volume. The third chapter contains a report on a review of corporate governance disclosure requirements of enterprises listed on stock exchanges in 21 frontier markets, that is, developing countries with relatively small equity markets. The study was conducted by examining the corporate governance disclosure requirements of relevant laws and stock exchange listing rules, and comparing these with the ISAR benchmark of good practices identified in the 2006 UNCTAD publication, *Guidance on Good Practices in Corporate Governance Disclosure*.

UNCTAD expresses its appreciation to Nancy Kamp-Roelands, Chair of the twenty-seventh session of ISAR and Damir Kaufman, Vice-Chair-cum-Rapporteur, for guiding the session to a fruitful conclusion. UNCTAD is grateful to Sylvie Matherat, Chair, Accounting Task Force, Basel Committee on Banking Supervision; and Director, Financial Stability, Bank of France, for delivering an insightful keynote address at the opening of the twenty-seventh session of ISAR.

UNCTAD gratefully acknowledges the contributions of Robert Bunting, President, International Federation of Accountants (IFAC); Jeroen Hooijer, Head, Accounting Unit, European Commission; and Mervyn King, Chair, Global Reporting Initiative, to the panel discussion on recent developments in accounting and reporting and related capacity-building challenges.

UNCTAD would like to thank the following people for their contributions to the panel discussion the regulatory and institutional aspects of the capacity-building framework: Juarez D. Carneiro, Federal Council of Accounting, Brasília; Nelson Carvalho, Professor, University of São Paulo, Brazil; (Chair of UNCTAD-ISAR Consultative Group on Capacity-Building Framework); Mike Walsh, Association of Chartered and Certified Accountants; and Deborah Williams, Deputy Chair, Developing Nations Committee, IFAC. UNCTAD also expresses its appreciation to Mark Allison, Chair, International Accounting Education Standards Board; Philippe Danjou, Board Member, International Accounting Standards Board (IASB); Elsa Beatriz García, Board Member, Mexican Financial Reporting Standards Board; Paul Hurks, Director, International Accountancy Education and Development, Royal NIVRA; and Lin Zhu, Deputy Director, Accounting Regulatory Department, Ministry of Finance, China, for their contributions to the panel discussion on the human capacity aspects of the capacity-building framework and the capacity-building process. UNCTAD acknowledges with appreciation the contributions of the following people to the panel discussion on possible measurement approaches in relation to capacity-building for high-quality corporate reporting: Elkhan Jafarov, Head of Accounting Policy Department, Ministry of Taxes, Azerbaijan; Gert Karreman, Professor, Leiden University; Belverd Needles, Professor, DePaul University, United States of America; Frans E. Ronsholt, Head, Public Expenditure and Financial Accountability Secretariat; Samiuela Tukuafu, Principal Financial Sector Specialist, Asian Development Bank.

UNCTAD expresses its appreciation to Teresa Fogelberg, Deputy Chief Executive, Global Reporting Initiative, Netherlands; Anne Gadegaard, Director of Sustainability Management, Novo Nordisk A/S, Denmark; Rick Samans, Managing Director, World Economic Forum, Chairman of Climate Disclosure Standards Board; Roger Simnett, Professor, School of Accounting, University of New South Wales, Australia; and Gordon Wilson, Senior Manager, KPMG, United Kingdom of Great Britain and Northern Ireland, for their contributions to the panel discussion on climate-change-related corporate reporting. UNCTAD is grateful to Gabriella Kusz, Technical Manager, Member Body Development, IFAC; Vickson Ncube, Chief Executive, Eastern, Central, and Southern African Federation of Accountants; Henri Olivier, Secretary-General, European Federation of Accountants; William Palmer, Confederation of Asia-Pacific Accountants; and Graham Sinclair, President, Africa Sustainable Investment Forum, for their contributions to the panel on updates by regional and other international organizations.

The following staff members of UNCTAD contributed to the successful organization and conclusion of the twenty-seventh session of ISAR: Tatiana Krylova, Head, Enterprise Branch, Division on Investment and Enterprise; Jean-Francois Baylocq, Chief, Accounting and Corporate Governance Section; Yoseph Asmelash, Anthony Miller, Isabel Garza Rodriguez, Vanessa McCarthy, Jacqueline Du Pasquier and Nathalie Eulaerts. UNCTAD recognizes with appreciation the contributions of Mengqi Cai and Katharina Wortmann in providing organizational support for the twenty-seventh session of ISAR. UNCTAD is grateful to Yalan Liu for her research assistance in preparing the 2010 review of corporate governance disclosure requirements of enterprises listed on stock exchanges in 22 frontier markets.

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Chapter I

Recent developments in accounting and reporting

Introduction

For close to three decades, ISAR has been working towards promoting more reliable and comparable corporate reporting. Part of the activities that it has been undertaking with a view to attaining this objective includes reviewing developments in accounting and reporting. This chapter presents the highlights of major international, regional and national developments in accounting and reporting that occurred during the intersessional period of ISAR. The developments covered in this chapter were compiled on the basis of publicly available information only. Thus, the study is limited in scope and does not cover developments in all member States. The first section of the chapter discusses international developments covering institutions such as the Group of Twenty (G-20), the Financial Stability Board, the International Financial Reporting Standards (IFRS) Foundation and IASB. The second section discusses regional and national developments that have implications for the international convergence of accounting standards.

A. Trends

A dominant trend in the area of financial reporting has been the growing number of new accounting standards and revisions on existing standards. Over the next 10 months, 17 IFRS are scheduled for publication. Implementing these global standards will require intense preparation and could pose significant challenges to developing counties and countries with economies in transition that are in the process of introducing them into their economies. An emerging trend in the field of financial reporting is the adoption by many countries of the International Financial Reporting Standard for small and medium-sized enterprises (SMEs). In early 2010 more than 62 countries adopted it or will do so in the coming years.

B. International developments of the Group of Twenty

During the ISAR intersessional period, the financial crisis has continued drawing the attention of policymakers at the highest level to accounting and reporting matters. Leaders of the G-20 countries, their Finance Ministers and Central Bank Governors have continued highlighting the importance of a single set of global accounting standards. In their Declaration[1] following the Toronto Summit of 26 to 27 June 2010, leaders of the G-20 re-emphasized the importance of achieving a single set of high-quality improved global accounting standards. They urged IASB and FASB of the United States to increase their efforts to complete their convergence projects by the end of 2011. Furthermore, the G-20 leaders called on IASB to further involve the stakeholders, including emerging market economies, within the framework of the independent accounting standard-setting process.

At the conclusion of the meeting that took place in Busan, Republic of Korea, in June 2010, the G-20 Finance Ministers and Central Bank Governors again expressed the importance they place on achieving a single set of high quality global accounting standards and urged IASB and FASB of the United States to redouble their efforts to that end.[2]

The G-20 countries are at different stages with respect to the actual implementation of IFRS (see appendix I for details). Some G-20 countries belonging to the EU started implementing IFRS five years ago. Other G-20 countries have been converging their national accounting standards with IFRS. For example, in 2006 China issued accounting standards that are substantially converged with IFRS.

Financial Stability Board

At their London meeting in April 2009, the leaders of the G-20 established the Financial Stability Board with a strengthened mandate as a successor to the Financial Stability Forum (FSF). One of the Board's mandates is "to call on the accounting standard-setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of global accounting standards".[3] In its report[4] to the Toronto Summit of the G-20, the Board highlighted progress that had been made by IASB and FASB towards its recommendations for improved and converged accounting standards in four areas: impairment of financial assets, de-recognition, addressing valuation uncertainty in fair value measurement guidance and netting and offsetting of financial instruments.

International Financial Reporting Standards Foundation

Constitutional review

The International Accounting Standards Committee (IASC) Foundation completed its 2008–2010 constitutional review in January 2010. The review was conducted in two phases. The first phase of the review was focused on the governance and public accountability of the IASC Foundation and the size and composition of IASB. One of the significant outcomes of the first part of the review was the establishment of the

1 http://www.g20.org/Documents/g20_declaration_en.pdf.

2 http://www.g20.org/Documents/201006_Communique_Busan.pdf.

3 Declaration of the G-20, London, April 2009.

4 Overview of Progress in the Implementation of the G-20 Recommendations for Strengthening Financial Stability: Report of the Financial Stability Board to G-20 Leaders, 18 June 2010.

Monitoring Board. In April 2010, the Trustees of the IASC Foundation published a report[5] on the second part of the Constitution Review of the IASC Foundation. The review resulted in a number of changes to the Constitution: IASB will conduct public consultations on its future technical agenda every three years; an emphasis on the adoption of IFRS; convergence is aimed at promoting and facilitating the adoption of IFRS and is not an end in itself; calls for IFRS "based on clearly articulated principles"; investors are specifically identified as a target audience for financial information in addition to other participants in world's capital markets and other users of financial information; a provision for an accelerated due process only in the most exceptional circumstances and only after approval by at least 75 per cent of the Trustees; creation of vice-chair posts for the Foundation as well as the Board. Furthermore, in order to have consistent naming across the organization with IFRS, the IASC Foundation has been renamed the IFRS Foundation. The Interpretations Committee has become the IFRS Interpretations Committee, and the Standards Advisory Council has changed its name to the IFRS Advisory Council.

Monitoring Board

As noted above, the Monitoring Board of the IFRS Foundation was established following part one of the constitutional review of the Foundation. The Board is composed of the Chairman of the Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO), the Chairman of the Technical Committee of IOSCO, the Commissioner of the Japan Financial Services Agency the European Commissioner for Internal Market and Services, and the Chairman of the United States Securities and Exchange Commission. The Basel Committee on Banking Supervision is an observer.

The mission[6] of the Monitoring Board is to promote the continued development of IFRS as a high-quality set of global accounting standards; to monitor and reinforce the public interest oversight function of the IASC Foundation, while preserving the independence of IASB; to participate in the selection and approval of the IASC Foundation Trustees and appointments; to advise the IASC Foundation Trustees on the fulfilment of their responsibilities, in particular with respect to regulatory, legal and policy developments that are pertinent to the IASC Foundation oversight of IASB and appropriate sources of funding for the IFRS Foundation; to discuss issues and share views relating to IFRS, as well as regulatory and market developments affecting their development and functioning.

In June 2010, the Monitoring Board approved the appointment of Tommaso Padoa-Schippa, former Minister of Economy and Finance of Italy as Chair of the Trustees of the IFRS Foundation,[7] succeeding Gert Zalm. In May 2010, the Monitoring Board approved the appointment of Tsuguoki Fujinuma and Robert R. Glauber as Vice-Chairs of the IASC Foundation Trustees.[8] The two Vice-Chair positions were established following the 2008–2010 constitutional review of the IASC Foundation.

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5 IASC Foundation, *Report of the IASC Foundation Trustees on part 2 of their Constitution Review: Changes for Enhanced Public Accountability and Stakeholder Engagement*, London, April 2010.
6 Charter of the Monitoring Board of the IFRS Foundation.
7 http://www.iosco.org/monitoring_board/pdf/Press20100618-1.pdf.
8 IASC Foundation Monitoring Board, Press Release, 11 May 2010, Amsterdam, Netherlands.

In July 2010, the Monitoring Board launched a review of the governance framework around the Monitoring Board and the IFRS Foundation.[9] The objective of the review is to assess the current governance structure with regard to the following criteria: Does it provides appropriate representation of relevant authorities such as capital market and other public authorities? Does it create sufficient transparency and accountability of IASB to relevant authorities such as capital market and public authorities? Does it ensure the appropriate involvement of all stakeholders in the standards development process? Does it make sure that all relevant public policy objectives are taken into account in the standard-setting process and protect IASB's independent standard-setting process? The Board set up a high-level Working Group to conduct the review. The Working Group was due to complete its work by the end of 2010.

International Accounting Standards Board

During 2009, IASB concentrated its efforts on responding to accounting and reporting issues that the G-20 leaders had highlighted in their London Declaration of April 2009[10] and their subsequent Summits in Pittsburgh and Toronto. The G-20 called upon accounting standard-setters, inter alia to reduce the complexity of accounting standards for financial instruments; strengthen accounting recognition of loan-loss provisioning by incorporating a broad range of credit information; and improve accounting standards for provisioning, off-balance sheet exposures and valuation uncertainty.

In November 2009, the IASB published *IFRS 9 – Financial Instruments*. This was the first of a three-phase approach that IASB adopted to replace *IAS 39 – Financial Instruments*: Recognition and Measurement. IFRS 9 requires financial assets to be classified into only two categories of measurement: amortized cost or fair value. A financial asset would be measured at amortized cost when (a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.[11] All other financial assets are to be measured at fair value. This is a significant simplification, compared with the requirements of IAS 39, which had four classes of financial assets – each class with its own eligibility requirements and different measurement requirements. This responds to the call from G-20 to reduce the complexity of accounting standards for financial instruments.

Although the IASB exposure draft of *IFRS 9 – Financial Instruments: Classification and Measurement*, published in July 2009, included financial assets and financial liabilities, the final standard deals solely with financial assets. IASB decided to limit the scope of the standard in response to comments received from stakeholders. In May 2010, the Board published an exposure draft entitled “Fair Value Option for Financial Liabilities”. Comments were due by July 2010. In relation to the second phase of the project, the Board published in November 2009, an exposure draft called

[9] Press release of the IFRS Foundation Monitoring Board, 2 July 2010.
[10] G20 Leaders, Declaration *on Strengthening the Financial System*, London Summit, 2 April 2009.
[11] IASB, IFRS 9 Financial Instruments, para 4.2, November 2009, London.

"Amortized Cost and Impairment". The IASB work plan[12] indicated that the Board will be publishing an exposure draft on hedge accounting in the third quarter of 2010. The Board has indicated that it will complete all three phases of its project on financial instruments and completely replace IAS 39 by the second quarter of 2011.

Several other IASB projects related to the financial crisis are under way. An IFRS on disclosures pertaining to derecognition was due for publication in the third quarter of 2010. In the area of consolidation, the Board planned to publish two IFRS by the fourth quarter of 2010: the first one would replace IAS 27 Consolidated and Separate Financial Statements. The second IFRS will be on disclosures about unconsolidated special purpose entities or structured entities. With respect to consolidation in relation to investment companies, an exposure draft was due for publication at the end of 2010 and an IFRS on this topic has been published. An IFRS on Fair Value Measurement has also been issued.

IASB and FASB are also making progress on project commitments set out in a recent memorandum of understanding. The two Boards issued exposure drafts on Revenue Recognition and Leasing in June and August 2010, respectively. Other IASB and FASB projects included in the memorandum of understanding include financial statements presentation, financial instruments with characteristics of equity, income taxes and post-employment benefits. In early June 2010, the two Boards announced that they were in the process of developing a modified strategy with respect to the projects described in the memorandum of understanding with a view to allowing a better participation of stakeholders.[13] Accordingly, the Boards would avoid publication of exposure drafts on more than four significant or complex projects in a given quarter. The result of the modified strategy was that some of the aforementioned projects would be completed after June 2011. Other IASB projects include annual improvements; emissions trading schemes, extractive activities, insurance contacts, liabilities, management commentary and rate-regulated activities.

International Financial Reporting Standards for Small and Medium-Sized Entities

After extensive consultations and deliberations that started in late 2003, IASB issued an International Financial Reporting Standard for small and medium-sized entities (IFRS for SMEs) in July 2009.[14] This standard was intended to provide improved comparability for users of accounts, enhance the overall confidence in the accounts of SMEs and reduce the significant costs of maintaining standards on a national basis. It is much shorter than the full IFRS (230 pages as opposed to 3,000 pages). The disclosure requirements in the IFRS for SMEs are about 300, while those in the full IFRS are about 3,000. The standard has been translated into Chinese, Italian, Portuguese, Romanian, and Spanish. Translation into Arabic, Czech, French, Japanese, Serbian, and Turkish is also in process. Furthermore, proposals or discussion for translation into Armenian, Khmer, Macedonian, Polish, Russian, and Ukrainian have been launched.

[12] http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm.
[13] http://www.ifrs.org/NR/rdonlyres/C0AE62AD-1BD3-486A-B7AF-A028F302B47B/0/IASBFASBjointstatement.pdf.
[14] http://www.iasb.org/NR/rdonlyres/F4FFF721-62A4-4E02-BCB7-A0BD7A6D4FF8/0/PRIFRSforSMEs.pdf.

In 2010, 62 jurisdictions had either adopted the IFRS for SMEs or drawn up a plan to adopt it within the next three years.[15] To support its implementation , the IFRS Foundation education staff have prepared training materials with a view to facilitating regional “train the trainers” workshops. The training materials go through a multi-level peer review but are not approved by IASB. As of August 2010, 21 modules[16] were completed and available for downloading from the IASB website.[17] When all the modules are completed, the training materials will have 35 stand-alone modules – one for each section of the IFRS for SMEs.

The first “train the trainers” workshop on the IFRS for SMEs was held in Kuala Lumpur, Malaysia, from 20 to 22 January 2010.[18] This was followed by another workshop that was held in Hyderabad, India, from 25 to 27 January 2010. The workshops were organized by the Confederation of Asia and Pacific Accountants and partially funded by the Asian Development Bank. There were 85 participants representing 15 jurisdictions. The third workshop was held in Dar es Salaam, United Republic of Tanzania, from 11 to 13 May 2010. The workshop was sponsored by the Eastern, Central, and Southern African Federation of Accountants and funded in part by the World Bank. There were 100 participants from 10 countries. A fourth workshop was held in Cairo, Egypt, from 15 to 17 June 2010. The event was sponsored by the World Bank. Around 30 participants from 10 countries took part. Some of the participants were practising accountants and government officials. Others were World Bank staff who work in small business financing. A fifth workshop, sponsored by the Brazilian Development Bank, was held in Rio de Janeiro from 2 to 4 August 2010. The workshop attracted some 700 participants from Brazil and was broadcast live on the Web by two television networks. Another workshop was scheduled to take place in Panama in October 2010.

C. Regional and national developments

Asian-Oceanian Standard-setters Group

The Asian-Oceanian Standard-setters Group (AOSSG) held its inaugural meeting from 4 to 5 November 2009 in Kula Lumpur, Malaysia.[19] The Group is composed of 21 national accounting standard-setting bodies[20] in the Asian-Oceanian region. At its first meeting, the members adopted a memorandum of understanding. The Group agreed on four objectives: promoting the adoption of, and convergence with, IFRS by jurisdictions in the region; promoting consistent application of IFRS in the region; coordinating input from the region to IASB technical activities and cooperating with governments and regulators and other regional and international organizations to improve the quality

[15] According to Paul Pacter, IASB Director of IFRS for SMEs and Board Member Designate.
[16] A full list of the modules is available on the IASB website.
[17]http://www.iasb.org/IFRS+for+SMEs/Training+modules.htm.
[18] IFRS Foundation, *IFRS for SMEs Update*, issues 1–4 (April–June 2010).
[19] Communiqué of the First Asian-Oceanian Standard-setters Group Meeting, Kuala Lumpur, Malaysia, 4–5 November 2009.
[20] Members of the Asian-Oceanian Standard-setters Group: Australia, Brunei, Cambodia, China, Hong Kong (China), Indonesia, India, Japan, Kazakhstan, Republic of Korea, Macao, Malaysia, Nepal, New Zealand, Oman, Thailand, Saudi Arabia, Singapore, Sri Lanka, Turkey and Uzbekistan.

of financial reporting in the region. The Group noted that many of its constituents had adopted IFRS or had made official declarations to do so in the near future. Others intend to make similar declarations in the coming years. The Group also highlighted the need to play a more active role in IASB technical activities and other related matters.

Argentina

In December 2009, the National Securities Commission of Argentina published Resolution 562/09[21] requiring publicly traded companies in the country to adopt IFRS from 1 January 2012. The Resolution also permits Argentinean publicly traded companies to implement IFRS starting from January 2010.

In March 2010, the National Professional Accountancy Organisation (FACPCE, its acronym in Spanish) published for comments a Technical Resolution Draft[22] announcing that all entities not reached by, or exempted from, the mandatory application of IFRS, have the option of applying:

(a) IFRS;
(b) IFRS for SMEs;
(c) The accounting standards issued by FACPCE or any it may issue in the future.

The resolution would become effective for financial statements of periods that start after 1 January 2012. However, early adoption of full IFRS or IFRS for SMEs is allowed for periods starting after 1 January 2011. FACPCE[23] will be participating in the IASB SME Implementation Group. The Group's mission is to provide support in the international adoption of IFRS for SMEs and to supervise their application.

Brazil

Brazil has been converging towards IFRS since 2006 with a view to achieving full compliance with IFRS for consolidated financial reports by December 2010. In January 2010, the Brazilian Council of Accounting and the Brazilian Accounting Pronouncements Committee signed a memorandum of understanding with IASB.[24] Among other things, the memorandum envisages that the two Brazilian bodies would work jointly and expeditiously to expand the adoption of IFRS in their country, including the IFRS for SMEs, to eliminate remaining differences between Brazilian Generally Accepted Accounting Standards (GAAP) and IFRS and undertake efforts to obtain the necessary regulatory endorsement to converged GAAP. The Brazilian Accounting Pronouncements Committee would continue issuing pronouncements that give effect to all new standards or improvements to existing IFRS approved by the IASB. The Committee has committed to make efforts to translate into Brazilian Portuguese the IFRS for SMEs and related educational material. Further, the Committee

[21] The full text of the Resolution (in Spanish) can be accessed at http://www.cnv.gov.ar/LeyesyReg/CNV/esp/RGC562-09.htm.
[22] http://www.iasplus.com/americas/1003argentinasmeed.pdf.
[23] http://www.facpce.org.ar/web07/NoticiaCompleta.asp?id=1097.
[24] http://www.iasb.org/NR/rdonlyres/B7F3624B-1DFF-4E96-BFF0-4BF74D1C650B/0/MoUBrazil.pdf.

will engage its best efforts in the endorsement process and broad dissemination of the IFRS for SMEs in Brazil, including by providing support to training, aimed at facilitating adoption of the standard in the country.

Canada

In Canada, the transition to IFRS started in January 2006. At that time, the Canadian Accounting Standards Board adopted a five-year strategic plan whereby Canadian GAAP would fully converge with IFRS by 1 January 2011. Since then, a number of activities have been undertaken towards that objective.

In February 2010, the Ontario Securities Commission published a staff notice on its review of IFRS transition disclosure by issuers in their 2008 annual and 2009 first-quarter filings. In May 2008, the Canadian Securities Administrators published a staff notice entitled “Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards”. In accordance with this notice, Canadian-listed companies were required to report in their management discussion and analysis on various aspects of their preparedness to transition to IFRS. The disclosures include a description of a new accounting standard, methods of adoption permitted and the method the issuer is expected to use, and a discussion of expected effects on the issuer's financial statements and potential effects on the issuer’s business.

The review conducted by the Ontario Securities Commission contains the following findings:

- 40 per cent of issuers received a letter from the staff of the Ontario Securities Commission questioning whether a changeover plan was in place as it was not clear from reading their management discussion and analysis disclosure;
- Of the 60 per cent that had discussed an IFRS changeover plan in their 2008 annual management discussion and analysis, approximately half provided a generic description of the plan without any direct application to their own circumstances;
- 80 per cent of issuers that had discussed an IFRS changeover plan failed to describe significant milestones and anticipated timelines associated with each of the key elements of the plan;
- 48 per cent of issuers that had discussed IFRS transition in 2008 annual management discussion and analysis failed to provide an update of the 2009 interim management discussion or an evaluation of the progress related to their changeover plan.

A survey of Canadian Chartered Accountants in senior positions, including chief financial officers, chief executives and chief operating officers, was published in the Q4-2009 edition of *Business Monitor* – a joint publication of the Canadian Institute of Chartered Accountants and the Royal Bank of Canada. The survey shows that 81 per cent of respondents indicated that their companies were very likely to be ready for the transition to IFRS by 2011. Another 13 per cent also indicated that their companies were somewhat likely to be ready.

In a June 2010, the Canadian Accounting Standards Board welcomed the joint IASB-FASB announcement extending their convergence timeline to June 2011. Furthermore, the Canadian Accounting Standards Board stated that Canadian companies adopting IFRS should be well along in implementing their transition plan and would most likely not be distracted by the change to the IASB and FASB convergence timetable.

Chile

On 21 June 2010, the Superintendence of Securities and Insurance (SVS) of Chile published a press release[25] announcing its decision of changing to 2012 the effective date for the adoption of IFRS by insurance companies in Chile. The reason for this decision was the strong impact the earthquake of February 2010 has had on this sector. Before the end of 2010, SVS planned to issue a new implementation calendar, as well as all necessary rules to apply IFRS in order to allow insurance companies to have all of 2011 to properly prepare their systems for using the new accounting framework.

China

In February 2006, China issued accounting standards – Chinese Accounting Standards for Business Enterprises – that were substantially in convergence with IFRS. In October 2009, the World Bank published the Report on the Observance of Standards and Codes (ROSC) on Accounting and Auditing in China.[26] The report indicates that China has been implementing a well-designed strategy for the convergence of Chinese Accounting Standards with IFRS. Furthermore, the report notes that China's strategy for improving the quality of accounting and auditing standards and practices, which was conducted under the leadership of the Ministry of Finance, had developed into a good practice model that could be followed by other countries.

The ROSC report presented policy recommendations pertaining to the statutory framework, institutional capacity-building, monitoring and enforcement, professional education and training, and implementation priorities. With respect to institutional capacity-building, the policy recommendations include the following: the Ministry of Finance should continue its efforts to maintain a highly skilled workforce to ensure high-quality corporate financial reporting; the Chinese Securities Regulatory Commission should engage a professionally qualified and experienced accountant and train the existing staff to further enhance the effectiveness of the reviews of financial statements and audit practices; the China Banking Regulatory Commission and China Insurance Regulatory Commission should develop a core group to be given additional training to identify accounting and auditing infractions in the financial statement of

[25] http://www.svs.cl/sitio/admin/Archivos/com_20100621-01.PDF.
[26] http://www.worldbank.org/ifa/rosc_aa_chn.pdf.

banks and insurance companies; and the Chinese Institute of Certified Public Accountants should involve more qualified personnel, both internal and external, to carry out the audit practice review.

In the context of the calls from the leaders of the G-20 and the Financial Stability Board for a single set of high-quality financial reporting standards, the Ministry of Finance of China in September 2009 published an exposure draft of a road map[27] for the continuing and full convergence of the Chinese Accounting Standards for Business Enterprises with IFRS. The draft road map anticipates completion of major IASB projects such as financial instruments, revenue recognition and financial statements presentation by the end of 2011. It envisaged that the Ministry of Finance would launch an overhaul of the Accounting Standards for Business Enterprises system in 2010 and finish by 2011. All large and medium-sized enterprises would be required to use the revised standards as of 2012.

Dominican Republic

In February 2010, the Authorized Public Accountants Institute of the Dominican Republic (ICPARD) published two resolutions as follows:

Resolution 001 announced the adoption of IFRS, from 1 January 2014, for companies listed in the Stock Exchange of the Dominican Republic and regulated by the Securities and Exchange Commission.[28]

Resolution 002 announced the adoption and implementation of IFRS for SMEs,[29] as of 1 January 2014, for companies classified as medium-sized according to the law and for companies that go beyond that limit but are neither listed in the Stock Exchange of the Dominican Republic nor regulated by its Securities and Exchange Commission. The applicable IFRS for SMEs corresponds to the version issued by IASB and the modifications that take place six months after the official translation to Spanish.

Companies that have been presenting their financial statements according to IFRS can continue using them; otherwise early adoption is encouraged. In both cases, entities using United States GAAP will be able to continue applying these standards until 2014. Before 2014, as a part of the transition period, some standards and interpretations selected from the IFRS and some sections of the IFRS for SMEs should be applied. Once the implementation period is complete, the companies will have have a period of six months after completion of the official translation into Spanish to apply new IFRS and pronouncements by the International Financial Reporting Interpretations Committee and the Standards Interpretations Committee. The resolutions do not apply to other regulated entities that will continue using their standards until their regulators adopt IFRS. If an accounting topic is not addressed by IFRS or by the IFRS for SMEs, the hierarchy in seeking guidance on the application of other principles is first

[27] See appendix, pp 27–30 of the ROSC report on China, http://www.worldbank.org/ifa/rosc_aa_chn.pdf.

[28] Resolution 001, Adoption and Implementation of IFRS. See http://icpard.org/htpweb/do/publicaciones.php.

[29] Resolution 002, Adoption and Implementation of IFRS for SMEs. See http://icpard.org/htpweb/do/publicaciones.php.

ICPARD, followed by the United States GAAP. For questions relating to the applicability of an accounting standard or an economic event, ICPARD will assess the situation, and determine and inform the treatment.

India

In 2007, the Institute of Chartered Accountants of India (ICAI) announced that the country would bring its accounting standards to full convergence with IFRS by April 2011. In January 2010, the Ministry of Corporate Affairs of India published a road map[30] showing the country's three-phase convergence programme to IFRS. The road map did not include insurance companies, banks or other non-banking financial companies. The first phase was scheduled to be completed by 1 April 2011. Companies that are required to convert to the converged IFRS during the first phase are those which are part of the National Stock Exchange – Nifty 50; part of the Mumbai Stock Exchange (BSE) – Sensex 50; whose shares or other securities are listed in stock exchanges outside of India; and companies, listed or not, which have a net worth in excess of rupees 1,000 crores[31] (approximately $214 million). Phase two covers companies with net worth of more than 500 crores rupees but less than 1,000 crores rupees (or approximately between $107 and $214 million) and conversion is to be completed by 1 April 2013. Phase three applies to listed companies that have a net worth of 500 crores rupees or less (approximately $107) and are required to apply the converged Indian IFRS by 1 April 2014.

Furthermore, on 31 March 2010, the Ministry of Corporate Affairs published another road map[32] for insurance companies, banking companies and non-banking finance companies. According to the road map, insurance companies will prepare their opening balance sheets in accordance with the converged Indian Accounting Standards by 1 April 2012. Commercial banks and urban cooperative banks with a net worth in excess of 300 crores rupees (approximately $64.2 million) will prepare their opening balance sheets in accordance with the converged Indian Accounting Standards by 1 April 2013. Urban cooperatives with a net worth of more than 200 crores rupees (approximately $43 million), but less than 300 crores rupees, will complete the transition by 1 April 2014.

Non-banking financial companies which are part of the NSE – Nifty 50 or the BSE – Senex 30, or whose net worth is more than 1000 crores rupees (approximately $214 million), will apply the converged Indian Accounting Standards starting on 1 April 2013. Listed non-banking finance companies that are not included in the preceding category that have a net worth in excess 500 crores rupees (approximately $107 Million) will begin preparing their financial statements in accordance with the converged Indian Accounting Standards as of 1 April 2014. Finally, non-listed non-banking finance companies with a net worth of less 500 crores (approximately $107 million) are exempted from the requirement to apply the converged Indian Accounting Standards. However, companies in this category have the option to voluntarily apply Indian Accounting Standards (not converged to IFRS).

[30] http://www.mca.gov.in/Ministry/press/press/press_release_22Jan_8Feb2010.pdf.
[31] 1 crore is equal to 10 million units (in this case Indian rupees).
[32] http://www.mca.gov.in/Ministry/press/press/press_release_31Mar_20apr2010.pdf.

Furthermore, the statement from the Ministry of Corporate Affairs noted that the leadership in charge of the convergence programme was satisfied with the progress that had been made in developing the necessary capacity-building measures and creating awareness of the convergence programme and expressed confidence in the implementation of the road map.

Japan

For a number of years, IASB and the Accounting Standards Board of Japan have been holding meetings to review progress towards convergence of Japanese GAAP to IFRS. In April 2010, the two organizations conducted their eleventh meeting. In Japan, convergence towards IFRS has recently gained additional momentum. In June 2009, the Business Accounting Council of Japan – an advisory body to the Commissioner of the Japan Financial Services Agency – published an interim report on the application of IFRS in Japan.[33] The report presented a road map for the implementation of IFRS in the country.

The road map presented a number of issues that should be addressed to facilitate the application of IFRS, including the quality of IFRS, the related due process, translation, and training and education that are required to gain a better understanding of IFRS. With respect to the quality of IFRS, the road map highlights the need for IFRS to reflect the economic reality of business and trade practices in Japan. It called on all stakeholders involved in accounting in Japan to monitor and examine closely the process for developing and amending IFRS.

The Business Accounting Council also called on stakeholders to pursue efforts to ensure that governance reform of the IASC Foundation, including the Monitoring Board, functioned properly. The report further underscored the need to make available an official Japanese version of IFRS to preparers, investors and other stakeholders in Japan. With respect to training and education, the road map recognized the need to raise the level of knowledge and understanding of IFRS in Japan beyond the level that had been attained during the convergence period. It identified investors, financial report preparers, auditors, regulators, educators and market-makers as stakeholders that would need to gain more expertise in IFRS.

The road map proposed a two-stage implementation process for IFRS. During the first stage, Japanese companies would be allowed to prepare – on a voluntary basis – their consolidated financial statements in accordance with IFRS. Companies should fulfil the following requirements in order to prepare IFRS-based financial statements: they should prepare and disclose appropriate financial statements on an ongoing basis; establish an appropriate internal framework for IFRS-based reporting; develop in-house accounting procedures based on IFRS and disclose the relevant information in their annual securities reports. The first stage, or the option to voluntarily prepare IFRS-based financial statements, was available for companies starting with the fiscal year ending March 2010.

[33] Business Accounting Council of Japan, *Opinion on the Application of International Financial Reporting Standards (IFRS) in Japan* (Interim Report), June 2009.

The Business Accounting Council's proposal presented mandatory implementation of IFRS as the second stage of implementation. The decision to make this mandatory would be informed by the experiences of those entities that would be implementing IFRS on a voluntary basis. It would be applicable for consolidated financial statements. The road map indicated a need to grant companies a preparation period of at least three years once a decision is made to make IFRS mandatory. According to the road map, the decision as to require IFRS on a mandatory basis could be made in 2012; the mandatory application would be introduced in 2015 or 2016, thereby providing entities with the preparatory period they would need.

Subsequent to the publication of the road map by the Business Accounting Council, the Japan Financial Services Agency conducted public consultations on the voluntary application of IFRS. After completing the consultation, on 3 March 2010, the Agency announced[34] that all IFRS and Interpretations approved and issued by IASB on or before 31 December 2009 would be available for "specified companies" (Japanese) to apply on a voluntary basis. The list of IFRS that the Agency designated for voluntary application in Japan include IFRS 9 – Financial Instruments (replacing IAS 39) which was issued by IASB in November 2009, effective 1 January 2013. As a result, Japan became one of the first countries to permit the use of IFRS 9.

Mexico

In November 2008, the National Banking and Securities Commission of Mexico (CNBV) announced that it would require listed companies to adopt IFRS. The mandatory requirement starts in 2012 but early application has been permitted since 2008. The adoption announcement was issued together with the Mexican Accounting Standards Board (CINIF), which also confirmed its commitment to achieve convergence between the Mexican Financial Reporting Standards (NIF) and IFRS by the end of 2011.[35]

In January 2009, CNBV modified the rules for listed companies and conducted several meetings with members of IASB, CINIF, external auditors and listed companies in order to ensure a proper transition to IFRS.

Concerning the different entities that integrate the financial sector, CNBV has decided to follow a convergence process with the international standards through a continuous review of the accounting criteria applicable. Therefore, the mandatory application of IFRS for listed companies excludes entities from the insurance and financial sectors.

As part of the support to the implementation process, CINIF published a book that identifies and analyses the main differences between NIF and IFRS.[36]

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[34] Financial Services Agency, press release, 3 March 2010.

[35] *Contaduría Pública*. Mexican Institute of Public Accountants (IMCP). February 2010. Regulatory approach to the adoption of IFRS. Lic Martha Navarrete Villarreal, pp 6–8. See http://www.imcp.org.mx/spip.php?article3114.

[36] *Veritas*. Public Accountants Association of Mexico City (CCPM). July 2010. CINIF's ordinary general assembly 2010. C.P.

In February 2010, the Transition Committee was created. It is chaired by CNBV and is composed of CINIF, the Mexican Stock Exchange (BMV), the Tax Administration System (SAT, its Spanish acronym), key auditing firms, the BMV-Listed Companies Committee and the Mexican Securities Industry Association (AMIB, its Spanish acronym). It meets every two months and its main objective is the timely detection of problems that can arise from the implementation of IFRS, as well as encouragement to listed companies to carry out the required activities to ensure an adequate transition process. The Transition Committee has been dealing with the following topics:

(a) Quarterly information presented by listed companies that chose the early adoption option;
(b) Review of the BMV filings in order to require periodical information based on IFRS;
(c) Tax implications of IFRS adoption;
(d) Supplementary use of Mexican NIF.

In March 2010, CNBV required listed companies to present an implementation progress report by 30 April 2010. The report will be presented on a quarterly basis and will feature financial information provided by companies to BMV. It includes information such as the identification of responsibilities in the implementation process, staff training, an outline of the required activities, an accounting and business impact assessment and changes in accounting policies.

According to CNBV requirements, if a company decides to carry out an early adoption, it must present a notification and an implementation plan during the first 90 days of the year. In 2010, 3 listed companies decided to apply IFRS. In addition, 18 listed companies have already presented their notification informing their plan to apply IFRS in 2011.

On 22 July 2010, CINIF published an exposure draft to address the required disclosure in financial statements prepared according to NIF when the entity decided to adopt IFRS. [37]

Nigeria

At the end of July 2010, the Nigerian Federal Executive Council approved a plan for the country's accounting standards to be converged with IFRS by 1 January 2012. The phased implementation plan indicates that publicly listed and significant public interest entities will implement IFRS by 1 January 2012. Other public-interest entities will face the transition to IFRS by 2 January 2013. Small and medium-sized entities will implement IFRS by 1 January 2014.

Jessica Valeria García Mercado, p 14. See http://ccpm.org.mx/veritas/julio2010/index_3.php.

[37]Mexican Financial Reporting Standards Interpretation (INIF) 19, *Change produced by the adoption of IFRS*. CINIF (exposure draft), in Spanish. See http://www.cinif.org.mx/imagenes/interpretaciones/INIF%2019.pdf.

United States

At the end of February 2010, the United States Securities and Exchange Commission published the Commission Statement in Support of Convergence and Global Accounting Standards. The Statement was an update on the Commission's consideration of global accounting standards, its continued support for convergence of United States GAAP and IFRS, as well as the implications of convergence with respect to the Commission's ongoing consideration of incorporating IFRS into the financial reporting system for companies listed in the United States. Also appended to the Statement was the Commission's Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers.

The Statement was a follow-up to a road map that it published for public comment in November 2008. The road map presented the Commission’s proposal on an approach to evaluating the further role of IFRS in capital markets of the United States. The Commission received more than 200 comment letters in response to the road map. According to the Statement, views varied on the potential use of IFRS in its current state to serve as the single set of global accounting standards. Large multinational companies and the accounting profession were supportive. However, investors said that it was too early to judge the potential use of IFRS to serve as a single set of global accounting standards for the following reasons: IFRS was not sufficiently developed or applied in practice to be adopted as a single set of global standards (for example, either IFRS lack guidance in certain significant areas, or where they have guidance, they appears to or may allow too much latitude to achieve more comparable financial reporting than United States GAAP); jurisdictional variants in the application of IFRS pose a significant challenge to the adoption of IFRS as a truly global financial reporting model; and the adoption of such a model would require consistent application, auditing, and enforcement across countries.

In light of the comments received from the public, the United States Securities and Exchange Commission recognized the need for a more comprehensive work plan to lay out transparently the further steps that need to be completed to inform the Commission's decision on the appropriate course to incorporate IFRS into the United States financial reporting system, including the scope, time frame and methodology for such a transition. The Work Plan lays out specific areas and factors for the Commission staff to consider, including the following:

(a) Sufficient development and application of IFRS for the domestic reporting system of the United States, including enforceability and auditability of the standards, as well as comparability of IFRS reporting across jurisdictions;
(b) The independence of international accounting standard-setting for the benefit of investors;
(c) Investor understanding and education with regard to IFRS;
(d) Examination of the United States regulatory environment that would be affected by a change in accounting standards;
(e) The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and litigation contingencies;
(f) Human capital readiness.

By 2011, the Securities and Exchange Commission is expected to make a decision on whether to incorporate IFRS into the financial reporting system of the United States. This is predicated on the successful completion of the Work Plan and also the FASB-IASB convergence projects according to the work plan[38] that the two organizations had in May 2010. Based on comments received from the public, Commission staff indicated in the Work Plan that United States companies would need a preparation period of four to five years to implement IFRS successfully. Thus, if the Commission were to decide in 2011 to incorporate IFRS into the financial reporting system of the United States, the first set of IFRS-based United States filings would begin in 2015 or 2016. The Commission has agreed to provide public progress reports beginning no later than October 2010 and frequently thereafter until the work is completed.[39]

Conclusion

This chapter has discussed major developments in the area of accounting and reporting. It has highlighted strategies that a number of member States are adopting to implement IFRS. Some 17 IFRS were due for publication by June 2011. These developments are likely to pose significant challenges to developing countries and countries with economies in transition that are currently implementing IFRS or that intend to do so in the coming years. In light of these developments, institutional and technical capacity-building will continue to be an essential part of the implementation strategy. In this regard, the current work of UNCTAD-ISAR on a capacity-building framework for high-quality corporate reporting is of particular relevance in assisting policymakers in developing countries and countries with economies in transition in formulating integrated and coherent strategies to adopt and implement international standards.

[38] In June 2010, IASB and FASB published a revised work plan that might affect the timeline that the Securities and Exchange Commission has set to make a decision on whether to incorporate IFRS into the financial reporting system of the United States.

[39] Testimony Concerning Accounting and Auditing Standards: Pending Proposals and Emerging Issues by James L. Kreoker, Chief Accountant, Securities and Exchange Commission, before the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises of the House Committee on Financial Services, 21 May 2010.

Appendix I. Status of IFRS implementation in G-20 countries

Country	Status
Argentina	Required for fiscal years beginning on or after 1 January 2012
Australia	Required for all private sector reporting entities and as the basis for public sector reporting since 2005
Brazil	Required for consolidated financial statements of banks and listed companies from 31 December 2010 and for individual company accounts progressively since 2008
Canada	Required from 1 January 2011 for all listed entities and permitted for private sector entities including not-for-profit organizations
China	Substantial converged national standards
European Union	All members States of the EU are required to use IFRS as adopted by the EU for listed companies since 2005
France	Required via EU adoption and implementation process since 2005
Germany	Required via EU adoption and implementation process since 2005
India	Converging with IFRS over a period beginning 1 April 2011
Indonesia	Convergence process ongoing; a decision about a target date for full compliance with IFRS is expected to be made in 2012
Italy	Required via EU adoption and implementation process since 2005
Japan	Permitted from 2010 for a number of international companies; decision about mandatory adoption by 2016 is expected to by made in 2012
Mexico	Required from 2012
Republic of Korea	Required from 2011
Russian Federation	Required for banking institutions and some other securities issuers; permitted for other companies
Saudi Arabia	Not permitted for listed companies
South Africa	Required for listed entities since 2005
Turkey	Required for listed companies since 2008
United Kingdom	Required via EU adoption and implementation process since 2005
United States	Allowed for foreign issuers in the US since 2007; date for substantial convergence with IFRS is 2011 and decision about possible adoption for US companies expected in 2011

Source: IASC Foundation, Annual Report 2009.

Chapter II

Capacity-building framework for high-quality corporate reporting

Summary of discussions

The secretariat introduced this agenda item, explaining that a consultative group had been set up to work on this issue during the intersessional period. The consultative group had held a meeting in May 2010 in Geneva to discuss a draft note prepared by the secretariat on the capacity-building framework for high-quality corporate reporting. After the meeting, UNCTAD had provided a revised version of the document, and the consultative group had added further comments to it. The final version of the document (TD/C.II/ISAR/56) and the addendum to it (TB/C.II/ISAR/56/Add.1) were made available to all participants. These documents dealt with the main elements to be considered when building national capacity in corporate reporting. The secretariat drew participants' attention to the use of the term "corporate reporting", explaining that, in this case, the term included both financial and non-financial reporting.

The first high-level panel of experts then held a discussion about recent trends and developments in accounting and reporting, and the related capacity-building challenges. The first speaker, a representative of the Global Reporting Initiative, highlighted the urgent need for changes to financial corporate reporting. He commented that the major acquirers of listed companies in the world were pension funds, and therefore, now more than ever, investors were interested in the sustainability of business. He noted that financial reporting alone did not provide sufficient information for a full reflection of a company's position and performance, and that information on environmental, social and governance issues was needed too. He emphasized the importance of having a holistic picture of the sustainability of a business. The speaker also emphasized the relevance of good corporate governance to the achievement of high-quality corporate reporting.

The next speaker, a representative of the European Commission, provided background information on the adoption and implementation of IFRS in the EU. He commented that regulation EC/1606/2002, dealing with International Accounting Standards (IAS), required EU-listed companies to use endorsed IAS for consolidated financial statements. He observed that for non-EU companies listed in the EU, there was an equivalent process. He also discussed the endorsement process, and the criteria established for that purpose. The speaker elaborated on a study of financial statements for 2006 that had been carried out for the Commission, which showed that there had been an overall improvement in the quality of IFRS financial statements in 2006, compared to 2005. He commented that the financial crisis had increased the pressure on IASB to change IAS 39, that IASB was consequently carrying out a general overhaul, in three phases, and that as a result of the first phase, IFRS 9 had been published. Furthermore, he stated that the EU had decided that no fast-track endorsement was possible for this standard, on account of three factors:

(a) the complexity of the proposed changes;
(b) a new EU Parliament and Commission; and
(c) strong criticism on technical grounds.

He also mentioned other key accounting topics that IASB was working on, such as IFRS 9 phase II and phase III, IAS 37 non-financial liabilities, revenue recognition, leasing, and emission trading schemes. In the international arena, he explained that the EU supported the creation of a single reporting framework for listed companies, promoting the convergence of other countries' standards with IFRS. Finally, he spoke about a public consultation on IFRS for small and medium-sized enterprises (SMEs), and about a legislative and impact assessment.

The next speaker, a representative of IFAC, highlighted the key role played by professional accountancy organizations (PAOs) in supporting the adoption and implementation of international accounting standards, in promoting ethical standards and overseeing compliance with them, and in educating, certifying and training professional accountants. He also emphasized the positive effects that high-quality accounting and financial reporting had on improving financial stability, increasing transparency and the level of foreign direct investment, fostering economic growth, and reducing poverty. He also commented that governments should adopt accrual-based accounting, instead of cash-based accounting. He noted that the translation of standards to be adopted was a critical element in capacity-building. With regard to recent developments designed to further improve the financial architecture, he discussed the work being carried out on the convergence of standards and on the governance of standard-setting, as well as the progress that had been made on the adoption of International Standards on Auditing.

Another delegate reiterated the importance of using accrual-based accounting in government accounting, stressing that without that approach, governments did not recognize liabilities and financial reporting was misleading for investors.

Another participant spoke of the need for an integrated reporting approach in which both financial and non-financial issues would be considered. The speaker commented that nowadays the majority of companies were multinational, and that the traceability of products was becoming important. For instance, buyers were demanding information on the use of resources. Therefore, there was increasing pressure on companies to comply with integrated reporting. Another speaker noted that the purpose of corporate social reporting was to ensure that companies were acting in a socially responsible manner. He also explained that 98 per cent of listed companies carried out corporate social responsibility reports, but that there was a lack of comparability. Accordingly, there was a need to inject coherence and consistency into future corporate social responsibility reports.

One delegate noted that, in his country, most of the enterprises were very small, few of them were listed on the stock market, and very little financial data was available. He asked what the approach to harmonizing international reporting would be in such cases. He also enquired whether any experiences could be shared by countries that had had similar difficulties, as this may help to shed light on the challenges. One of the panellists commented on the twinning process that IFAC had been putting into operation, whereby a large PAO from a developed country supported a developing country to build the latter's capacity in corporate reporting.

Another expert commented that since 2004 in his country there had been a law on implementation of accounting standards for enterprises of public interest. He indicated that there were major differences between national and international standards. In addition, he elaborated on the difficulties experienced by SMEs in his country in applying IFRS. One of the panellists explained that IFRS were designed for listed companies but a version of IFRS did exist for SMEs; however, he made it clear that it was not useful for very small companies, and that these enterprises should be covered by local accounting standards.

One participant asked whether a model existed for the auditing of environmental and social reports. He also enquired whether such auditing should be voluntary or mandatory. In response, one of the panel members stated that the requirements for the auditing of environmental and social reports were being addressed by IFAC and by several universities around the world. The panel member went on to say that the aim was to improve auditors' knowledge of social and environmental issues, in order for them to develop the necessary skills to carry out auditing of integrated reporting. He also commented that a debate was going on about whether environmentalists should be trained in auditing and whether they should work with accounting firms. Another speaker noted that the International Auditing and Assurance Standards Board (part of IFAC) was currently involved in developing a standard for providing assurance on carbon emissions, and that currently there were no existing global standards for auditing for environmental and social reporting.

The Chair introduced a second panel of experts who discussed the regulatory and institutional aspects of the capacity-building framework (CBF). The first speaker was the Chair of the UNCTAD–ISAR consultative group[40] on the capacity-building framework. He discussed the matrix components of the capacity-building framework, including the pillars, the different stages (checklist), the elements, the international standards, reference/guidance materials, and milestones and indicators. The second panellist, a director at his country's finance ministry, discussed the capacity-building framework from the perspective of government. He noted that due to its technical nature, policymakers often found this subject difficult to comprehend. He presented a strategic actions framework for accounting and audit that had been implemented in his country in 2007. He stated that its strategic action plan was similar to the matrix of the Capacity-building Framework. He stressed that an action plan needed to be of a pragmatic and practical nature. The logical steps of the action plan included establishing applicable laws, setting up institutions, and developing human capacity. The legal aspects comprised black-letter law, legislation at the statutory level, procedures, functions, and transfer of authority from government to relevant institutions where applicable. The speaker was of the view that an efficient regulatory system would have elements of both public and private institutions. He advised against implementing regulatory systems that would be alien to the established legal order of a given country. For example, introducing common law–oriented regulation into a civil law legal environment would lead to implementation problems. He was also of the view that it would be better to allow a longer time for implementation than to attempt to introduce new laws where institutional or human capacity did not exist. The speaker concluded his presentation by emphasizing the need for support from the highest level of leadership of a country to ensure the successful implementation of a regulatory system.

[40] Please refer to appendix V of TD/B/C.II/ISAR/56/Add.1 for a list of the members of the consultative group.

The next speaker was the Deputy Chair of the Developing Nations Committee of IFAC. Her presentation focused on the institutional aspects of the regulatory framework, from the perspective of professional accountancy organizations. She noted that PAOs could play a key role in capacity-building by (a) acting as "centres of excellence" on a variety of accountancy policy issues and questions; (b) facilitating the adoption and implementation of international accounting standards; (c) educating, certifying and training professional accountants; and (d) promoting the highest ethical standards, and overseeing member compliance with the professional ethical standards. The speaker identified various challenges to advancing the capacity of PAOs. These were (a) lack of awareness of the value of accountancy; (b) weaknesses in PAOs; and (c) lack of capacity to provide vital activities. She added that these challenges were of a mutually reinforcing nature. In her discussion of potential solutions, she highlighted the IFAC guidance material on establishing and strengthening PAOs, which was currently in the process of being republished. Another potential solution was the country action plans that resulted from the self-assessment-based IFAC compliance programme, with its Statements of Membership Obligations (SMOs). The action plan, which was agreed between IFAC and a member body, provided opportunities for identifying compliance gaps, as well as ways and means of addressing them. Another potential solution was the promotion of mentoring relationships between PAOs from developed and developing countries. The speaker also noted the important role that regional accountancy organizations played, by supporting and assisting PAOs and promoting peer knowledge-sharing.

During the discussions that followed, one of the panellists commented that it would be useful to understand why there were no PAOs in some jurisdictions, and added that a country would benefit more by building local capacity in a sustainable manner than by bringing in expertise from other countries on a temporary basis. Another delegate stated that it was important to bear in mind that bringing about solutions by making changes to a country's regulatory framework was a long-term process. Delegates then exchanged views about what was more important to have in place first – good leadership or a legal framework. The general view was that while it was important for there to be good leadership in the first place, it would not be possible to achieve the objective of high-quality corporate reporting without a proper legal framework in place. A question was then raised about whether it was important to harmonize national laws and accounting standards. One of the panellists responded that there was no model law, and that jurisdictions would have to determine individually what was appropriate for them. Delegates also exchanged views on the importance and on ways of engaging stakeholders in the process of developing a regulatory framework, for example by means of steering committees.

Another speaker, who represented his country's Federal Council of Accounting, described the institutional developments that had taken place following a decision to implement a number of international standards in the areas of financial reporting, auditing, and public sector reporting. He pointed out that, in his country, the process of convergence towards international standards had reached an irreversible stage. He also emphasized that a single set of international accounting standards would better serve the needs of users worldwide. He indicated that, in 2005, a new institution had been established under the auspices of the Federal Council of Accounting to engage in research and issue technical pronouncements, with a view to facilitating their subsequent endorsement and issuance by regulatory entities in the country, thereby promoting the convergence of national standards with international standards.

The next speaker, representing a national PAO, discussed regulatory arrangements in relation to financial reporting and auditing. He elaborated on the need for standards on accounting and auditing, and for a code of ethics. The options for producing standards included setting one's own standards or – alternatively – adopting, endorsing or adapting standards set by others. The speaker mentioned lack of comparability with other jurisdictions as a disadvantage of setting one's own standards or adapting standards set by others. He cautioned against requiring all entities regardless of their size to implement international standards such as IFRS or IFRS for SMEs. He emphasized the need to establish statutory requirements with respect to the preparation of financial statements. He noted the importance of establishing coordination mechanisms among regulators, particularly during times of reform of the regulatory system. He also discussed the different roles that professional accountancy bodies played in the regulatory framework.

During the discussions, one delegate expressed the view that the existence of a framework would not automatically result in the production of high-quality financial reports. The delegate added that the framework, as a system, had components that interacted with one another, and that the quality of the output depended on the interaction. Another delegate stated that the CBF was comprehensive, and he shared his country's experience with regard to the early involvement of stakeholders. He cited, as an example, the discussions held with real estate developers in his country following the publication by IASB of the revenue-recognition exposure draft. Another delegate raised the issue of the extraterritorial impact of regulations enacted in some major markets, and the compliance challenges they posed for other countries. A different delegate raised questions regarding the governance and financing of the Federal Council of Accounting that one of the panellists had discussed. In response, the panellist elaborated on the governance arrangements, and clarified that the institution did not receive financial subsidies from the government of his country. Some delegates noted the importance of involving securities regulators, insurance commissioners, investors and financial analysts when discussing reform of the regulatory framework. Delegates exchanged views on the usefulness of establishing public oversight bodies. The general consensus was that countries take a variety of regulatory approaches in order to achieve high-quality corporate reporting, and that public oversight bodies were not the only model in this respect.

The next panel discussed human capacity aspects of the capacity-building framework. The first panellist, from IASB, described the complexity of the corporate reporting framework, and emphasized that a rigorous framework benefited both capital markets and economic development. He emphasized the importance of having a qualified accounting profession in order to properly implement standards. He also underscored the relevance of oversight processes, and suggested the level of participation that enforcement authorities should have in this regard. He commented on the status of IFRS in the world, and noted that since 2001, over 120 countries had required or permitted the use of IFRS. The speaker elaborated on the progress being made in the major projects that IASB was executing. He commented on IFRS for SMEs, and pointed out that 60 jurisdictions had decided to adopt the standard, or had stated their intention to do so. He stressed the importance of the year 2011, commenting that many countries would adopt or converge at around that time, and noted that 2010 marked a target date for the G-20's plans on convergence. He emphasized the relevance of using a principles-based approach to developing accounting standards. Finally, he noted that in order to have a proper implementation process, a high level of education was required in all facets of accounting.

The next speaker, a representative of a financial reporting standards board, described human capacity development in her country. She provided background information on the activities of the board, and emphasized the criteria being used to attain convergence with IFRS. She noted the existence of a transition committee, which was leading the process of adopting IFRS for listed companies starting from 2012. She highlighted the key role played by dissemination and training in the process of effectively applying accounting standards. She further commented on the use of a train the trainers system and certification programme in her country. She noted a lack of financial resources for participants to attend workshops, and commented that a possible solution would be to create sponsorships. She explained that another barrier was that universities were slow to introduce changes into their programmes. Finally, she observed that the most significant problem was that many users of financial statements did not demand the comprehensive application of accounting standards.

The next speaker, a representative of a finance ministry, elaborated on the training programmes that the government of her country had in place. She provided data on the numbers and different levels of professional accountants in the country. She further explained the examination processes required for accounting personnel and for registered accountants.

The next speaker, from the International Accounting Education Standards Board, identified the lack of awareness of the value of accountancy and the weaknesses error bookmark not defined of PAOs as being among the main challenges to achieving high-quality financial reporting. He further commented that PAOs carried out a sound technical function, and required strong relationships with regulators and with education and examination experts. He observed that, in some countries, the PAO was also the regulator, and noted the importance of establishing a different institution to carry out this activity. He stressed the critical role of PAOs in developing and in maintaining competencies, through programmes of continuing professional development. He also spoke of the need for continuous quality assessments of accountancy programmes. He elaborated on the existing pronouncements of the International Accounting Education Standards Board. He discussed the use of twinning programmes as a useful tool to support developing countries in improving capacity in corporate reporting. He also noted that the major challenge for the implementation of standards was in the area of translation.

The last speaker on this panel, a representative of Royal NIVRA, presented an overview of the mentoring activities carried out by this body in order to develop capacity. The speaker explained that NIVRA entered into agreements with organizations to assist IFAC’s members to make progress in the area of capacity-building and in the implementation of international standards. He noted that NIVRA followed a long-term strategy taking from 5 to 10 years. He stated that the mentoring process included all stakeholders involved in the process of implementing IFRS. With respect to mentoring challenges and lessons learned, he stressed that local circumstances needed to be considered, and therefore, the implementation process in different countries could not be identical but it should attain the same results.

During further discussions, one participant raised a question about the possibility of applying standards in a selective manner. He also made the point that the translation of these standards into other languages took a long time. In response, one of the panellists explained that adoption of IFRS could not be made in a selective manner;

nonetheless, he noted that in some cases, temporary exemptions were needed. He recommended making use of the translations prepared by other countries with the same language.

The next panel discussed possible measurement approaches in relation to the capacity-building process. The first panellist highlighted a number of the benefits provided by such measurement. Government agencies could use measurement to identify areas for reform, and for allocating resources. Regulators used measurement tools to help with the adoption, implementation and enforcement of standards. The other beneficiaries of measurement included donors, for assessing a country's current position as well as its progress over time; professional associations, for closing gaps in compliance with standards; educators, for curriculum development based on standards and best practices; and investors, for input related to investment analysis. The panellist noted that the CBF was designed to be suitable for measurement. In terms of data structure for measurement, he explained the logic of proceeding from pillars to milestones and then to indicators, followed by questions for assessment. He illustrated the data structure and relationship using pillar 3 of the CBF (human capacity) and the sub-pillar on professional education, training and continuing professional development. He discussed the results of a pilot study of the Accountancy Development Index, which had been developed by international experts with financial support from the United States Agency for International Development. He concluded his presentation by outlining the way forward for developing a measurement tool to support the UNCTAD–ISAR CBF, including considering key questions on the adoption and implementation of international standards and best practices, selecting measurement methodologies based on existing experience, conducting further testing of the practical application of the tool, and considering the results of regional discussions.

The next speaker shared his country's experience with implementing financial reporting requirements in the private and public sectors and the related capacity-building challenges. He indicated that reform of the financial reporting regime had begun in 2003, with support from the World Bank. A financial reporting law had been adopted in 2004. The financial reporting regime included five different types of entities, namely (a) large public interest entities that apply IFRS; (b) medium-sized enterprises that apply national accounting standards; and (c) small entities that apply special rules based on tax accounting. The other two types of entities were non-commercial organizations that apply International Public Sector Accounting Standards (IPSAS), and non-governmental organizations that implement basic IPSAS. The speaker highlighted a number of challenges that his country faced in implementing financial reporting reform. One of the problems was related to human resources development. Another challenge related to the regulation and quality control of audit firms. Translation of the IFRS and IPSAS volumes for 2010 into the national language was another challenge. The speaker elaborated on the governance and financing of the Council of National Standards of his country.

The next speaker was the representative of the Public Expenditure and Financial Accountability (PEFA) programme, and he provided background information on the establishment of the PEFA programme. He elaborated on the measurement framework that the programme had developed to determine whether a country had the tools to help deliver budgetary outcomes. The framework consisted of 32 performance indicators, covering all main aspects of the public finance management system. Each indicator consisted of 2 to 4 sub-indicators. Each dimension was to be rated separately, and when there was insufficient evidence, no rating should be carried out. In total, 74 dimensions needed to be rated, using a cardinal scale of A, B, C and D. The other component of the framework was a standard report format providing country background, evidence of indicators, and an integrated summary. The speaker indicated that application of the PEFA framework was for each country to decide. Since 2005, over 200 assessments covering 115 countries had been carried out. The PEFA assessment results were being used to inform public finance management reform, to monitor the results of reforms, to harmonize the information needs of external agencies that support reforms or channel aid through country systems, to share experiences among countries and regional groups, and for global research.

The next speaker, from the Asian Development Bank, shared his views on capacity-development measurement approaches from the perspective of a development bank. In relation to the UNCTAD–ISAR CBF, he suggested that it would be useful to add clear objectives or defined targets as a first pillar. The capacity-building activities that his organization funded were often related to human capacity-building. The process started by conducting diagnostic assessments of needs, and was followed by project or programme design. The size of the project depended on the funds available to the recipient. This would then be followed by implementation, monitoring, completion and evaluation. The measurement of progress or achievements would then be informed by the objectives set when designing the framework, by quantifiable or qualitative indicators, by responses from beneficiaries, by related stakeholder reviews (such as PAOs), by independent evaluation, and by benchmarking on a regional basis. The speaker emphasized the importance of keeping the macro-level context in mind in the capacity-building process.

The next speaker, from academia, indicated that the technical measurement attributes of human capacity-building were of an objective (factual) or normative (subjective) nature. For example, in relation to the components of International Accounting Education Standards, entry requirements and knowledge content would be of a factual nature, while professional skills would be normative. Assessment and practical skills had both factual and normative elements. Capabilities, based on input measures, contained factual and normative elements, while competence, based on outputs, was normative. He emphasized that there was no single preferred method. However, the method used needed to meet criteria such as reliability – producing consistent and objective results over time; validity – assessing the desired outcomes through quantitative and qualitative measures; and credibility – acceptable to stakeholders and the public. He identified the following principles for measurement of technical attributes: performance must be measured against benchmarks, and benchmarks must be considered across cultures and regulatory environments.

During the discussions, delegates and panellists exchanged views on input versus output measures, and how these related to other aspects of the CBF in addition to human capacity. Delegates also raised questions on how one could build flexibility in a measurement system without limiting comparability. One delegate noted that, in a broad sense, the CBF could be taken as the input and high-quality corporate reporting could be taken as the output of the system. The delegate then asked how the quality of corporate reporting could be measured. One of the speakers expressed the view that boiling down measurement to a single number diminished the usefulness of the measurement exercise. He also noted that it would be helpful to make use of alternative indicators or proxies when it is impossible to find certain indicators specified by the measurement tool. There was general understanding that the measurement aspect of the CBF was still in development, and that further discussion would be needed to address measurement-related issues.

Introduction

High-quality corporate reporting is fundamental to a well-functioning economic and financial system. Following the current financial and economic crisis, it has become more apparent than ever that sound financial reporting is essential for global financial stability and growth. The crisis has also highlighted the relevance of accounting, reporting and auditing standards and transparency for reducing the likelihood of fraud and mismanagement, promoting good governance and maintaining investor and consumer confidence. The crisis has further raised awareness of the need to converge towards effective global reporting standards.

Following discussions between highest-level policymakers on reforming the global financial system, the crisis has demonstrated the need to build institutional and technical capacity with a view to facilitating the improvement of corporate reporting along the entire reporting chain. The Financial Stability Forum has identified capacity-building as one of the measures that is needed to promote adherence to international standards and codes.

For over two decades, UNCTAD, through the work of ISAR, has been contributing towards the harmonization of corporate reporting to assist developing countries and economies in transition to meet international requirements in this area and to facilitate investment.

At its twenty-sixth session in 2009, ISAR agreed on the need for further work on the subject. It would address capacity-building issues in the context of high-quality corporate reporting with a view to developing a capacity-building framework. It discussed whether a guiding framework document based on good practices and lessons learned in capacity-building could be a useful tool to assist developing countries and countries with economies in transition in formulating and carrying out such activities.

ISAR requested the UNCTAD secretariat to reconstitute a consultative group to work on the issue and to propose an approach for consideration at the twenty-seventh session of ISAR. In accordance with this request, the Consultative Group was formed (see document TD/B/C.II/ISAR/56/Add.1, appendix V) and held its first meeting in Geneva from 20 to 22 May 2010. It discussed a draft document prepared by the secretariat with the assistance of the Association of Chartered Certified Accountants. Members of the group also provided comments that are incorporated into the final version of the document to be presented at the twenty-seventh session of ISAR.

The objective of the report is to provide guidance on the key components of capacity needed to ensure high-quality corporate reporting and on the requirements for building such capacity. It is not country-specific; rather, it summarizes good practices and has been informed by sources such as the work of UNCTAD on the practical implementation of IFRS, the World Bank ROSC programme and follow-up capacity-development activities, the IFAC Compliance Programme action plans, as well as on relevant research and the practical experience of different countries, agencies and professional accountancy organizations in national capacity-building programmes, particularly in developing countries and countries with economies in transition. Some country-practice references are cited in this paper to illustrate how particular systems actually work. These are meant to serve as examples and no particular preference is intended for such arrangements over other systems.

In this report, the term corporate reporting is used in a broad sense, including financial as well as non-financial reporting, such as corporate governance, corporate responsibility and climate change disclosures. It does not cover public-sector accounting issues. Although the latter constitute an integral part of capacity-building in accounting and reporting, it has distinct elements compared with corporate reporting. At this stage, it is an evolving area of reforms in many countries and time is needed to comprehend good practices and lessons learned on related matters.

A. Capacity-building framework

In order to build capacity, some major decisions need to be taken to address the following issues:

(a) What standards and requirements should be used to achieve high-quality corporate reporting?
(b) What tasks need to be performed along the reporting chain to ensure consistency, coherence and efficiency of efforts towards high-quality corporate reporting?
(c) Who should be responsible and for what actions?
(d) How to ensure that tasks are implemented in a competent manner and the required technical expertise is in place?
(e) What should be the time frame and what financial resources are needed?

Building capacity in accountancy is a complex process that requires a comprehensive approach because the accounting infrastructure itself is part of an entire legal and regulatory system designed to secure property rights, enforce contracts and provide financial information on an entity’s performance. It also requires the consideration of the interests of a number of stakeholders, as well as the availability of financial, educational and human resources.

In order to grasp the complexity of the capacity needed for high-quality corporate reporting in a more structured way, a matrix has been prepared that also provides an outline for this report (see document TD/B/C.II/ISAR/56/Add.1, appendix I). The objective of this matrix is to make the document more user-friendly. Like the report, this matrix does not necessarily cover all the aspects that may be required to be addressed in a specific country context.

In this report, capacity-building refers to assistance in putting in place the proper legal framework and institutional arrangements needed for supporting high-quality corporate reporting. Capacity-building also refers to assistance that is provided to entities that have a need to develop a certain skill or competence, or for general upgrading of performance ability. Capacity can refer to the capacity of individuals, groups or institutions and civic structures.

Core pillars

As suggested in the matrix, the capacity-building framework can be structured into four main pillars:

(a) Legal and regulatory framework;
(b) Institutional framework;
(c) Human capacity;
(d) Capacity-building process as a whole.

These are each considered in relation to the following factors:

(a) Stages in the corporate reporting process;
(b) Elements making up each main part and the bodies or institutions involved in the process;
(c) International standards or principles available to build capacity;
(d) Good practice examples or guidance as benchmarks and references for building capacity (see document TD/B/C.II/ISAR/56/Add.1, appendix II);
(e) Milestones and indicators to measure progress.

B. Legal and regulatory framework

One of the core pillars of the capacity-building framework is the legal and regulatory framework. This can take different forms depending on the background and culture of the country concerned. However, some common aspects can be identified based on experience gained through years of accounting and audit reforms aimed at promoting international harmonization and improving the quality of corporate reporting.

To ensure that all the important elements are considered when building a regulatory framework, it can be useful to look at the stages followed in preparing company accounts and reporting:

(a) Preparing and keeping financial records (bookkeeping);
(b) Conducting risk assessments, internal controls and internal audits;
(c) Preparing financial statements;
(d) Approving financial statements, including a review by the board of directors and .0its relevant committee(s), in a manner consistent with sound corporate governance;

(e) Auditing financial statements, including interaction with the audit committee of the board of directors;
(f) Filing and publishing financial statements;
(g) Performing corporate governance;
(h) Analysing and using financial statements;
(i) Reporting under multiple frameworks;[41]
(j) Ensuring oversight and quality assurance of auditors;
(k) Monitoring and enforcing standards.

However, it is important to recognize that not all of these stages apply to all entities. For example, microenterprises may only keep basic records and may not file or publish accounts. Small and medium-sized enterprises may follow simplified accounting rules. Furthermore, not all enterprises are required to have statutory audits.

Elements

The legal and regulatory pillar of the capacity framework should be set to ensure that participants along the reporting chain perform certain tasks at a required level of quality. For example, it should provide the framework to (a) develop, enact or amend appropriate laws and regulations; (b) endorse and enforce accounting and auditing standards and ethical norms; (c) license and monitor statutory auditors in line with quality control requirements; (d) review statutory financial statements and reports, for example, pertaining to prudential regulation, and/or listed company financial statements and reports in line with accounting standards and disclosure requirements; (e) qualify accountants at the professional level by both examinations and practical training as well as others, for example, regulators; (f) discipline individuals and firms; (g) ensure continuing professional development; and (h) ensure good governance in both the private and the public sector.

Regulatory and institutional models can be considered as a reference to develop an adequate regulatory framework. Decisions and actions regarding the most efficient regulatory setting in a country should be based on a thorough consideration of the legal system of a particular jurisdiction, the level of its economic development, the availability of resources and required professional expertise.

The following elements are suggested for inclusion in legal and regulatory frameworks:

(a) Accounting and audit standards and requirements;
(b) Endorsement and enforcement of standards;
(c) Monitoring of and compliance with standards and requirements;
(d) Licensing, generally of auditors;
(e) Training of accountants, auditors, regulators and other stakeholders;
(f) Corporate governance;
(g) Ethical standards for professional accountants and auditors;
(h) Investigation and discipline;
(i) Quality assurance mechanisms, in general in relation to auditors;
(j) Auditor liability and accountability.

[41] Some entities apply more than one reporting framework to reports for different users – for example, investors and prudential regulators.

Therefore, a number of issues should be considered in shaping this pillar. These include:

(a) The need to ensure a coherent accountancy/reporting legal and regulatory framework, as different aspects of company accounting and reporting are normally set out in various pieces of legislation such as an accounting acts, corporate legislation, and banking, securities and insurance legislation;

(b) Distinction between public-interest and non-public-interest entities, and the size limits of small and medium sized enterprises, as well as the public-sector role, to clarify the scope of application of related standards and requirements;

(c) Mechanisms to ensure efficient coordination within the accounting legislative and regulatory framework as well as with other related legislative sources such as investment, finance;

(d) Adequate enforcement and oversight mechanisms, compliance and discipline, including legal sanctions.

Often existing laws may have grown piecemeal so that the regulatory system is fragmented and spread out among several different government departments or regulatory agencies. If the opportunity arises, it may be useful to consider drafting a new piece of legislation and/or regulations that centralize the regulation of accounting and auditing within a unified framework.

Accounting and auditing standards

Another set of issues is related to making a decision on whether international standards will be used for statutory accounting requirements and national audit legislation.

A wide range of international standards issued by international bodies can be helpful when building a regulatory framework that will allow systems to meet international corporate reporting requirements. Guidance can also be taken from internationally accepted standards and guidance issued in countries that have well-developed accounting professional bodies, national standard-setters and oversight bodies.

Accounting standards

Accounting frameworks may be built on the adoption of IFRS (including IFRS for small and medium-sized enterprises and International Public Sector Accounting Standards). In this regard, the scope of IFRS application should be considered.

IASB develops IFRS, which are global accounting standards and related interpretations thereof. These standards are intended to be used for the preparation of general-purpose financial statements. Regulators for specific sectors may have their own reporting requirements differing from or supplementing IFRS (or may use IFRS but require additional disclosures), particularly in regard to banks, insurance companies and taxation.[42]

Over 100 countries either require or permit the use of IFRS for the preparation of financial statements. For example, all EU member States have adopted IFRS for the preparation of consolidated financial statements (but not necessarily for separate company accounts). Nevertheless, depending on the general economic situation, the existing regulatory framework and the financial reporting tradition, practical implementation of IFRS can pose considerable challenges.

When IFRS are adopted in a given jurisdiction, the adoption can be handled in such a way that they become part of the existing laws and regulations of the jurisdiction. This requires an assessment of the existing laws and regulations that might require amendments to recognize the introduction of IFRS. For example, under Peruvian law, consolidated and separate financial statements of Peruvian companies must be prepared according to IFRS as approved by the Peruvian accounting standard-setter. In some cases, situations arise where IFRS requirements contradict applicable provisions in national laws and regulations.

When the decision is made to adapt international standards rather than just accepting them as they are published, certain issues need to be addressed. For example, IASB considers it should be the only body that issues official interpretations of its standards. It is important therefore to have a mechanism to interact with the Board before a standard is issued or ask for subsequent clarification that can be published by the Board.

Adapting standards for national use means the advantage of providing comparable financial information to users may be lost. However, certain regulators may need to set their own accounting rules to suit national circumstances. These would not normally apply to general-purpose financial statements but may apply to particular sectors such as banking or insurance. Some countries have created committees to deal with legal and economic local issues not addressed by IFRS, in order to agree on the accounting treatment to be followed and avoid lack of comparability among companies' reports.

In some cases, countries use a differential approach to developing an accounting framework. A first tier uses IFRS (this might include listed companies and public interest entities) A second tier uses IFRS-based standards adapted for that particular tier (this might be the IFRS for small and medium-sized enterprises). A third tier, consisting of microenterprises, uses a highly simplified system which resembles cash accounting. (UNCTAD has issued guidance on this topic in *Accounting and Financial Reporting Guidelines for Small and Medium–Sized Enterprises,* or SMEGA Level 3.)

In this regard, a system of assisting small and medium-sized enterprises in their compliance with the statutory accounting requirements should be considered.

When international standards published by international bodies are adopted, an efficient mechanism for the translation of these standards into a national language

[42] International Public Sector Accounting Standards, issued by the International Public Sector Accounting Standards Board under the auspices of IFAC, could be used for public-sector entities. In developing countries and countries with economies in transition, the public sector is often the dominant force in the economy. Therefore, controlling and accounting for government finances may be as important, or even more so, than accounting for private-sector enterprises. In the aftermath of the financial crisis, the expanded role of the public sector requires additional efforts to improve public-sector reporting in all countries concerned.

should be set up, including a coordinating mechanism with the related standard-setter and related quality controls to ensure that the standards will be available on time in the language required. IASB has a policy requiring the consent of the IASC Foundation before allowing any translations of IFRS. The IASC Foundation will only allow one version of each translation.

Auditing and assurance standards

A common denominator of some countries that have implemented IFRS is that of requiring an audit of IFRS financial statements in accordance with the International Standards of Auditing (ISA) issued by the International Auditing and Assurance Standards Board. These can be important tools to enforce the proper implementation of IFRS. Guidance for the application of ISA for small and medium practices is available from the IFAC Small and Medium Practices Committee (IFAC, 2009), *Guide to Quality Control for Small and Medium-Sized Practices*.

Other sources of international principles, standards and guidance on accounting and auditing and regulation include the following:

(a) *Objectives and Principles of Securities Regulation* and related IOSCO assessment methodology;[43]
(b) Other IOSCO principles, statements and reports relating to financial reporting, auditing, internal control, auditor oversight and governance matters;
(c) Basel Committee on Banking Supervision[44] principles, standards and guidance on corporate governance, accounting, auditing and disclosure, including valuation and provisioning are particularly relevant for bank supervision;
(d) Extensible Business Reporting Language, or XBRL,[45]which provides a global standard for the exchange of financial information;
(e) Principles, standards and guidance provided by the International Association of Insurance Supervisors (particularly relevant to insurers);
(f) Guidance and standards of the International Organization of Supreme Audit Institutions (particularly relevant to accounting and auditing in the public sector).

Regional and national sources include the following:

(a) Eighth Company Law Directive of the European Union[46] on statutory auditors;
(b) Sarbanes Oxley Act[47] (United States);
(c) Committee of Sponsoring Organizations of the Treadway Commission [48] model on internal controls;
(d) National banking codes;
(e) Institute of Internal Auditors standards and guidance on internal audit.

[43] http://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf.
[44] http://www.bis.org/bcbs/.
[45] http://www.xbrl.org/Home/.
[46] Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC. Available from http://ec.europa.eu/internal_market/auditing/directives/index_en.htm.
[47] http://fl1.findlaw.com/news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf.
[48] http://www.coso.org/guidance.htm.

Environmental, social and governance disclosure standards and guidelines

An evolving trend in the area of corporate reporting is a growing attention to non-financial matters, such as environmental, social and corporate governance issues.

Disclosure on a range of environmental, social and governance (ESG) issues is the subject of a number of voluntary international best practice guidelines. A national framework to address these issues can benefit from international best practice guidance, as well as international networks and management systems standards.

Reporting on environmental and social issues provides useful information to a range of key stakeholders, including government regulators, investors, business partners, employees and the local community. In both developed and developing countries, industrial activity poses a number of environmental risks; transparent reporting on these risks can improve risk management and mitigation efforts. A number of international guidelines can assist countries in developing a reporting framework in this area. UNCTAD has developed guidance to assist countries in this regard, including guidance on eco-efficiency indicators[49] and corporate responsibility indicators in annual reports.[50] The Global Reporting Initiative[51] has developed sustainability reporting guidelines that cover a broad range of social and environmental subjects. The *Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises*[52] and the International Organization for Standardization (ISO) 26000 standard[53] on social responsibility both contain useful guidance on environmental and social reporting and management practices. An environmental management system standard such ISO 14000 can also be helpful in providing guidance on internal reporting and data collection.[54] The United Nations Global Compact also has a reporting framework that allows companies to report on their activities relative to the 10 principles of the Global Compact.[55]

Disclosure on governance structures is critical to facilitate investor relations, promote economic stability and build credibility in the governance and management systems that produce financial accounting reports. International guidance in this area is provided by a number of organizations, including OECD (*OECD Principles of Corporate Governance*[56]), the World Bank (ROSC reviews and other guidance[57]), the

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49 UNCTAD (2004). *A Manual for the Preparers and Users of Eco-efficiency Indicators*. Available from www.unctad.org/en/docs/iteipc20037_en.pdf.

50 UNCTAD (2008). *Guidance on Corporate Responsibility Indicators in Annual Reports*. Available from www.unctad.org/en/docs/iteteb20076_en.pdf.

51 For more information on the Global Reporting Initiative and to obtain a copy of their *Sustainability Reporting Guidelines*, please visit www.globalreporting.org/.

52 OECD (2008). *OECD Guidelines for Multinational Enterprises*. Available from www.oecd.org/dataoecd/56/36/1922428.pdf.

53 The ISO guidance standard on social responsibility was published in November 2010 as ISO 26000 and its use is voluntary. It does not include requirements and thus is not a certification standard. See www.iso.org/sr.

54 More information on the range of ISO environmental management system standards can be found at www.iso.org/iso/iso_14000_essentials.

55 The Global Compact publishes a number of guidance materials to assist companies in producing a *Communication on Progress* with the 10 principles of the Compact. These guidance materials are available from www.unglobalcompact.org/COP/Guidance_Material/index.html.

56 OECD (2004). *OECD Principles of Corporate Governance.* Available from www.oecd.org/dataoecd/32/18/31557724.pdf.

57 As part of the ROSC initiative, the World Bank has established a programme to assist its member countries in strengthening their corporate governance frameworks. The World Bank conducts corporate governance country assessments under the ROSC initiative at the invitation of country authorities. More information on this programme can be found at www.worldbank.org/ifa/rosc_cg.html.

International Finance Corporation (especially the work of the Global Corporate Governance Forum[58]), IOSCO (various guidance and support tools for the development of securities regulators), the International Corporate Governance Network (*ICGN Global Corporate Governance Principles: Revised (2009)*) and UNCTAD (*Guidance on Good Practices in Corporate Governance Disclosure*[59] and reviews of corporate governance disclosure practices and regulation).[60] Newer institutions are also emerging, for example, the International Interconnected Reporting Committee and the Carbon Disclosure Standards Board, which aim to help promote the harmonization of ESG standards and the integration of ESG issues into corporate reporting. National frameworks can use the guidance offered by these organizations as a basis for the development of their own national corporate governance codes and disclosure regulations.

Various institutions can also be developed to support reporting on ESG issues, including (a) institutes of directors, especially with regard to corporate governance; (b) corporate social responsibility institutes such as the Egyptian Corporate Responsibility Centre; or (c) Global Compact National Networks. Such institutions can provide technical human capacity-building support in related areas.

Endorsement

The adoption of IFRS and ISA within national legislation and regulation may be supported by the establishment of an efficient endorsement mechanism. If such a function is established, it needs to be timely; otherwise national standards can fall behind international norms. For example, in the EU, IFRS go through an endorsement process[61] before they become applicable.

Enforcement

A critical element in the implementation of corporate reporting standards and codes is rigorous enforcement. The responsibility for enforcing international standards often rests with several parties. Institutions such as securities exchange commissions, banking and insurance supervisory authorities, stock exchanges and capital market authorities play important roles in enforcing financial reporting requirements.

In countries where these regulators have developed their own individual requirements with separate legislative powers, the task of centralizing and unifying the regulatory environment requires a great deal of consultation and persuasion.

Assessing existing enforcement mechanisms requires a review of the regulatory structures in place, including the legislative environment and sample checks of regulatory procedures as they are implemented. This includes tests of quality controls

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[58] The Global Corporate Governance Forum supports regional and local initiatives to improve corporate governance in middle- and low-income countries in the context of broader national or regional economic reform programmes. More information on this programme can be found at www.gcgf.org/.

[59] UNCTAD (2006). *Guidance on Good Practices in Corporate Governance Disclosure*. Available from www.unctad.org/en/docs/iteteb20063_en.pdf.

[60] UNCTAD's annual corporate governance reviews examine regulatory requirements and company disclosure practices in a number of countries around the world. These studies are available from www.unctad.org/Templates/Page.asp?intItemID=2920&lang=1.

[61] http://ec.europa.eu/internal_market/accounting/docs/ias/endorsement_process.pdf.

within audit firms, tests of the effectiveness of monitoring visits and reports, and tests of compliance with standards and best practices, and action taken to rectify failings.

In 2000, IOSCO endorsed IFRS. The IOSCO principles set global benchmarks for the regulation of securities markets; principles 8 to 10 deal with the enforcement of standards.[62]

Oversight, monitoring and compliance

Oversight, monitoring and compliance are important elements of the regulatory pillar of the capacity-building framework.

In some cases, a government department may take statutory powers to set up a public oversight board or it may take these powers itself. In some cases, countries set up independent boards or regulatory bodies with a focused mandate and the authority to fulfil the oversight function.

Oversight may also be extended to the national professional body or bodies of accountants, which generally will have responsibility for their members in respect of the following items:

(a) Proper application of professional and ethical standards;
(b) Continuing professional development;
(c) Investigation, discipline and appeals;
(d) Qualification requirements for membership, including professional exams and practical experience;
(e) Licensing of members in public practice outside the scope of the Public Oversight Board, for example, for the audit of entities that are not deemed to be public interest entities or for services that are not audit services such as tax advice.

The following action should be considered when setting up mechanisms on compliance with statutory accounting and reporting requirements:

(a) Designing an appropriate review programme and checklists;
(b) Deciding on the composition of the panel that will perform reviews;
(c) Establishing the criteria for the selection, training and evaluation of reviewers;
(d) Setting the criteria for the selection of issuers and audit firms for monitoring;
(e) Formulating the classification of the findings;
(f) Establishing review and sign-off procedures as part of internal quality control;
(g) Deciding on the method of reporting findings to the issuer, audit firm and to the regulator, including the Registrar of Companies;
(h) Establishing corrective action on serious non-compliance issues by issuers;
(i) Establishing regulatory action on audit firms and consider the interaction with licensing and disciplinary systems.

In recent years, there has been a trend towards setting up an independent external oversight of the audit function to strengthen the protection of the public interest and facilitate confidence in corporate reporting. An important decision is this regard would be to consider its scope of work (for example, the oversight body may carry out quality

[62] See http://www.iosco.org/library/pubdocs/pdf/IOSCOPD154.pdf.

assurance on audits of public interest entities solely for cost-benefit reasons) and tasks to be performed. Based on existing practices, the following steps should be taken:

(a) To define the standards to be used for monitoring purposes;
(b) To decide on the composition of the monitoring team;
(c) To set the criteria for the selection, training and evaluation of reviewers;
(d) To establish the criteria for the selection of firms and audits for monitoring;
(e) To design an appropriate monitoring programme and checklists;
(f) To formulate the classification of monitoring findings;
(g) To establish review and sign-off procedures as part of internal quality control;
(h) To decide on the method of reporting findings on the firms monitored to the regulatory authorities including the professional accountancy organizations;
(i) To establish regulatory action and follow-up procedures on unsatisfactory visit outcomes;
(j) To consider the interaction with licensing and disciplinary systems.

Quality assurance

Quality assurance mechanisms play a crucial role in building a regulatory pillar. In this regard, IFAC SMOs can provide information and guidance in building such mechanisms. SMO 1 requires professional accountancy organizations to establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with the International Standard on Quality Control (ISQC 1). SMO 1 is to be applied by member bodies of IFAC to quality assurance review programmes for their members performing certain audit engagements of financial statements.

SMO 1 and ISQC 1 are standards that require considerable resources and expertise to implement properly. If the expertise is not readily available, a significant training programme will be required to build up the necessary in-country expertise. In any event, the need for experts can represent a considerable financial demand on limited resources.

C. Institutional framework

A role of capacity-building in the legal and regulatory framework is to ensure that the main institutional bodies are in place. Establishing the essential institutions requires political will at the highest level of government. It also requires buy-in by all the key stakeholders and adequate resources. Sustaining these institutions also requires on-going funding and political support.

The institutional framework in which accountancy capacity-building takes place includes many civic institutions, both private and public. The civic architecture may vary from country to country, but the strength of these institutions has a crucial bearing on the success of capacity-building projects. These institutions generally consist of the following bodies:

(a) Legislative body (for example, Parliament or Congress);
(b) Government ministries;

(c) Regulatory bodies;
(d) Judiciary;
(e) Government registry (of companies);
(f) Stock exchanges;
(g) Standard-setting bodies;
(h) Rating agencies;
(i) Accounting and audit firms;
(j) Professional accountancy organizations.

Capacity-building projects must take all these institutions into account and generally follow four main stages of development:

(a) Designing and creating sound governance structures;
(b) Ensuring the sustainability of these structures;
(c) Attracting and retaining talented people;
(d) Continuously measuring improvement and performance.

They also require consideration of the following issues:

(a) Statutory responsibilities and legal status of each body within the regulatory framework;
(b) Clarification of regulatory roles delegated by the State to specific agencies and/or the accountancy profession;
(c) Governance arrangements within each regulatory body, including how members are appointed and their duties;
(d) Interaction and cooperation among the different institutions;
(e) Management structure and the role of senior staff within each body;
(f) Funding arrangements for each body.

Regulatory bodies are charged with one or more of the following responsibilities: (a) adopting and approving accounting and/or auditing standards; (b) licensing and monitoring of auditors; (c) oversight; (d) reviewing published financial statements and (e) taking enforcement actions as appropriate. In most countries, these tasks are assigned to different bodies.

For example, the Financial Reporting Council in the United Kingdom was set up to oversee financial reporting and auditing (see document TD/B/C.II/ISAR/56/Add.1, appendix III, for an illustration of how the Council provides the public oversight function).[63] In the United States, the Public Company Accounting Oversight Board oversees the work of audit firms that provide assurance on financial reports of listed companies. The United States Securities and Exchange Commission conducts reviews of company reports. A regulatory framework is subject to changes that arise over time. For example, in July 2010, the British Government made various proposals,[64] including merging the Financial Reporting Council and the United Kingdom Listing Authority. The Council has invited stakeholders' views on the proposal.

[63] As an independent regulator, the Financial Reporting Council sets standards for corporate reporting and actuarial practice, and monitors accounting and auditing standards. It also oversees the regulatory activities of the professional accountancy bodies and makes independent disciplinary arrangements for public interest cases involving accountants and actuaries.
[64] http://www.hm-treasury.gov.uk/d/consult_financial_regulation_condoc.pdf.

Difficulties often arise when both the regulation of auditors and of accounting and auditing standards are spread out among a number of regulators. This can lead to more than one list of approved accountants and auditors as well as a variety of standards and other requirements. In such cases, the establishment of a coordination mechanism between different regulators is critical and a unified structure is preferable. For example, CINIF and CNBV of Mexico have been working together in a convergence project to eliminate differences and inconsistencies between the accounting rules that CNBV issues for the financial system and the Mexican Financial Reporting Standards that CINIF produces for all companies.

Coordination among regulators will require the following tasks:

(a) Coordination among State agencies with regard to issuing legislation affecting corporate reporting;
(b) Coordination among agencies involved in the implementation of legislation and regulations;
(c) Indicators for deciding which party should exercise its powers to ensure that the entities are not subject to more than one investigation or set of enforcement proceedings for the same infringement unless it is appropriate for both bodies to exercise different powers or impose different penalties in relation to the issuer;
(d) Conduct of concurrent investigations;
(e) Information sharing;
(f) Confidentiality restrictions.

An interesting dimension of the regulatory and institutional framework is the relationship between government authorities and professional accountancy organizations. Practices vary from complete self-regulation by professional accountancy organizations to such organizations becoming government agencies.

The accountancy profession is a key institutional player of the capacity-building framework. In this regard, a well-organized and respected professional body is an essential part of a fully functioning accountancy profession. Setting up or developing a professional body requires a structure involving the consideration of many factors. Detailed guidance on setting up a professional body is to be found in the IFAC toolkit, *Establishing and Developing a Professional Accountancy Body*.[65] International standards related to professional accountancy organizations include the following:

(a) The International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including independence);[66]
(b) ISQC 1 of audit and assurance engagements established by the International Auditing and Assurance Standards Board;[67]
(c) IFAC SMOs.[68]

The main issues to be addressed in building a strong accounting or audit profession include the availability of professional accountants required for the efficient

65 IFAC (2007). *Establishing and Developing a Professional Accountancy Body.* Second Edition. New York.
66 IFAC (2010). *Handbook of the Code of Ethics for Professional Accountants*. New York.
67 IFAC (2010). *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements,* Part I. New York.
68 IFAC (2006). *Statements of Membership Obligations 1-7,* New York.

functioning of a reporting chain, technical knowledge, membership obligations, compliance, continuing professional development and training mechanisms, ethics, quality control and discipline.

The professional body could have its own regulatory structure that fits into the national legal framework. Such a structure could contain the following components:

(a) An accounting act (in some cases the regulatory scope may be limited to the work of auditors) that recognizes the professional body as the legal entity that represents the profession and may give it powers to regulate its members;
(b) A constitution and by-laws for the professional body;
(c) Requirements for admission to the professional body and a register of members;
(d) Rules of professional conduct and ethics that go beyond the legal framework, for example, rules on independence (see the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants[69]);
(e) Monitoring and disciplinary systems.

Professional accountancy organizations can play a role in enforcing adherence to regulatory requirements in connection with discharging their professional body responsibilities to ensure that their members fulfil their membership obligations. This may be true even in jurisdictions where a public oversight body performs inspections, investigations and enforcement. This is more common in respect of members and their firms in public practice and auditors in particular. Such systems usually consist of five stages:

(a) Certification of members and firms to conduct audits or more generally work in public practice;
(b) Monitoring of licensed members and firms;
(c) An investigations committee to consider complaints and prima facie whether there is a case to answer;
(d) A disciplinary committee with powers to impose penalties on members, including removal of their licence to practice;
(e) An appeals committee to hear appeals against disciplinary committee decisions.

D. Human capacity

Another pillar of the capacity-building framework is human-capacity development. This includes the education, training and retention of professional accountants and other participants in the regulatory and financial system.

Extensive training is absolutely essential to expand capacity and facilitate the smooth functioning of the corporate reporting system. This should include training of all participants of the regulatory authorities in the reporting chain, not only accountants and auditors. Such training should cover accounting, auditing and professional standards, as well as training in how to institute and manage a regulatory body and conduct its activities. Professional accountancy organizations could consider collaborating with recognized regional accountancy organizations and more

[69] IFAC (2010). *Handbook of the Code of Ethics for Professional Accountants*. New York.

experienced member bodies of IFAC. International organizations, such as IOSCO and the Basel Committee, organize training programmes. These opportunities should be considered as well.

The types of education required will cover the following areas:

(a) General education (school and often university);
(b) Professional education of auditors and accountants (preparers);
(c) Continuing professional development;
(d) Education for accounting technicians;
(e) Specific training in specialized areas, such as accounting, auditing, government accounting, internal controls and disclosures associated with financial instruments, financial firms, sound governance and requirements for listed companies;
(f) Education of other participants in the system, including regulators and analysts;
(g) Education and training can be provided by schools, universities, private-sector tutors, professional accountancy organizations, and accounting and consulting firms. Programmes are also offered by international organizations, such as IOSCO, the World Bank, UNCTAD and others.

The recipients of this education may be:

(a) Students attending public or private institutions;
(b) Trainees – who may or may not be graduates – with accounting firms and other employers;
(c) Other participants, who may or may not be accountants, of the reporting chain.

Issues to be considered include entry requirements for educational programmes, professional education or training requirements and continuing professional development, as well as how to retain qualified accountants in the country and the profession. Another important dimension is differentiated education and training for different categories of accountants, such as accounting technicians, as well as the consideration of the different training needs of accountants and auditors.

A major challenge is coordinating the accountancy education programmes that are taught as part of general and specialized education in colleges and universities with professional requirements.

International standards and benchmarks can be useful when setting up an education pillar. At a global level, this includes International Accounting Education Standards Board requirements regarding the education and training of professional accountants. It also includes the UNCTAD-ISAR model curriculum,[70] which is based on the Board's standards and provides more detailed guidance on the content of accounting curriculum based on best practices. Other useful references include the Common Content project[71] devised by a group of professional bodies and the Eighth Council Directive 84/253/EEC of 10 April 1984 on statutory auditors.

[70] http://www.unctad.org/en/docs/iteteb20039_en.pdf (see chapter VIII).
[71] http://www.commoncontent.com/.

The International Accounting Education Standards Board has issued the International Education Standards for Professional Accountants[72] covering the pre-qualification of members and continuing professional development, along with extensive background guidance. SMO 2 requires member bodies to do their best to achieve these standards.

In addition professional accountancy organizations normally require certain education and qualification levels. These would cover:

(a) Entry requirements;
(b) Counselling candidates;
(c) Professional-level examinations;
(d) Ethical rules;
(e) Professional skills;
(f) Tuition and training facilities;
(g) Certification of members;
(h) Ongoing professional development.

Requirements for professional-level examinations and training include the following:

(a) A professional-level curriculum;
(b) Practical experience for the professional-level qualification;
(c) Systems for monitoring training within firms;
(d) Examination systems that ensure that the examinations are assessed at the professional level;
(e) Tutorial support and study materials.

The EU directive relating to statutory auditors (the Eighth Company Law Directive) lays down their education and training requirements. These are similar to and do not contradict IFAC education standards 1 to 7.

Continuing professional development systems also require rules for the amount of training members must undergo, methods of ensuring that these rules are complied with and provision for access to continuing professional development courses and materials. International Education Standard 7 sets out the IFAC rules on continuing professional development.

Other sources of reference and guidance include the following:

(a) IFAC guidance of technician-level qualifications;
(b) The Bologna Declaration,[73] which establishes the criteria for defining university degrees at different levels;
(c) The Dublin[74] descriptors, which elaborate on and extend the Bologna criteria;

72 IFAC (2009). *Handbook of International Education Pronouncements*. New York.
73 For an explanation and the full text of the Bologna Declaration, see http://ec.europa.eu/education/policies/educ/bologna/bologna.pdf.
74 For a complete set of the Dublin descriptors, see http://nbm20.kasetsart.org/document/piniti/Dublin.pdf.

(d) The NARIC[75] (National Recognition Information Centre) database, which helps recognize degrees at different levels worldwide;
(e) The Europa World of Learning,[76] which identifies recognized academic institutions;
(f) Guidance issued by professional and oversight bodies in countries that have well-developed capabilities and organizations of such entities and other participants in the financial reporting chain.

E. Capacity-building process

An important part of a capacity-building framework is the capacity-building process itself. It includes key elements such as a capacity-building strategy and a realistic action plan, which in turn includes identifying priorities, time frames, human resources, financial resources, the main stakeholders and the allocation of responsibilities among them.

Specific steps can therefore include:

(a) Understanding the scope of the project, that is, the framework of the capacity-building challenge;
(b) Assessing the current situation, taking into account cultural, political and socio-economic conditions and key stakeholders;
(c) Identifying the gaps between the current situation and relevant international norms and best practice;
(d) Developing a strategy and action plan relevant to a country's needs, setting priorities, defining resources needed, agreeing to a realistic time frame and identifying counterparties and strategic partners;
(e) Communicating the action plan to the key stakeholders;
(f) Implementing the plan;
(g) Assessing the action plan and progress made;
(h) Launching the next stage of the capacity-building process.

In relation to setting up a professional body, the IFAC Developing Nations Committee guide, *Establishing and Developing a Professional Accountancy Body*,[77] provides a considerable amount of useful information on the preparation of action plans in relation to this pillar. Also, reference can be made to the formulation of and agreement on IFAC Compliance Programme Action Plans,[78] which IFAC member bodies have developed based on IFAC Statements of Membership Obligations.

Some member bodies of IFAC are also prepared to twin with or mentor other professional bodies to assist them in developing systems to meet international standards. This can be by way of technical assistance, jointly organized examination schemes and continuing professional development events or "train the trainer" programmes. In some cases, this can lead to reciprocity of membership, for instance

[75] For information about the charges and services offered by UK NARIC, see www.naric.org.uk.
[76] The Europa World of Learning is available on subscription; see www.worldoflearning.com.
[77] IFAC (2007). *Establishing and Developing a Professional Accountancy Body.* New York.
[78] http://www.ifac.org/ComplianceAssessment/published.php.

through common examinations. Working partnerships include arrangements such as those that the Association of Chartered Certified Accountants has with Cyprus, which cover regulation, examinations and training, or that NIVRA, the Netherlands Institute of Registered Auditors, has with some other accountancy organizations, for example, in Kosovo.

As discussed above, the capacity within a country to deliver high-quality corporate reporting depends on many interlocking key elements. It is unlikely that any one project can address all these areas, but it is important to understand the scope of the challenges at the outset in order to identify priorities.

Developing a strategy and an action plan to facilitate capacity requires a realistic assessment of factors affecting the process. These include the following factors:

(a) Political goodwill at the highest level;
(b) The cultural and socio-economic climate;
(c) Relevant intellectual and technical expertise;
(d) Financial backing over a long period of time, including the ongoing sustainability phase;
(e) Buy-in by the key stakeholders, including government, regulators, professional accountancy organizations and market participants;
(f) Effective communication and publicity about potential benefits to the country of and economy of the changes, to support all of the above.

When developing a national plan on capacity-building based on international standards and benchmarks, it is important to consider specific country needs and good practices of technical assistance and capacity-building programmes.

Efficient capacity-building can be achieved by promoting a number of activities, such as sharing good practices and lessons learned by other countries, participation in international benchmarking exercises, exchange programmes, cooperation with major international bodies, regional coordination and twinning arrangements.

In this regard, the evaluation of a country's position in comparison with international standards and codes in ROSC reports developed by the World Bank provides a good starting point for action plans in relevant cases.

To develop a capacity-building strategy, the following points should be borne in mind:

(a) Activities must be planned not only with a view to short-term objectives but also to the longer-term strategy of the host country or organization;
(b) Cultural differences in language and business should be fully taken into account when implementing international standards;
(c) Political considerations should not lead to unrealistic timescales for project outcomes;
(d) Resources should be allocated to ensure the sustainability of any project after the initial funding phase has been completed.

It is crucial to identify the financial resources needed for capacity-building. Sources of funding could include government revenues, donor agencies, national and international non-governmental organizations, listed companies and large accounting firms.

Funding sources can be limited in professional accountancy organizations, which rely mainly on members' subscriptions and fees from continuing professional development courses. This is particularly true with regard to small bodies, setting severe limits on the activities they can fund.

Lack of local expertise is also a major restraint in most developing countries and countries with economies in transition, and training suitable experts is a long-term endeavour. Some national regulatory and oversight organizations offer training and expertise to counterparts in developing countries.

The time frame should not be underestimated either. The set-up phase may take two or three years if all goes according to plan. Provision then needs to be made to sustain the new structures indefinitely.

F. Measurement considerations

An important element of a capacity-building framework is to have or develop some relevant measurement methodology and indicators to assess the current status and the progress made and to identify priorities for further actions.

A number of qualitative assessment tools have been developed by different projects and agencies. At the global level, the World Bank ROSC programme provides comprehensive assessments for about 100 countries.

However, quantitative measures may be also useful to promote comparability, measure impact and identify needs and priorities for further improvement compared with some common benchmarks.

Caution should be exercised when considering the use of quantitative measurement models before any proposed approaches are subjected to further study and public exposure. There are many ways that could be used to describe and quantify progress toward a set of designated milestones, and it is important that any models used do not become so prominent or so prescriptive or so complex that they could impede, rather than facilitate, progress in building capabilities in different countries with different circumstances.[79]

In order to provide a starting point to identify milestones for the pillars and elements discussed in this paper, some areas are suggested. These are supported by specific questions to allow for assessment of the state of discussed components of capacity-building frameworks at a particular point of time and to identify priority areas for further actions (see document TD/B/C.II/ISAR/56/Add. 1, appendix IV).

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[79] A methodology developed by the USAID/BISTA project on an accountancy development index is one approach that could be considered as a basis for building up such a quantitative measurement tool. The project has been developed over a number of years, involving a steering committee comprised of leading accountancy authorities from different countries, and has been tested in about 40 countries. Since the end of 2009, UNCTAD has been conducting research jointly with Leiden University on the methodology and results of the pilot project.

Conclusion

Many member States continue to face capacity-building challenges – both institutional and technical – in achieving high-quality corporate reporting. This paper has described the major pillars and elements of a capacity-building framework that could guide policymakers in making sound decisions and developing a coordinated and coherent action plan to achieve high-quality corporate reporting.

Further discussions will be important to identify practices that could be helpful to facilitate the practical usefulness of the document for developing countries and countries with economies in transition in their capacity-building efforts. A debate is also needed on choosing an approach to assess progress and decide on priorities with relating to building national capacity in corporate reporting.

Appendix I. Capacity-building framework for high-quality corporate reporting – matrix

Capacity framework					Performance measurement	Key questions for surveys
Pillar structure	**Stages/checklist**	**Elements**	**International standards**	**Reference/guidance**	**Milestones & indicators**	
Legal and regulatory	Accounting records	Regulation Fin/Non-Fin Statutory Framework	IOSCO	UNCTAD SMEGA 3		See Appendix IV below.
	Internal controls/audit	Endorsement of standards	IFRS	OECD Principles	See appendix IV below	
	Prepare fin. Statements	Enforcement	ISAs, IESs	EU Directives		
	Approve fin. Statements	Monitoring	XBRL	S.Ox and other similar national frameworks		
	Audit	Licensing	Basil Comm.	COSO		
	Publication/filing	Governance	IAIS	Bank codes		
	Users, analysis	Ethics	OECD Principles	GRI		
	Multi-reporting frameworks	Compliance		World Bank ROSCs		
	Monitoring, oversight, enforcement	Investigation & discipline		IIA		
	Requirements govt. enterprises & individuals	Quality assurance		ICGN		
				IIRC		
Institutions/profession /stakeholders	Roles and responsibilities	Legislative body	-			See Appendix IV below.
	Coordination	Ministries	ISAs, IESs	DNC toolkit	See appendix IV below	
	Governance	Regulators	CoE/Independence	AA1000AS		
	Sustainability	Govt. Registries	A&A	NGO Sustainability Index		
	Attraction & retention of talent	Prof. Accounting Orgs.	IFAC SMOs			
		Accounting/Audit firms	-			
		stock exchanges				
		preparer & user bodies, academia				
		National and international standard-setters				
Human capacity	General education	1. Recipients, i.e:	IAES IES	Bologna		See appendix IV below.
	Professional education and training	auditors, preparers	SMO 2	Dublin	See appendix IV below	
		accounting technicians		UNCTAD-ISAR		
	CPD	prof. analyst orgs		Model Curriculum		

Capacity framework					Performance measurement	Key questions for surveys
Pillar structure	**Stages/checklist**	**Elements**	**International standards**	**Reference/guidance**	**Milestones & indicators**	
	Technical knowledge Specialized training	regulators other users 2. Providers universities prof. accounting orgs tuition providers		EU Common Content IFAC Guide Accounting Techs		
Capacity-building	Diagnosis gap analysis Programme Monitoring	Strategy/Objectives Action plans & resources coordination & communication -	See appendix IV below.	IFAC Compliance Programme Action plans ROSC	See appendix IV below Position Assessment Tool	See appendix IV below.

Appendix II. Core standards and benchmarks

1. International standards and codes need to be addressed first:

(a) IFRS;
(b) IFRS for SMEs;
(c) Accounting rules for micro enterprises (for example ISAR's accounting and reporting guidelines for level 3 SMEs or SMEGA Level 3);
(d) IAASB Pronouncements;
(e) IESBA Code of Professional Ethics;
(f) ISQC 1;
(g) IAESB IESs;
(h) IFAC SMOs;
(i) IFAC/DNC Guide to establishing and developing a professional body;
(j) Other internationally accepted standards and guidance issued by bodies in countries where the accounting and auditing profession is well-developed and subject to independence and oversight, may also be helpful.

2. Some member States also need audit manuals for SMPs and practice monitoring manuals (these are usually not public documents). They also need curriculums and these usually have to be part of joint schemes or designed specially.

3. As member States progress the codes below may come into play:

(a) OECD Principles of Corporate Governance;
(b) International Corporate Governance Network code;
(c) Global Reporting Initiative guidelines;
(d) EU 8th Directive (primarily for countries wishing to join the EU or in transition);
(e) Sarbanes Oxley legislation in the United States (primarily for those countries wishing to follow draw from the United States model, for example, the EU 8th Directive was influenced in part by Sarbanes Oxley);
(f) IOSCO Objectives and Principles for Securities Regulation and related Assessment Methodology;
(g) IOSCO Policy Statements and Reports on Financial Reporting, Auditing, Internal Controls, Auditor Oversight and Governance matters;
(h) Stock Exchange regulations;
(i) XBRL;
(j) Financial Stability Board framework;
(k) Institute of Internal Auditors (IIA) standards;
(l) USAID NGO sustainability index; and
(m) AA 1000 Series of standards.

4. Other codes include:

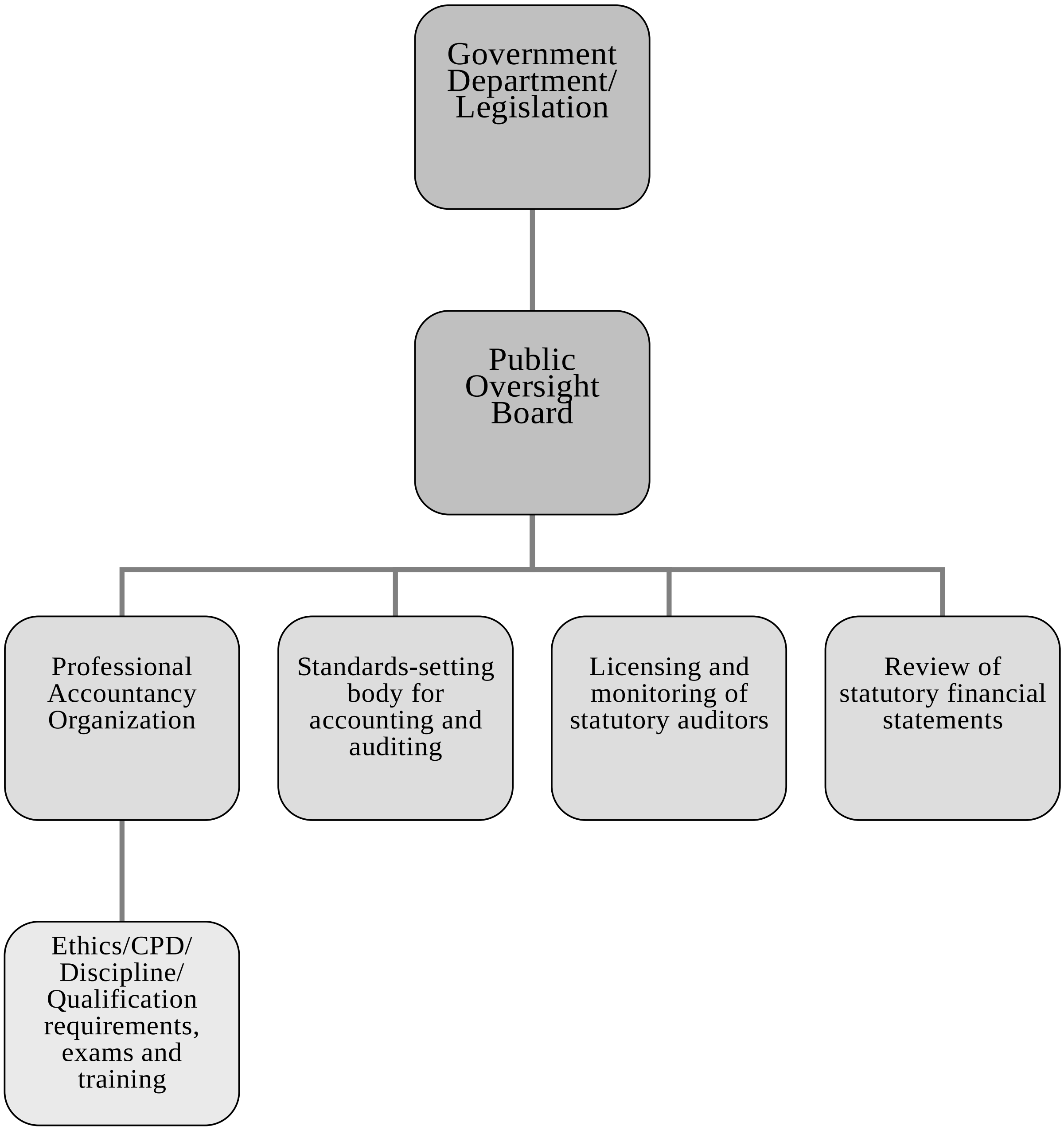
(a) Relevant banking supervisory guidance and regulations, e.g. Basel standards;
(b) IAIS standards;
(c) COSO (Committee of Sponsoring Organizations of the Treadway Commission). In the United States COSO has established a common internal control model against which companies and organizations may assess their control systems;
(d) IFIAR (International Forum of Independent Audit Regulators) projects;
(e) EU Fair Value Directive;
(f) Tax requirements; and
(g) Audit Firms practices and manuals and other information and guidance.

5. Other education standards include:

(a) Bologna agreement on the criteria for defining degrees at different levels;
(b) Dublin descriptors which expand on the Bologna criteria;
(c) NARIC (National Recognition Information Centre for the United Kingdom) part of ENICs (European Network of Information Centres) across Europe, including also Australia, Canada, New Zealand and the United States. NARIC provides information on the recognition of degrees at different levels;

(d) World of Learning, which identifies recognised academic institutions;
(e) UNCTAD-ISAR Model curriculum;
(f) Common content project.

Appendix III. Sample structure of a regulatory framework[80]



[80] The above example is based on a United Kingdom model. It is being presented here to facilitate understanding of a possible regulatory structure based on a practical example. There are several other suitable models that countries could consider when establishing a regulatory structure.

Appendix IV. Performance measurement and key questions for surveys

Capacity-building Framework		Performance Measurement	Performance Measurement
Pillar structure	**Elements**	**Milestones & Indicators**	**Key Questions for Surveys**
Legal & regulatory **Pillar 1**	Legislation, statutory and regulatory requirements for financial reporting	Accounting and Auditing Framework Private Sector Accounting Framework (IFRS)	- Existence and function of a private sector accounting and auditing framework? - Standards required for private sector accounting? (IFRS)
	Legislation, statutory and regulatory requirements for non-financial reporting	Non-financial Reporting Framework Corporate Governance for PIEs	- Requirements for environmental, social and governance disclosure based on international best practice guidance? - Existence and operation of a non-financial reporting framework?
	Endorsement of standards	Endorsement Mechanisms	- Existence and function of endorsement mechanisms for international standards? - Existence and operation of public oversight?
	Enforcement Monitoring	Private Sector Monitoring and Enforcement	- Monitoring and enforcement of private sector accounting standards?
	Licensing Ethics	Licensing Arrangements Code of Ethics	- Licensing arrangements for accountants and/or auditors? - Existence and function of a code of ethics for accountants and auditors?
	Compliance	Compliance Mechanisms	- Responsibilities for enforcing regulatory requirements?
	Investigation & discipline	Investigation and Discipline	- Regulations for investigation, discipline and appeals? - Operation of investigation, discipline and appeals?
	Quality assurance	IAASB Standards and Pronouncements Quality Control	- Standards required for financial statement audits? (ISA)

Capacity-building Framework		Performance Measurement	Performance Measurement
Pillar structure	**Elements**	**Milestones & Indicators**	**Key Questions for Surveys**
	Disclosure	To be included in row 1, Legislation	- Standards required for assurance engagements? (ISAE) - Standards required for review engagements? (ISRE) - Standards required for related services? (ISRS) - Standards required for quality control? (ISQC1) - Requirements for quality control by audit firms? - Quality assurance requirements for accountants and auditors?
Institutions / profession/ stakeholders **Pillar 2**	Legislative body Ministries Regulators Govt. Registries Prof. Accounting Orgs.	Statutory Responsibilities and Legal Status Sustainability of Government Institutions Regulation of Regulatory and Monitoring Bodies Sustainability of Professional Accounting Organizations To be included in row 1, Legislative Body Regulatory and Monitoring Bodies (new) To be included in row 1, Legislative Body Professional Accounting and Auditing Organizations	- Statutory responsibilities and legal status of legislative bodies, ministries, regulatory bodies, regulators, government registries, professional accounting organizations, accounting and auditing firms? - Organizational capacity, financial viability, advocacy, service provision, recognition and public image of government institutions? - Regulations for and coordination among regulatory and monitoring bodies? - Relations between government authorities and professional bodies? - Regulations for audit monitoring bodies and review panels? - regulatory structure for professional accounting organisations? - Organizational capacity, financial viability, advocacy, service provision, recognition and public image of professional accountancy and auditing associations?
	Accounting / Audit firms	To be included in row 1, Legislative Body	
	stock exchanges preparer & user bodies Education and Training Providers (to include universities, prof. accounting orgs and tuition providers}	Outside the scope of the Matrix for measurement purposes To be included in row 1, Legislative Body Education and Training Providers	- Existence and sustainability of general education providers? - Existence and sustainability of professional accountancy education providers? - Existence and sustainability of CPD providers? - Existence and sustainability of providers of

Capacity-building Framework		Performance Measurement	Performance Measurement
Pillar structure	**Elements**	**Milestones & Indicators**	**Key Questions for Surveys**
			practical training?
Human capacity **Pillar 3**	General education Professional education and training CPD Technical knowledge Specialized training Prof. Accounting Orgs	Qualification, Education and Training of Accountants Qualification, Education and Training of Auditors Qualification, Education and Training of Accounting Technicians CPD for Accountants, Auditors and Accounting Technicians To be included in Pillar To be included in Pillar	- Existence of training for accounting and reporting? - Entry requirements for professional accountancy education? - Content of accountancy education programs? - Professional skills in accountancy education? - Values, ethics and attitudes in accountancy education? - Assessment of accountancy capabilities and competences? - Practical experience requirements for professional accountants? - Qualification, education and training requirements for auditors? - Qualification, education and training requirements for accounting technicians? - Education, monitoring and discipline of continuing professional development requirements for professional accountants, auditors and accounting technicians? -Requirements and availability of training for regulators
	Prof. Analyst Orgs. Tuition providers	Outside the scope of the Matrix for measurement purposes To be included in Pillar	
Capacity-building	Strategy/Objectives Action plans & resources coordination & communication	Capacity-building has to be considered separate from Performance Measurement Position Assessment Tool	Not applicable unless on a very general level

Appendix V. List of members of the Consultative Group on Capacity-Building Framework for High-Quality Corporate Reporting [81]

International and regional organizations				
Gerald	**Edwards**	Senior Advisor Accounting & Auditing Policy	Financial Stability Board	Switzerland
Ian	***Ball***	*CEO*	*International Federation of Accountants (IFAC)*	*United States*
Gabriella	***Kusz***	*Technical Advisor*	*International Federation of Accountants (IFAC)*	*United States*
Olivier	**Boutellis-Taft**	Chief Executive	Fédération des Experts Comptables Européens (FEE)	Belgium
Jonathan	***Bravo***	*General Secretariat*	*International Organization of Securities Commissions (IOSCO)*	*Spain*
John	***Hegarty***	*Head, Centre for Financial Reporting Reform*	*World Bank*	*Austria*
Gradimir	***Radisic***	*Centre for Financial Reporting Reform*	*World Bank*	*Austria*
Grant	**Kirkpatrick**	Senior Economist	Organisation for Economic Cooperation and Development (OECD)	France
Samiuela	**Tukuafu**	Principal Financial Sector Specialist	Asian Development Bank (ADB)	Philippines
Wayne	**Upton**	Director of International Activities	International Accounting Standards Board (IASB)	United Kingdom
Michael	***Walsh***	*Special Projects Consultant*	*ACCA Global*	*United Kingdom*
Toby	***Moseley***	*International Development Manager*	*ACCA Global*	*United Kingdom*
Accounting profession				

81 Italicized names indicate members who participated in the meeting of the Consultative Group that took place at the Palais des Nations in Geneva 20–22 May 2010.

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Dennis	***Brown***	*Chair*	*Institute of Chartered Accountants of Jamaica (ICAJ)*	*Jamaica*
Aziz	**Dièye**	Partner in Charge	Cabinet Aziz Dièye	Senegal
Oliver	***Köster***	*Partner/German Certified Accountant, Tax Advisor, United States CPA*	*KPMG AG*	*Switzerland*
Paul	***Hurks***	*Director*	*Royal NIVRA*	*The Netherlands*
Ewald	***Müller***	*Senior Executive*	*South African Institute of Chartered Accountants (SAICA)*	*South Africa*
David	***Phillips***	*Senior Corporate Reporting Partner*	*PricewaterhouseCoopers LLP*	*United Kingdom*
Christine	***Albrecht***	*Senior Manager*	*Deloitte Touche Tohmatsu*	*United States*
April	**Mackenzie**	Global Head, Public Policy and External Affairs	Grant Thornton International	United States
Susanna	***Di Feliciantonio***	*Head of EU Public Affairs*	*Institute of Chartered Accountants in England and Wales (ICAEW)*	*United Kingdom*
Jean	**Ettridge**	Head of International Affairs	Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom
Neil	**Stevenson**	Executive Director - Brand	ACCA Global	United Kingdom
Noel	**Clehane**	Global Head of Regulatory and Public Policy Affairs	BDO	Belgium
Ivan	**Sotomayor**	Managing Partner	Sotomayor & Associates, LLP	United States
National regulators / standard-setters				
Reto	**Eberle**	Member	Swiss GAAP FER	Switzerland
Ashraf	***El Sharkawy***	*Senior Advisor of the Chair*	*Egyptian Financial Supervisory Authority*	*Egypt*
Lin	***Zhu***	*Deputy Director, Standards Division II*	*Ministry of Finance*	*People's Republic of China*

		Accounting Regulatory Department		
Liesel	**Knorr**	President	German Accounting Standards Committee	Germany
Leonid	***Shneydman***	*Director, Regulation of Public Financial Control*	*Ministry of Finance*	*Russian Federation*
Damir	***Kaufman***	*Director, Financial System Directorate*	*Ministry of Finance*	*Republic of Croatia*
Development agencies and banks				
William	***Phelps***	*Executive Vice President*	*CARANA Corporation*	*United States*
Academia				
Nelson	***Carvalho***	*Professor*	*University of Sao Paulo*	*Brazil*
Malgorzata	**Jaruga-Baranowska**	Professor	Academy of Management in Lodz	Poland
Gert Hendrik	***Karreman***	*Professor / Doctor*	*Leiden University*	*The Netherlands*
Belverd E.	**Needles Jr.**	Professor	De Paul University	United States

Chapter III

2010 Review of the implementation status of corporate governance disclosures: an inventory of disclosure requirements in 21 frontier markets

Summary of discussions

The UNCTAD secretariat presented its 2010 corporate governance disclosure review, which this year provided an assessment of the status of disclosure requirements of enterprises listed on stock exchanges in 21 frontier markets. The paper pointed out that in frontier markets, there were fewer disclosure requirements in place than in larger emerging markets or developed countries. During the discussions, one delegate requested additional information on the research conducted on regulatory requirements in his country; the secretariat highlighted the sources of references, and also proposed to all delegates the option of conducting individual country case studies, wherever possible. Several delegates commented on the useful findings that the report provided and the relevance of the topic. A delegate from an institute of directors noted that research on this subject had been carried out in his country too, and he shared some findings of this research with the group.

Introduction

Corporate governance has been a key area of work of ISAR since 1989 (E/C.10/AC.3/1989/6). At its twenty-first session, ISAR requested UNCTAD to conduct an annual review of the implementation status of corporate governance (CG) disclosure. These studies have included examinations of the regulatory requirements of different markets, the actual disclosure practices of enterprises in selected markets, as well as more detailed individual country case studies.

All these studies are conducted based on UNCTAD Guidance on Good Practices in Corporate Governance Disclosure as a benchmark. The objective of these studies has been to raise the awareness of regulators and other relevant stakeholders about the current disclosure practices on corporate governance issues. These studies intend to assist decision makers to examine a need and assess challenges for further improvements in this area in their countries in accordance with good practices in order to strengthen the ability of their capital markets to attract foreign investment, mobilize domestic resources and guard against financial instability.

The 2010 study examines corporate governance disclosure requirements[82] in a sample of developing countries referred to in the investment community as ‘frontier markets’. These countries typically have relatively small and or new equity markets.
Section I of the paper provides an overview of background and methodology; section II contains comparative data on disclosure requirements, along with detailed analysis by market and subject area; and section III provides analysis of main issues of existing regulatory requirements on corporate governance disclosures in the 21 selected countries.

The findings of this study show that most of the markets examined do not have mandatory disclosure rules in place for most of the items identified as good practices in the ISAR benchmark on CG disclosure. The findings suggest that many of the small markets in the study are still developing their regulatory infrastructure in the area of corporate governance. The analysis also highlights a number of areas where regulators can strengthen or clarify rules on CG disclosure. In particular, this paper maps out different existing models of disclosure requirements to assist countries in producing clear disclosure regulations of their own.

A. Background and methodology

ISAR benchmark

The 2006 UNCTAD publication Guidance on Good Practices in Corporate Governance Disclosure forms a benchmark (hereinafter the “ISAR benchmark”) of over fifty disclosure items on corporate governance. The ISAR benchmark is the subject of occasional revisions and further refinement. For this study, revisions include the removal of two disclosure items, both of which were considered to substantially overlap with other disclosure items in the benchmark, and thus were seen as redundant. The first item removed was "disclosure practices on related party transactions where control exits" which was considered to substantially overlap with the disclosure item “nature, type and elements of related-party transactions”. The second item removed was "number of outside board and management position directorships held by the directors" which substantially overlapped with the disclosure item “types and duties of outside board and management positions”; these two disclosure items were therefore merged into a single revised disclosure item “types and number of outside board and management positions”.

As a result of these revisions, the ISAR benchmark used in this study contains 51 items in total. This set of 51 disclosure items are grouped into five broad categories, or subject areas, of corporate governance disclosure, and are presented and analyzed by category in section III below. These categories are:

a) Financial transparency;

[82] The examination of disclosure requirements in this review uses the same methodology applied in two earlier reviews, the “2007 Review of the Implementation Status of Corporate Governance Disclosure: An Inventory of Disclosure Requirements in 25 Emerging Markets” (TD/B/COM.2/ISAR/CRP.6, hereinafter the “2007 CG Inventory”); and the "2009 Review of the Implementation Status of Corporate Governance Disclosures: An Inventory of Disclosure Requirements in 24 Emerging Markets" (TD/B/C.II/ISAR/CRP.8, hereinafter the "2009 CG Inventory").

b) Ownership structure and exercise of control rights;
c) Board and management structure and process;
d) Auditing;
e) Corporate responsibility and compliance.

Selected markets

The sample of 21 markets examined in this study was drawn from the Frontier Markets Index produced by Morgan Stanley Capital International (hereinafter the "MSCI FM Index").[83] MSCI is a leading commercial provider of financial information, including equity indices tracking publicly listed enterprises around the world. The MSCI Frontier Markets Index is designed to track the performance of a range of equity markets that have recently become more accessible to international investors. Table 1 below provides a list of the economies included in the MSCI FM Index. Some of the countries in the MSCI FM Index were excluded from the present study because they have been covered in previous ISAR studies on the same subject.[84]

Table 1. The sample of 21 economies from the MSCI FM Index

1. Bahrain	12. Oman
2. Bulgaria	13. Qatar
3. Croatia	14. Romania
4. Estonia	15. Serbia
5. Kazakhstan	16. Slovenia
6. Kenya	17. Sri Lanka
7. Kuwait	18. Trinidad & Tobago
8. Lebanon	19. Ukraine
9. Lithuania	20. United Arab Emirates
10. Mauritius	21. Vietnam
11. Nigeria	

.

Research question and methodology

The research question applied to this sample was: which of the ISAR benchmark disclosure items are required to be reported to the public by enterprises listed on the major stock exchanges of each of the 21 markets studied? The study examined government laws and regulatory instruments as well as the listing requirements of major stock exchanges of these countries. The main elements of the methodology are:

a) Using the ISAR benchmark as a measure of disclosure requirements.
b) Disclosure should be mandatory, required by law or regulations or listing requirements. This study examines the existence of mandatory requirements in order to assess the role of regulators and stock exchanges in shaping CG disclosure practices.
c) Disclosure should be regular and periodic in nature and remain a company's continuing obligation after listing. Regular periodic disclosure after listing is necessary to provide investors and other stakeholders access to up-to-date information on corporate governance issues. This report included in its inventory

83 All MSCI FM Index data used in this study is based on the FM Index as of 18 January 2010. For up to date information on the MSCI FM Index please see: http://www.mscibarra.com/products/indices/international_equity_indices/fm/

84 Argentina and Jordan were covered in a 2009 study (TD/B/C.II/ISAR/CRP.8) available at: http://www.unctad.org/en/docs/ciiisarcrp8_en.pdf . Pakistan was also the subject of a detailed country study in 2009 (TD/B/C.II/ISAR/CRP.5) available at: http://www.unctad.org/en/docs/ciiisarcrp5_en.pdf

of disclosure requirements only those requirements that related to regular periodic reporting, and excluded disclosure requirements that were one time in nature, such as disclosure in the course of incorporation or IPO proceedings.

d) Disclosure should be publicly available. For information to be useful, it must be available to current and potential investors, regulators, and other stakeholders. In effect, it must be available to the entire public. This report included in its inventory of disclosure requirements only those requirements that related to public disclosure, and excluded disclosure requirements that provided information only to regulators, stock exchanges or an explicitly limited scope of stakeholders.

e) This report does not measure the quality of disclosure within individual markets; rather it is a measure of the existence of regulations requiring the selected disclosure items.

Sources of information

The research was performed primarily by using publicly available legal documents from the Internet, but in some cases relied on direct communication with regulators and or stock exchange officials. The legal sources generally included company law, financial market law, corporate governance codes and listing rules of stock exchanges. In regard to stock exchange listing rules, in countries with more than one stock exchange, the listing rules considered were the rules of the largest stock exchange in the country (by market capitalization).

A preliminary copy of the findings for each market was submitted to regulators or stock exchange authorities in that market for comment. A number of replies were received and incorporated into the findings below. While every effort was made to be thorough in this research, this report cannot claim to have covered all applicable laws and regulations. The complete list of sources used, by market, is contained in annex I.

B. Status of implementation of good practices in corporate governance disclosure at the regulatory level

Disclosure requirements of 21 frontier markets

Table 2 below displays the results of the study within each of the five broad categories discussed in section I above. This grouping of the disclosure items allows readers to draw their own conclusions based on the importance they assign to a particular category or subject area and, within that category, a particular disclosure item. It also facilitates the analysis of the relative level of disclosure within each category.

Table 2. Main findings of the inventory of disclosure requirements in 21 frontier markets
(Number of markets requiring this item)

Disclosure item	No. of markets (max.=21)
Financial Transparency	
Financial and operating results	21
Nature, type and elements of related-party transactions	15
Company objectives	10
Rules and procedures governing extraordinary transactions	9
Decision making process for approving related-party transactions	8
Impact of alternative accounting decisions	5
Critical accounting estimates	2
Board's responsibilities regarding financial communications	1
Ownership Structure and Exercise of Control Rights	
Availability and accessibility of meeting agenda	20
Changes in shareholdings	14
Control structure	13
Control rights	7
Ownership structure	6
Rules and procedures governing the acquisition of corporate control in capital markets	4
Process for holding annual general meetings	3
Control and corresponding equity stake	2
Anti-Takeover measures	1
Board and Management Structure and Process	
Composition of the board of directors	15
Determination and composition of directors' remuneration	15
Role and functions of the board of directors	14
Material interests of senior executives and board members	14
Governance structures, such as committees and other mechanisms to prevent conflicts of interest	13
Composition and function of governance structures	12
Qualifications and biographical information on board members	10
Independence of the board of directors	10
Existence of procedures for addressing conflicts of interest among board members	9

Disclosure item	No. of markets (max.=21)
Checks and balances mechanisms	8
Risk management objectives, system and activities	8
Professional development and training activities for board members	7
Performance evaluation process for board members	6
Availability of advisorship facility for board members or board committees	5
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	5
Types and number of outside board and management positions	4
Duration of directors' contracts	3
Existence of succession plan for senior executives and board members	2
Auditing	
Internal control systems	9
Process for appointment of external auditors	5
Scope of work and responsibilities for internal auditors	4
Rotation of external auditors	4
Process for interaction with internal auditors	3
Process for interaction with external auditors	3
External auditors' involvement in non-audit work and fees paid to auditors	3
Duration of current external auditors	1
Board confidence in the independence and integrity of external auditors	1
Corporate Responsibility and Compliance	
Mechanisms protecting the rights of other stakeholders	6
Policy and performance in connection with environmental and social responsibility	5
Policy on "whistle blower" protection	3
A Code of Ethics for the board and waivers to the ethics code	2
A Code of Ethics for company employees	2
Existence of employee elected director(s) on the board	1
Impact of environmental and social responsibility policies on sustainable development	0

General overview

As shown in table 2, most of the items of the ISAR benchmark are not the subject of mandatory disclosure in most of the markets in this study. This stands in contrast to earlier studies by UNCTAD of larger emerging markets where most of the ISAR benchmark items were the subject of mandatory disclosure rules. For the 21 markets in this study, one-third of the ISAR benchmark indicators are the subject of disclosure requirements in slightly more than half of the markets studied. Only four markets in the study require half or more of the items in the ISAR benchmark. Despite the generally low number of required disclosure items in these markets, two individual items are nevertheless the subject of disclosure requirements in most or all of the countries studied: financial and operating results and availability and accessibility of meeting agenda.

Consistent with UNCTAD's earlier studies on this subject, the first three categories of disclosure items ('Financial transparency', 'Ownership structure and exercise of control rights', and 'Board and management structure and process') are more likely to be the subject of mandatory disclosure requirements than the last two categories ('Auditing' and 'Corporate responsibility and compliance').

Disclosure requirements existed in 10 or more markets for 4 out of 8 disclosure items in the category 'Financial transparency', 3 out of 9 items in 'Ownership structure and exercise of control rights' and 8 out of 18 items in 'Board and management structure and process'. In contrast, all of the disclosure items in the last two categories ('Auditing' and 'Corporate responsibility and compliance') were the subject of mandatory reporting rules in less than 10 of the markets in this study. The disclosure items in the category of 'Corporate responsibility and compliance' were required by the lowest number of markets, with one item (impact of environment and social responsibility policies on sustainable development) not required in any of the markets examined. Figure 1 below provides an overview of the maximum and minimum number of markets requiring individual disclosure items in each category.

Figure 1. Overview of disclosure requirements by category
(Maximum and minimum number of markets requiring disclosure items in this category – vertical line indicates the median number)

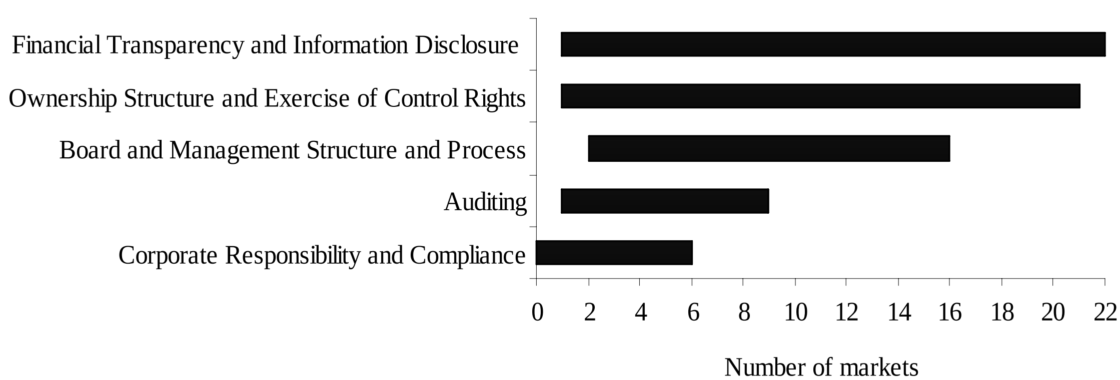


Figure 1 provides an illustration of the extent of mandatory disclosure requirements in each of the five categories. This analysis remains largely consistent with the findings of UNCTAD's 2009 inventory of CG disclosure requirements in emerging markets in so far as the relative order of the categories. One significant difference, however, is the overall lower level of disclosure requirements in frontier markets when compared with emerging markets. This lower level is indicated in both the very wide spread between the most often required items and the least often required items within each category, but also by the relatively low median number. In the 2009 inventory, for example, the least required items in three categories was still required by more than half of the markets in that study. [85]

Also consistent with the 2009 inventory, the categories of 'Auditing' and 'Corporate responsibility and compliance' are subject to the least number of disclosure requirements. As seen in table 2 below, disclosure items from these two categories make up the majority of the bottom 10 least prevalent disclosure requirements.

Table 3. Most prevalent and least prevalent disclosure items
(Number of markets requiring this item)

Top 10 most prevalent disclosure items required among 21 frontier markets	**No. of Markets**	**Bottom 10 least prevalent disclosure items required among 2 frontier markets**	**No. of Markets**
Financial and operating results	21	Control and corresponding equity stake	2
Availability and accessibility of meeting agenda	21	Existence of succession plan for senior executives and board members	2
Composition of the board of directors	15	A Code of Ethics for the board and waivers to the ethics code	2
Nature, type and elements of related-party transactions	15	A Code of Ethics for company employees	2
Determination and composition of directors' remuneration	15	Board's responsibilities regarding financial communications	1
Changes in shareholdings	14	Anti-Takeover measures	1
Role and functions of the board of directors	14	Duration of current external auditors	1
Material interests of senior executives and board members	14	Board confidence in the independence and integrity of external auditors	1
Control structure	13	Existence of employee elected director(s) on the board	1
Governance structures, such as committees and other mechanisms to prevent conflicts of interest	13	Impact of environmental and social responsibility policies on sustainable development	0

Of the ten most prevalent disclosure items, five of them are from the category "board and management structure and process", which differs with the findings of the 2009 inventory of emerging markets in which the highest category of disclosure requirements was that of "ownership structure and exercise of control rights". Moreover, while seven of top ten most prevalent disclosure items are required in all 25 of the emerging markets in the 2009 inventory, the present study finds that only one of the top ten items is required by all 21 of the frontier markets examined.

[85] The three categories are: 'Financial transparency' and 'Ownership structure and exercise of control rights' and 'Auditing'. See page 8 of the *2009 Review of the implementation status of corporate governance disclosures: an inventory of disclosure requirements in 24 emerging markets* (TD/B/C.II/ISAR/CRP.8).

As far as the bottom ten least prevalent disclosure items are concerned, the number of frontier markets requiring disclosure is significantly lower than the bottom ten least required items among the 25 emerging markets in the 2009 inventory. The number of frontier markets requiring individual items in the bottom ten range from 2 to 0, which is much lower than the same data for emerging markets where the number of markets for the least required items ranged from 13 to 2.

Gap analysis of disclosure requirements

Table 4 below provides another view of the main findings of the study, illustrating where gaps exist in corporate governance disclosure requirements. The top line of the table lists the numbers of the 51 disclosure items of the ISAR benchmark, grouped according to general category; these numbers correspond to the complete list of disclosure items found in annex II. The blank or white spaces in the table indicate an absence of a mandatory requirement for disclosure of that item. The markets in the table are listed from top to bottom in order of the total number of disclosure items required.

This presentation of the data provides an overview of what disclosure items are required in each market. As noted above, the disclosure items in the categories “financial transparency”, “board and management structure” and “ownership structure” are the subject of more disclosure requirements in the countries examined. In contrast, some markets have few or no disclosure requirements in the categories of “auditing” and “corporate responsibility and compliance”.

Table 4. Gap analysis of disclosure requirements in 21 frontier markets

Empty white squares indicate that the disclosure item is not required. Markets organized from most disclosure requirements to least, compared to the ISAR benchmark. The name of individual disclosure items can be found in the list in Annex II.

Disclosure / Market	Financial transparency								Ownership structure								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Slovenia	■			■	■				■	■	■	■	■	■	■	■	■
Nigeria	■		■		■			■									■
Croatia	■		■		■	■			■	■	■			■		■	■
Lithuania	■			■	■	■	■			■	■						■
Bulgaria	■		■	■	■		■			■		■		■			■
Romania	■			■	■	■	■			■	■			■			■
United Arab Emirates	■			■	■	■											■
Mauritius	■	■			■		■		■	■	■						■
Ukraine	■			■		■					■						■
Estonia	■		■		■		■			■		■					■
Vietnam	■			■	■		■		■	■	■	■	■				■
Oman	■				■	■	■			■							■
Kenya	■	■	■		■	■	■				■						■
Sri Lanka	■								■		■	■					
Serbia	■			■	■					■	■						■
Bahrain	■				■	■	■			■	■	■					■
Qatar	■			■													■
Kazakhstan	■								■	■	■					■	■
Lebanon	■									■		■					■
Kuwait	■									■	■						■
Trinidad and Tobago	■			■	■												■

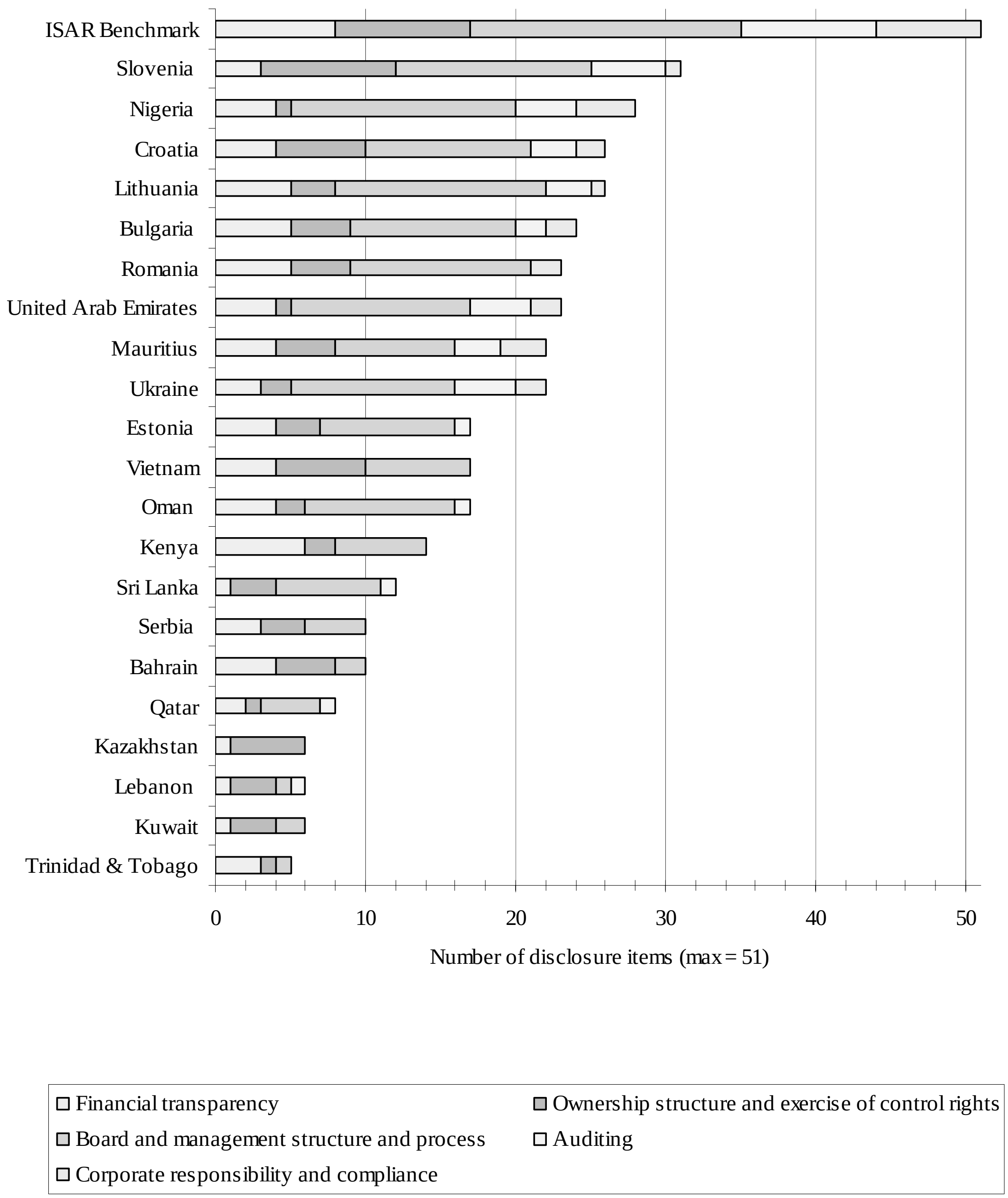
Disclosure / Market	Board and management structure and process																	
	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35
Slovenia	■	■	■	■	■	■			■		■	■	■		■	■	■	
Nigeria	■	■	■	■	■	■			■		■	■	■	■	■	■	■	■
Croatia	■	■	■	■	■		■			■	■	■				■	■	
Lithuania	■	■	■	■	■	■		■	■		■	■	■	■		■	■	
Bulgaria	■	■		■	■	■	■				■		■	■		■		■
Romania		■	■	■	■			■	■		■	■	■	■	■	■		
United Arab Emirates	■	■	■	■	■	■			■	■	■			■	■	■		
Mauritius				■	■	■		■	■			■				■		■
Ukraine	■	■	■	■	■	■					■		■		■		■	■
Estonia	■	■	■		■	■			■			■	■			■		
Vietnam		■	■	■	■							■		■		■		
Oman		■	■	■	■		■		■		■			■		■	■	
Kenya		■	■		■								■			■		■
Sri Lanka		■	■	■		■					■	■				■		
Serbia				■		■	■					■						
Bahrain												■				■		
Qatar					■							■	■			■		
Kazakhstan																		
Lebanon				■														
Kuwait				■								■						
Trinidad and Tobago												■						

Disclosure / Market	Auditing									CR & compliance						
	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51
Slovenia	■			■	■	■	■								■	
Nigeria	■	■			■		■			■		■	■	■		
Croatia	■							■	■					■	■	
Lithuania		■	■	■											■	
Bulgaria	■						■			■					■	
Romania										■					■	
United Arab Emirates	■			■	■			■		■				■		
Mauritius	■		■					■		■		■	■			
Ukraine	■	■	■				■								■	■
Estonia	■															
Vietnam																
Oman	■															
Kenya																
Sri Lanka			■													
Serbia																
Bahrain																
Qatar					■											
Kazakhstan																
Lebanon					■											
Kuwait																
Trinidad and Tobago																

Comparison of disclosure requirements between markets

Figure 2 presents an overview of the number of disclosure items required for each category of disclosure in each of the 21 frontier markets reviewed. For comparison purposes, the figure also includes the number of disclosure items for each category of the ISAR benchmark.

Figure 2. Disclosure requirements by market and category



The figure indicates that the majority of frontier markets required less than half of disclosure items of the ISAR benchmark. Only one market stipulates more than 30 items. The numbers of items required in eight markets fall between 20 and 30 items. There are seven markets which have between 10 and 20 required items. Five countries require disclosure of less than 10 of the ISAR benchmark items. In comparison with emerging markets, figure 2 suggests that many frontier markets have levels of mandatory corporate governance disclosure that are significantly lower, not only in terms of the number of disclosure items covered but also the range of topics (or categories) addressed.

C. Main challenges of existing disclosure requirements

This study helped to identify the following main challenges with regard to existing disclosure requirements on corporate governance.

Vague or generalized disclosure rules

An issue found among many countries' CG disclosure rules is lack of specificity about the information that is to be disclosed. Some rules require overly generalized statements on corporate governance that lack the kind of specific information that might be useful to investors and other stakeholders. There are two common types of overly generalized disclosure regulations found in this research:

a) The regulation requires vague or undefined information. For example, some regulations require that listed companies publish a "corporate governance report" or disclose "material information" of corporate governance without setting forth the content of such reports in any detail, or providing any criteria as to the materiality of information. As a result, disclosure regulations that contain a high-level of generality, or non-precise language, without specific reference to other relevant authoritative sources of reference, in most cases do not, in practice, require any specific information to be disclosed.
b) The regulation requires a general statement of compliance with the CG code. Some challenges of application of this requirement are discussed in more detail below (see section III.D under 'general disclosure statements versus specific itemized disclosure').

To improve the usefulness of CG disclosures, regulators could avoid requiring vague or overly-generalized information, and work towards clarifying what type of disclosures are required. For example, one country in this study integrated within its CG code an annual questionnaire specifying the disclosure of compliance. Similarly, another country issued a Disclosure form concerning the compliance with the Corporate Governance Code for the Companies Listed on [the national stock exchange]. Both methods provide enterprises with detailed guidance on specific corporate governance disclosure requirements.

“Comply or explain” principle: challenges in application

Many countries based their CG disclosure requirements on “comply or explain” principle which is a central element of many national corporate governance codes. It provides useful flexibility in code implementation, however its practical application can lead to complexities and confusion when combined with other factors discussed in this section, such as voluntary codes and overly generalized requirements.

The “comply or explain” principle was first put forward in the Cadbury Code in the United Kingdom as a practical means of establishing a single code of corporate governance whilst avoiding an inflexible ‘one size fits all’ approach. Cadbury 1992 required that "[L]isted companies… should state in the report and accounts whether they comply with the Code and identify and give reasons for any areas of non-compliance."[86] Since the advent of the Cadbury Code, many countries around the world (including many of the frontier markets in this study) have adopted the “comply or explain” principle and implemented it as per the original core elements. There are two core elements of the “comply or explain” principle:

a) The code applying the “comply or explain” principle is ‘soft law’, which means it is non-binding and voluntarily implemented. Listed companies are entitled to decide on their own adoption and degree of compliance with the code. Deviation from the code does not breach it; and
b) No matter how listed companies implement the code, disclosure concerning the compliance or non-compliance is obligatory, with an additional explanation in the case of non-compliance.

These two core elements can be summed up in the simple equation: voluntary implementation of the code + mandatory disclosure. Companies can choose what elements of the code they comply with, but they must explain what they do. This is the essence of the “comply or explain” principles based approach to corporate governance disclosure.

‘Comply or explain’ + *unclear regulations*

A challenge arises from the combination of the “comply or explain” principle with unclear regulations. Such situations can create the appearance of contradictions and generate confusion about whether a code requires mandatory implementation or not. In one country, for example, the rules state that “The Code should be implemented by all public companies” which suggests that implementing the code and all its provisions is a mandatory requirement. Yet the same rules go on to say that “The Code is to be adopted and implemented according to the ‘comply or explain’ principle”. This second statement generates confusion by creating an apparent contradiction with the first: the “comply or explain” principle is normally associated with voluntary codes and explicitly entails the option of not complying. This leaves the question: since the option of not complying exists, is implementation of the code mandatory?

[86] David Seidl and Paul Sanderson (2009) "Applying 'comply-or-explain': Conformance with codes of corporate governance in the UK and Germany". Centre for Business Research, University of Cambridge Working Paper No.289

Transparency section within a 'comply or explain' code

Another challenge arises when regulators combine explicit transparency and disclosure rules within a "comply or explain" model. Counter-intuitively, the addition of explicit disclosure guidance within a "comply or explain" code can create confusion. In a "comply or explain" based code, every provision of the code dealing with corporate governance mechanisms is also potentially a provision dealing with disclosure, since companies would typically (under best practice) be required to explain their compliance with each provision in the code (what can be called an 'itemized statement of compliance'). If, however, a chapter on transparency and disclosure also addresses issues of mechanisms covered elsewhere in the code, this can lead to confusion: two parts of the rules covering similar subjects with different implications for disclosure.

In the end a number of questions remain: in a comply or explain based code, is it optional to comply with the transparency section of the code? This would seem to be the case, but it is not clear. Drafters of codes could usefully clarify this point by, for example, indicating in the transparency section a clear list of mandatory disclosure items, and explaining that the disclosure section itself is not optional.

Models of mandatory and voluntary disclosure regulation

This section looks at the different models of disclosure regulations that have been identified in UNCTAD's research on CG regulations. The issues discussed in this section are illustrated in Figure 3 below. Discussion is based on a distinction between a) mechanisms of corporate governance, i.e. what governance structures companies should have, what rules and procedures they should follow and b) disclosure of corporate governance practices, i.e. what companies should report about what they are doing.

Model 1: Mandatory mechanisms + mandatory disclosure

The first model represents conventional command and control rules with obligatory requirements. Regulations other than corporate governance codes typically adopt this approach in stipulating disclosure obligations. However some corporate governance codes also adopt this approach. In this model, a country's corporate governance code is not 'soft law' rather it is 'hard law': a mandatory regulation like any other government regulation.

Mandatory rules on mechanisms in this case are typically accompanied by mandatory disclosure requirements. Such regulations normally include text such as "The listed companies shall publish/report to the public/disclose… (corporate governance disclosure items)". For example, an article of one country's law states:

> *(Publishing information on the change in major holdings)*
> *(1) A public company shall be obliged to publish the information contained in the notice on the change in major holdings …*

This is an example of an explicit conventional mandatory disclosure requirement. In this type of regulation, the disclosure is a legal obligation.

Model 2: Voluntary mechanisms + mandatory disclosure ("mandatory comply or explain")

The second model follows the core elements of the "comply or explain" principle explained above: voluntary rules on mechanisms combined with mandatory disclosure. In this situation, all companies, whether they fully comply with the code or not, are obliged to disclose information about their compliance.

Model 3: Voluntary mechanisms + voluntary disclosure ("voluntary comply or explain")

The third model highlighted here involves the voluntary rules on mechanisms combined with voluntary disclosure. Some markets use a "comply or explain" rule that is not applied to every company automatically, rather companies must voluntarily adopt this rule, thus a disclosure obligation is triggered only if and when a listed company decides to adopt the code or some part of the code. The selective nature of this opt-in process makes this type of regulatory regime a voluntary one. The combination of this type of voluntary opt-in process with the "comply or explain" leads to a situation of "voluntary comply or explain". Within this model not all companies are subject to the same disclosure obligations, and what disclosure obligations do exist for companies are a product of a voluntary choice by those companies. An example of this model can be found in the following excerpt from one country's corporate governance code:

> *Article 1…*
> *For companies whose securities are admitted to some of the markets of the Stock Exchange, the obligation of the Code implementation is generated in the case they voluntarily in written (sic) inform the Stock Exchange that they accept its application.*
>
> *Article 2.The implementation of the Code implies the following obligations for the companies:*
>
> - *[…]*
> - *To report at least once a year on the corporate governance including information on implementation of the Code recommendations or provide explanations for noncompliance (the rule "comply or explain")*

In this example, Article 1 indicates that the obligation of implementation is generated only by voluntary adoption. Article 2 provides for disclosure using the "comply or explain" principle. Thus Article 2 would only apply to companies that voluntarily adopt the code and decide to assume these disclosure requirements.

Explicit and implicit disclosure

Another issue related to corporate governance disclosure rules is the existence of explicit and implicit disclosure obligations. Explicit disclosure rules are typically simple, clear and direct. While implicit disclosure rules often require the combination of one or more provisions within a code, or the combination of a code with a separate company law that applies mandatory disclosure rules to the code. This issue has been discussed briefly in UNCTAD's previous reports on corporate governance.[87] The section below seeks to add further explanation.

Explicit disclosure

During the review of regulations and listing requirements of stock exchanges, it was observed that in some instances, for some disclosure items, there was an obvious and explicit requirement to disclose or report a particular item. An example of an explicit disclosure rule is provided above (section D.1 mandatory implementation).

Implicit disclosure

In contrast, a disclosure requirement can be regarded as implicit when it needs to be considered together with other regulation or general principles to determine whether or not a particular issue is subject to mandatory disclosure. There are two main types of implicit disclosure found among the regulations of the 21 countries in this study:

a) Implicit Disclosure I: the disclosure requirement could be determined from the consideration of two separate articles within the same regulation or from different regulations . For example, one article states that the annual report shall be published, but without specifying the specific corporate governance subjects to be included in the report. Meanwhile, another provision lists the detailed items that shall be embodied in the annual report. Thus, the disclosure requirements regarding detailed subjects can be identified by considering these two articles together. Another common example of this kind of implicit disclosure is when a provision sets forth "Information regarding … [preceding or following provisions] shall be reported to the public". In this case, the disclosure obligation becomes applicable to all the subjects covered in those provisions.

b) Implicit Disclosure II: the disclosure requirement could be determined from the consideration of an article and a general principle. Because of the disclosure obligation incurred from the "mandatory comply or explain" principle, the ordinary CG regulation in the code implies that listed companies shall disclose the actual CG practice in the same regard. For example, a provision from a code adopting the "mandatory comply or explain" principle states "The company should set up an internal control system that guarantees effective reporting and disclosure of information". Then the disclosure obligation of this provision is that listed companies must disclose whether they have set up internal control

[87] See the studies noted in footnote 1.

systems, how their systems are and whether the systems fulfil the requirement, etc.

Explicit disclosure and implicit disclosure type I are typically found in mandatory implemented corporate governance codes and other regulations, whilst implicit disclosure type II typically exists only in the circumstance of the mandatory comply or explain model.

General disclosure statements versus specific itemized disclosure

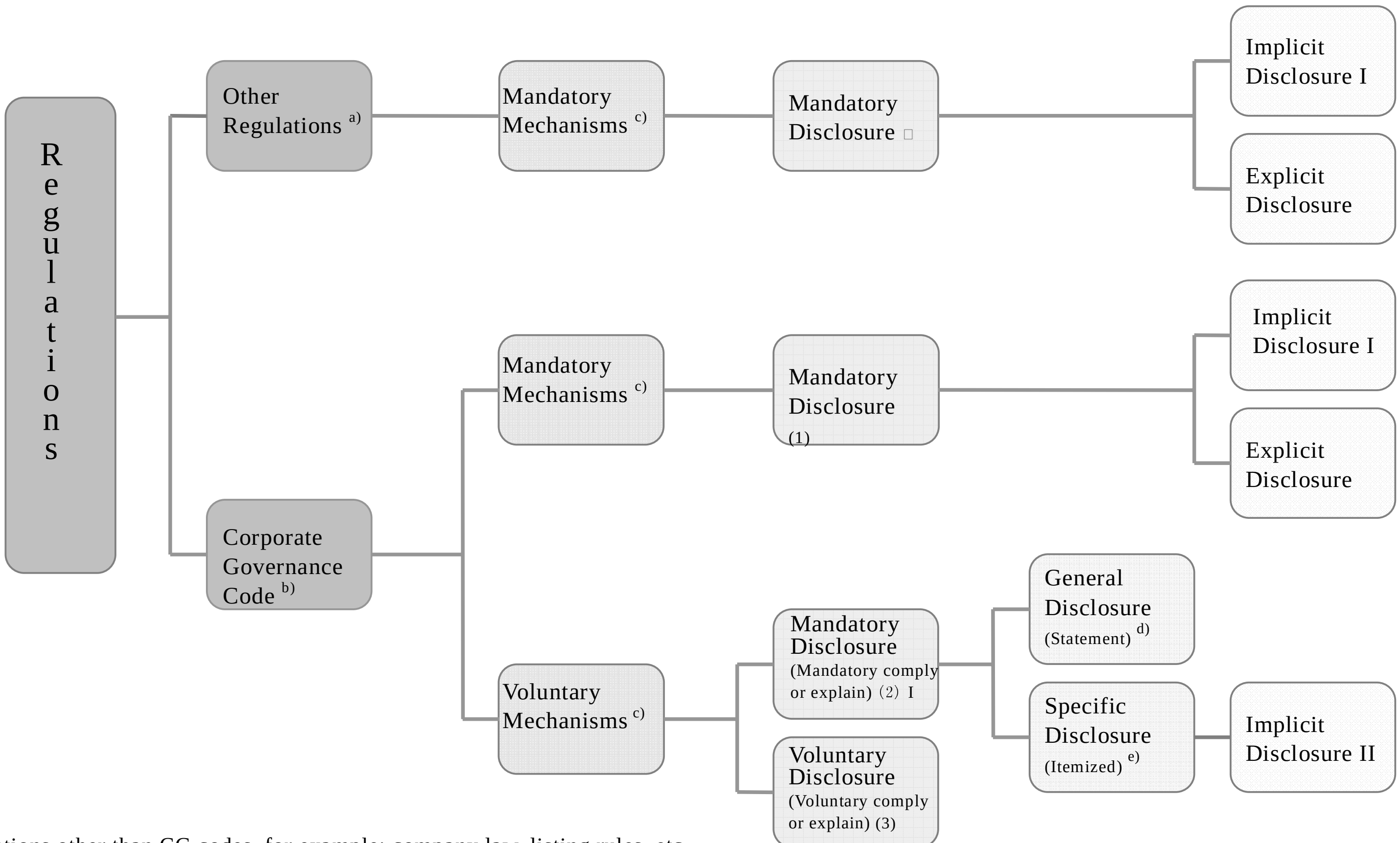
An issue identified in UNCTAD's previous studies on corporate governance disclosure is the use of 'general disclosure statements' or general statements of compliance with a code.[88] The problem with such statements is that they do not contain any detailed, useable information about exact company specific practices. As such they are not considered a form of implicit disclosure.

In contrast to general disclosure statements, some codes require specific itemized disclosure of individual corporate governance subjects (this can be thought of as 'itemized comply or explain'). This type of disclosure rules can be considered a form of implicit disclosure II.

[88] See in particular paragraph 58 of "2009 Review of the implementation status of corporate governance disclosures: case study Pakistan" (TD/B/C.II/ISAR/CRP.5).

Figure 3. **Models of voluntary and mandatory disclosure regulation**

Note: (1) Model 1; (2) Model 2; (3) Model 3.



a) Relevant regulations other than CG codes, for example: company law, listing rules, etc.
b) Includes explicit CG codes, resolutions or legal-decisions specific to CG mechanisms and disclosure.
c) Refers to the enforcement (binding or non-binding) of the CG mechanisms regulations.
d) Company discloses compliance with CG code by a general statement, e.g. "I have complied with the code" or "I have not complied with the code" along with relevant reasons.
e) Company discloses compliance with CG code by providing details of CG mechanisms item by item corresponding with each provision of the code.

Disclosure chain: does the information get to the public?

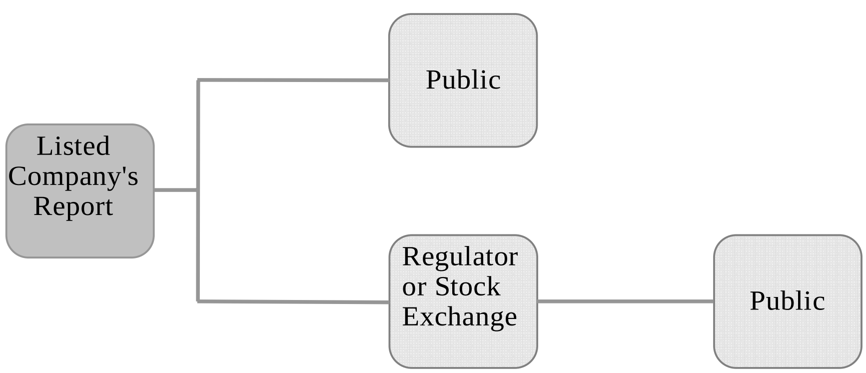
In addition to the issues outlined above, one additional aspect should come to the attention of regulators working in this area is the question of whether or not corporate governance disclosure information reaches the public. UNCTAD's studies[89] focus on disclosure that is public and available to all current and potential future shareholders, as well as other stakeholders. Some forms of regulation complicate or obstruct the transmission of information to the public. This section highlights four issues to consider in promoting improved access to information.

Path: direct vs. indirect

Among the regulations reviewed in this study, the path of disclosing CG information to the public is either direct or indirect. The direct path is that the information reported by listed companies is communicated directly to the public (e.g. via a company website or other documents widely accessible to the public). Regulations typically contain text such as "The listed companies shall publish … (CG information) on their website". This type of rule is common among the countries in this study.

The indirect path is less common but has the same effect of reaching the public. Some countries' regulations stipulate the listed company shall report the CG information to the regulator or stock exchange and subsequently the regulator or stock exchange is obliged to disclose to the public (e.g. via the website of the regulator or stock exchange). These two distinctive paths are shown in Figure 4 below.

Figure 4. Path of disclosure to the public



A problem can arise, however, in the regulations of some countries wherein companies are only required to report CG information to the regulator or stock exchange, and the regulator or stock exchange does not subsequently pass on this information to the public. This situation, while keeping regulators duly informed, does not allow for informing current and potential investors and other stakeholders. Regulators can remedy this situation by making all company reports available on a website.

[89] See for example the studies list under footnote 1 above.

Recipient

As noted above, this study is based on the disclosure to the general public and all current and potential future investors. However, it is not common for regulations among the countries in this study to clearly state the goal of “publish” or “disclose to the public”. Many regulations state instead that companies should “report to shareholders”. Of the 21 countries in this study, for example, 17 have regulations providing disclosure of some items only to shareholders. For the purpose of this study, regulations that require disclosure to “shareholders” generally were interpreted as being current as well as potential future shareholders, in essence the general public. However some rules were even more specific using text such as “current shareholders” which would preclude all potential future shareholders and other stakeholders. Regulators therefore might consider clarifying their rules by using language such as “disclosure to public” rather than “disclosure to shareholder”.

Accessibility of information: passive versus active disclosure

Disclosure requirements can specify the way in which companies disclose information, with implications for the accessibility of that information to the general public and international investors. Regulations can require a more active approach to disclosure meaning that the company takes steps to make the information easily accessible by the public, e.g. via a company website.

Regulations can also permit a more passive approach, allowing the company to make CG information available via less accessible means. For example, the company may be permitted (or required) to keep CG information in its office, at the office of the regulator or another registered office; the information is then made available upon request to visitors of the office where it is stored. In some cases, people seeking access to this information are required to pay a fee. This situation limits the accessibility of information to stakeholders in general and can significantly limit the accessibility of such information to international investors. Regulators can improve the accessibility of information by requiring it to be published on company websites, or on the regulator’s website.

Intermediary

Regulations can contain a variety of intermediaries for corporate governance disclosure, including: mass media; local newspapers in wide circulation; a regulator’s official bulletin; public gazette; websites; etc. Each of these intermediaries has implications for accessibility. While specific issues may require specific mediums of communication, in general, regulators could consider the prioritization of the use of websites as the most cost effective means of making information accessible to a wide range of stakeholders, including international investors.

Conclusion

This report is a regular annual review of corporate governance disclosure prepared by the UNCTAD secretariat. This study follows the same approach of earlier studies in 2007 and 2009 but while those earlier studies examined a range of emerging markets, this study has looked at group of countries with smaller, typically less developed securities markets, commonly referred to by investors as ‘frontier markets’; specifically at a sample of 21 economies drawn from the MSCI Frontier Markets Index.

The main findings of this study show that most of the economies in the MSCI FM index do not have mandatory disclosure rules for most of the items in the ISAR benchmark of good practices. This is in contrast to earlier UNCTAD studies of larger emerging markets that require disclosure of a majority of the items of the ISAR benchmark. These findings suggest that the frontier markets have a less developed regulatory environment related to corporate governance disclosure and require significantly less information from listed companies than would be required in larger emerging markets or developed countries. This suggests that officials interested in promoting investment in these frontier markets might usefully consider a re-examination of the disclosure requirements of listed companies, with a view to strengthening such requirements where appropriate in order to meet the information expectations of international investors.

Annex I. List of sources by market

Bahrain

- Central Bank of Bahrain and Financial Institutions Law 2006
- Bahrain Stock Exchange Law
- Bahrain Stock Exchange Internal Regulation
- Commercial Companies Law 2001
- BMA Disclosures Standards Book

Bulgaria

- Law on Public Offering of Securities
- Commerce Act
- Measures Against Market Abuse with Financial Instruments Act
- Ordinance No. 2 of September 17, 2003
- Bulgarian National Code for Corporate Governance
- Listing Rules (Bulgarian Stock Exchange-SOFIA)

Croatia

- The Securities Market Law
- Code of Corporate Governance+ Annual Questionnaire
- Rules (The Zagreb Stock Exchange)
- The Capital Market Act
- Directive 2001/34/EC of the European Parliament and of the Council
- Regulation (EC) No 1606/2002 of the European Parliament And of the Council
- The Act on the Takeover of Joint Stock Companies
- Ordinance on the Contents and Form of Financial and Business Reports of Public Joint Stock Companies

Estonia

- Securities Market Act
- Commercial Code
- Requirements for Issuers
- Corporate Governance Recommendations

Kazakhstan

- Law Concerning Joint-stock Companies
- Law Concerning the Securities Market
- Listing Rules of Kazakhstan Stock Exchange
- Rules on Exchange Information Dissemination

Kenya

- The Capital markets (Securities) (Public Offers, Listing and Disclosures) Regulations,2002
- Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya
- NSE Listing Manual
- Companies Act
- Capital Markets Act

Kuwait

- Capital Markets Bill 2010
- Law of Commercial Companies
- KSE Committee Decision No.(2) for the Year 2008 Concerning the Rules and Conditions for Listing Shareholding Companies in the Official Market
- Ministerial Resolution No. 35 of 1983 Promulgating the Kuwait Stock Exchange by-law

Lebanon

- The BSE Law
- Bylaws of the Beirut Stock Exchange
- The Regulation of Holding Companies
- The Offshore Companies Statute
- Code of Commerce (legislative decree No.304)

Lithuania

- Law on Companies
- Law on Securities
- Law on Markets in Financial Instruments
- The Listing Rules of AB NASDAQ OMX Vilnius
- The Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius
- Concerning Disclosure of Compliance with the Corporate Governance Code

Mauritius

- Code of Corporate Governance (inside the Report on Corporate Governance for Mauritius)
- The Securities Act 2005
- The Companies Act 2001
- Securities (Disclosure Obligations of Reporting Issuers) Rule 2007
- The Listing Rules (official market)

Nigeria

- Code of Corporate Governance 2008
- The Investments and Securities Act 2007
- Securities and Exchange Commission Rules and Regulations
- Companies and Allied Matters Act 1990

Oman

- The Capital Market Law
- Executive Regulation of The Capital Market Law 2009
- Listing Rules at Muscat Securities Market
- Code of Corporate Governance for MSM Listed Companies
- Requirements and Terms for Issuing Shares in the Sultanate of Oman 2005
- The Commercial Companies Law

Qatar

- Law No.33 of 2005
- Doha Securities Market Bylaws
- Law No.5 of 2002 the Commercial Companies Law

Romania

- The Capital Market Law No.297/2004
- CNVM Regulation No.1/2006 on Issuers and Operations with Securities
- Regulation No.31/2006 Amending CNVM Regulations by Implementing Certain Provisions of European Directives
- Rulebook of the Bucharest Stock Exchange
- Company Law
- Bucharest Stock Exchange Corporate Governance Code

Serbia

- Law on Business Companies
- Law on the Market of Securities and Other Financial Instruments
- Rulebook on the Contents and Manner of Public Companies' Reporting and Notification on Possession of Voting Shares
- Rules on Listing and Quotation

Slovenia

- Companies Act

- Market in Financial Instruments Act (ZTFI)
- Corporate Governance Code 2009
- Ljubljana Stock Exchange Rules
- Guidelines on Disclosure for Listed Companies
- Takeover Act

Sri Lanka

- Colombo Stock Exchange Listing Rules 2010
- Companies Act No. 07 of 2007
- Securities and Exchange Commission of Sri Lanka Act

Trinidad and Tobago

- The Companies Act 1995
- Securities Bill 2010
- Disclosure, Registration and Corporate Finance The Annual Report (TTSEC)
- Trinidad and Tobago Stock Exchange Rules

Ukraine

- Law of Ukraine on Securities and the Stock Market
- Law on Joint Stock Companies, 2008
- Ukrainian Corporate Governance Principles

United Arab Emirates

- Resolution No.(518) 2009 Concerning Governance Rules and Corporate Discipline Standards
- Decision No.(3/R) of 2000 Concerning the Regulations as to Disclosure and Transparency
- Decision No.(12)of 2000 Concerning the Regulations as to the Listing of Securities and Commodities
- Federal Law No.(4) of 2000 Concerning the Emirates Securities Commodities Authority and Market
- Federal Law No.8 of 1984 Concerning Commercial Companies
- Listing Requirements of Dubai Financial Market (foreign company, local company, bonds)

Viet Nam

- Vietnam Listing Rules
- Circular on Disclosure of Information on the Securities Market 2007
- The Government's decree on Securities and Securities Market
- Law on Enterprises
- Circular Providing Guidance on Information Disclosure on the Securities 2004
- Decision Promulgating Regulations on Corporate Governance 2007

Annex II. List of disclosure items in the ISAR benchmark[90]

Disclosure	
Financial Transparency and Information Disclosure	
1	Financial and operating results
2	Critical accounting estimates
3	Impact of alternative accounting decisions
4	Company objectives
5	Nature, type and elements of related-party transactions
6	Decision making process for approving related-party transactions
7	Rules and procedures governing extraordinary transactions
8	Board's responsibilities regarding financial communications
Ownership Structure and Exercise of Control Rights	
9	Ownership structure
10	Changes in shareholdings
11	Control structure
12	Control rights
13	Control and corresponding equity stake
14	Rules and procedures governing the acquisition of corporate control in capital markets
15	Anti-Takeover measures
16	Process for holding annual general meetings
17	Availability and accessibility of meeting agenda
Board and Management Structure and Process	
18	Checks and balances mechanisms
19	Governance structures, such as committees and other mechanisms to prevent conflicts of interest
20	Composition and function of governance structures
21	Composition of the board of directors
22	Role and functions of the board of directors
23	Qualifications and biographical information on board members

[90] ISAR benchmark as of 2010 revision. See section I.A. above for details.

24	Types and number of outside board and management positions
25	Duration of directors' contracts
26	Risk management objectives, system and activities
27	Existence of succession plan for senior executives and board members
28	Independence of the board of directors
29	Material interests of senior executives and board members
30	Existence of procedures for addressing conflicts of interest among board members
31	Professional development and training activities for board members
32	Availability of advisorship facility for board members or board committees
33	Determination and composition of directors' remuneration
34	Performance evaluation process for board members
35	Compensation policy for senior executives departing the firm as a result of a merger or acquisition
Auditing	
36	Internal control systems
37	Process for interaction with internal auditors
38	Scope of work and responsibilities for internal auditors
39	Process for interaction with external auditors
40	Process for appointment of external auditors
41	Duration of current external auditors
42	Rotation of external auditors
43	External auditors' involvement in non-audit work and fees paid to auditors
44	Board confidence in the independence and integrity of external auditors
Corporate Responsibility and Compliance	
45	Policy and performance in connection with environmental and social responsibility
46	Impact of environmental and social responsibility policies on sustainable development
47	A Code of Ethics for the board and waivers to the ethics code
48	A Code of Ethics for company employees
49	Policy on "whistle blower" protection
50	Mechanisms protecting the rights of other stakeholders
51	Existence of employee elected director(s) on the board