

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# INTERNATIONAL ACCOUNTING and REPORTING ISSUES

## 2006 Review



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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**INTERNATIONAL ACCOUNTING**  
**and**  
**REPORTING ISSUES**

2006 Review

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## Foreword

Through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), UNCTAD has provided an intellectual home and an open forum for considering issues of corporate transparency — such as financial reporting, corporate governance and corporate responsibility — that have important implications for the economic development of member States. The twenty-third annual session of ISAR was held in Geneva from 10 to 12 October 2006. This session addressed issues central to current challenges in corporate transparency, including the practical implementation of International Financial Reporting Standards (IFRS), the use of corporate responsibility reporting in annual reports, and the promotion of good practices in corporate governance disclosure.

The globalization of the investment community is putting new demands on comparable financial reporting. While the year 2005 saw an unprecedented number of enterprises and countries around the world adopt IFRS as their basis for financial reporting, 2006 witnessed the ongoing practical implementation of these new standards. This presents a number of challenges, including the need to be sensitive to the circumstances of small and medium-sized enterprises (SMEs), while fostering a consistent implementation of the standards.

Meanwhile, the same social and economic forces that are shaping global trade and development are also driving changes in the type of information various stakeholders want from companies. Enterprises have begun to recognize the value that environmental, social and governance reporting has in building investor confidence and stakeholder support. Over the longer run, experts agree that the current practice of financial reporting will need to be complemented by more non-financial information, including both corporate responsibility reporting and corporate governance disclosure.

Building an appropriate institutional framework and implementing robust corporate reporting requirements are essential to the broader process of economic development. These issues are at the centre of ISAR's work. It is my hope that policymakers, regulators, members of boards of directors, corporate executives, academics and other readers interested in advancing corporate transparency issues will find this publication to be a timely and useful resource.

Supachai Panitchpakdi



Secretary-General of UNCTAD  
Geneva, December 2006

## **Executive summary**

This volume of the 2006 Review of International Accounting and Reporting Issues contains the proceedings of the twenty-third session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). The two main agenda items the session dealt with were review of practical implementation issues of International Financial Reporting Standards (IFRS), and comparability and relevance of existing indicators on corporate responsibility.

Chapter I contains a summary of the main findings of five country case studies on the practical implementation issues of IFRS. The individual country case studies are contained in chapters II through VI. These chapters discuss practical implementation of IFRS, focusing on institutional, enforcement and capacity-building aspects. Chapter VII contains draft guidance on corporate responsibility indicators in annual reports. It presents a methodology for compiling and reporting selected indicators in annual reports aimed at establishing a consistent approach to measuring the selected indicators.

In 2006, the UNCTAD secretariat conducted two surveys: review of the reporting status of corporate responsibility indicators and review of the implementation status corporate governance disclosures. The indicators of corporate responsibility the survey analysed are based on the guidance proposed in chapter VII of this volume. The corporate governance disclosures surveyed are based on the *Guidance on Good Practices in Corporate Governance Disclosure*, published by ISAR in 2006. These two surveys are contained in chapters VIII and IX respectively.

On 9 October 2006, the UNCTAD secretariat organized a technical workshop on fair value measurement requirements in IFRS. Four panels of widely recognized experts on fair value discussed conceptual as well as practical implementation challenges of fair value. The final chapter contains articles contributed by panellists who participated at this workshop.

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## Introduction

The twenty-third session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at UNCTAD drew a record number of participants — 270 experts from 80 countries. The session dealt with two main agenda items: review of practical implementation issues of International Financial Reporting Standards (IFRS) and comparability and relevance of existing indicators on corporate responsibility. Under “other business”, the session addressed corporate governance disclosure issues. ISAR also reviewed progress on follow-up work conducted on topics that it addressed at previous sessions.

Deliberations on the first main agenda item were facilitated by country case studies of Brazil, Germany, India, Jamaica and Kenya; an issues note that summarized the main findings of the case studies; and three panel discussions. The first panel discussion dealt with progress on the implementation of IFRS since 2005, adequacy of existing standards and interpretations, progress on convergence to IFRS, and concrete benefits of implementation of IFRS. This was followed by a panel discussion of the country cases studies, which focused on institutional, enforcement and technical capacity-building aspects of IFRS. The final segment of the first agenda item was dedicated to a discussion of the accounting and financial reporting needs of SMEs. In concluding its deliberations on the first main agenda item, the session reiterated the importance of principles-based, high-quality financial reporting standards for the coherence and efficient functioning of the financial infrastructure, and for mobilization of resources needed for economic development. The Group of Experts recommended that UNCTAD conduct further studies on issues and challenges of practical implementation of IFRS, with a view to developing guidance on best practices of addressing these challenges. The session underscored the importance of SMEs for the economic development of member States, and requested UNCTAD to reconvene a Consultative Group on accounting by SMEs to provide input into deliberations on the issue that the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) are conducting. The session also requested UNCTAD to update its guidance on accounting for Level 3 enterprises.

During its consideration of the second main agenda item, ISAR deliberated on a draft guidance document on corporate responsibility reporting in annual reports. It also discussed findings of a 2006 survey of the reporting status of corporate responsibility reporting. A panel of experts discussed the draft guidance document that outlined a methodology for compiling and reporting on selected indicators of corporate responsibility reporting. The methodology was aimed at establishing a consistent approach to measuring and reporting selected corporate responsibility indicators in annual reports. The session concluded its deliberations on the second main agenda item by requesting UNCTAD to further refine the guidance on selected corporate responsibility indicators, with a view to providing a voluntary technical aid tool for enterprises. The session also recognized the usefulness of the survey on corporate responsibility reporting for refining the guidance proposed and requested UNCTAD to continue conducting such surveys.

One of the main items that the session considered under the “other business” segment of its agenda was corporate governance disclosures. The session reviewed recent developments in corporate governance disclosures and a panel discussed the 2006 survey of the implementation status of corporate governance disclosures. The survey’s findings indicated that while enterprises were providing sufficient information on the financial aspects of their performance, disclosure was lacking in areas such as auditing issues. The discussions highlighted the importance of good

corporate governance practices of state-owned enterprises, the importance of timely disclosure, the role of country examples in implementing corporate governance rules at stock exchanges and the impact that different legal systems have on different corporate governance codes. The session reiterated the importance of good corporate governance practices for promoting investment, economic stability and growth.

On 9 October 2006, one day before the twenty-third ISAR session, the UNCTAD secretariat organized a technical workshop that was dedicated to the discussion of fair value measurement requirements in IFRS. The topic has become the subject of extensive debate in international forums. The workshop featured four panels of prominent experts on the subject. The panels addressed: overview of fair value measurement requirements in IFRS; fair value measurement methods; recognition and measurement issues pertaining to fair values of financial instruments; and agricultural activities and practical fair value measurement issues. More than 130 participants attended the workshop and benefited from the technical discussions. The workshop highlighted practical implantation issues of IFRS in relation to fair value measurements.

UNCTAD expresses its gratitude to Mr. Rudolf A. Müller (Switzerland), Senior Counsellor, State Secretariat for Economic Affairs (SECO), Chairperson of the twenty-third session of ISAR; and Ms. Silvia Marques B. Silva (Brazil), Senior Advisor at the Financial Systems Regulation of the Central Bank of Brazil, Vice-Chairperson-cum Rapporteur, for their effective and efficient leadership which led to the successful conclusion of the session. UNCTAD gratefully acknowledges the excellent contribution of Mr. Alexandre Tombini, Deputy Governor for Financial System Regulation and Organization, Central Bank of Brazil, who delivered a keynote address at the opening of the twenty-third session of ISAR. UNCTAD also acknowledges with appreciation the contributions of Nancy Kamp-Roelands and Jackie Cook as resource persons in the areas of corporate responsibility reporting and corporate governance disclosure respectively.

UNCTAD appreciates the contributions of the following panellists who spoke on the practical implementation of IFRS. Members of the first panel were: Ian Ball, IFAC; Nelson Carvalho, IASB Standards Advisory Council; Remo Croci, European Commission; Robert Garnett, IASB; and John Hegarty, World Bank. The following panel members also assisted UNCTAD in preparing case studies in their respective countries: Kati Beiersdorf, German Accounting Standards Board; Dennis Brown, Institute of Chartered Accountants of Jamaica; Caroline Kigen, Institute of Chartered Accountants of Kenya; Paulo R. Lustosa, University of Brazilia, Brazil; and Shri Sunil H. Talati, Institute of Charted Accountants of India. The following panellists addressed the accounting needs of SMEs: Federico Diomeda, President, European Federation of Accountants and Auditors for Small and Medium-Sized Enterprises; Ndungu Gathinji, Chief Executive, Eastern Central and Southern African Federation of Accountants; Richard Martin, Head, Financial Reporting, The Association of Chartered and Certified Accountants; Paul Pacter, Director Standards for SMEs, IASB; Syed Asad Ali Shah, Senior Partner, Deloitte Touche, Tohmatsu, Pakistan; and Paul Thompson, Technical Manager, International Federation of Accountants, Small and Medium Practices Permanent Committee.

UNCTAD acknowledges with appreciation the contributions of the following panel members to the deliberations on corporate responsibility reporting: Justine Bentham, KPMG, United Kingdom; Stephen Hine, EIRIS, United Kingdom; Georg Kell, United Nations Global Compact; Alan Knight, AccountAbility, United Kingdom; Parveen Mahmud, PKS Foundation, Bangladesh; Ambreen Waheed, Responsible Business Initiative, Pakistan.

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UNCTAD express its appreciation to the following experts for their contributions to the panel discussion of corporate governance disclosures: André Baladi, International Advisory Board of the Euronext Exchange; Evelynne Change, NEPAD-APRMS, South Africa; Lin Dairen, China Life Insurance, China; Ashraf Gamal El-Din, Egyptian Institute of Directors, Egypt; Jennifer Walmsley, Hermes Investment Management, United Kingdom.

UNCTAD extends special appreciation to the following panellists who spoke at the workshop on fair value measurements in IFRS, which was held in Geneva on 9 October 2006: Ian Ball, Chief Executive, IFAC; Nelson Carvalho, Chairman, Standards Advisory Council, IASB; Peter Eberil, Partner, PricewaterhouseCoopers, Ltd, Zurich; Robert Garnett, Board Member, IASB, Chairman, International Financial Reporting Interpretations Committee; Ndungu Gathinji, Chief Executive, Eastern Central and Southern African Federation of Accountants; John Kellas, Chairman, International Auditing and Assurance Standards Board; Caroline Kigen, Chief Executive, Institute of Certified Public Accountants, Kenya; Richard Martin, Head, Financial Reporting, The Association of Chartered Certified Accountants; Rebecca McEnally, Director, Capital Markets, CFA Institute; Paul Pacter, Director of Standards for SMEs, IASB; Russell Picot, HSBC, Group Chief Accounting Officer; Laurence Rivat, Partner, Deloitte and Touche, France; Geoffrey Townsend, Team Leader, TACIS Project on Auditing Reform in the Russian Federation; and Nordin Mohad Zain, Executive Director, Malaysian Accounting Standards Board.

Last but not least, UNCTAD expresses its appreciation for the dedication and contributions of staff members at the secretariat to the success of the twenty-third session of ISAR and the technical workshop on the practical implementation of IFRS. These are: Tatiana Krylova, Head, Investment and Enterprise Competitiveness Branch; Yoseph Asmelash, Head, Accounting Unit; Martha Cuadros Büchner, Anthony Miller, Kairat Satkyn, Olena Vasylchenko and Bo Zhao. UNCTAD appreciates the contributions of Carole Combe and Marie-Emilie Guélé for the 2006 annual review of the implementation status of corporate governance disclosure.

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