

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**INTERNATIONAL
ACCOUNTING and
REPORTING ISSUES**

2006 Review



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and
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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.

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 Chartered 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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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 Vasylychenko 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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Chapter I

REVIEW OF PRACTICAL IMPLEMENTATION ISSUES OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Summary of discussions

In opening the discussions on this agenda item, a member of the UNCTAD secretariat provided participants with background information on UNCTAD's mandate in relation to the topic under consideration, and drew participants' attention to the issues note "Review of Practical Implementation Issues of International Financial Reporting Standards" (TD/B/COM.2/ISAR/33) and addenda TD/B/COM.2/ISAR/33/Add.1 through 5 that contained country case studies of Brazil, Germany, India, Jamaica and Kenya. She also said that three panels would be discussing the agenda item.

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

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

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

The last panellist discussed progress in the implementation of IFRS in the European Union (EU). He noted the importance of accounting standards in the Financial Services Action Plan of the European Union and said that the EU's policies in this area were firmly set with international cooperation in mind. He said that securities regulators played an important role in

the consistent implementation of IFRS and cited the positive contribution of the Committee of European Securities Regulators (CESR). The panellist discussed a recently established informal round table on the consistent application of IFRS in the EU. This round table, which consisted of all relevant stakeholders, was established to discuss problematic accounting issues relating to the actual implementation of IFRS in the EU member States and communicate those issues considered to be of common concern in the EU to the European Financial Reporting Advisory Group (EFRAG).

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

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

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

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

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

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

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

The chairperson opened the floor for general discussion on the main findings of the case studies. One participant observed that, given the significant involvement of Governments in capital markets, it was important to promote good accounting and financial reporting practices in that sector. He also stressed the importance of the auditing profession in the implementation of IFRS and suggested that the UNCTAD secretariat could conduct studies in this area for future consideration by the Group of Experts. This participant also noted that some of the countries covered in the case studies did not clearly indicate a time frame by which they intended to fully comply with IFRS, and further observed that adapting IFRS indefinitely would not lead to realizing the full benefits of a single common benchmark for financial reporting. Another participant questioned whether the World Bank's Reports on Observance of Standards and Codes (ROSC) assessments should be based on IFRS. The World Bank representative responded that while in ROSC reviews national accounting and financial reporting standards are assessed for comparability with IFRS, his organization did not suggest that IFRS should be applied by all entities in a given jurisdiction. The chairman stressed that one of the main findings of the case studies was the need for a clear definition of the scope of application of IFRS.

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

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

Another panellist who represented a regional federation of SME accountants and auditors highlighted the importance of SMEs in his region and shared his hands-on experience in dealing with SME financial reporting needs. He said that user needs should be emphasized in the process of addressing the accounting needs of SMEs. He noted that SME-related issues raised during previous panel discussions at the twenty-third session of ISAR in the context of developing countries were also valid in the setting of developed economies. The speaker also observed that certain audit related issues might deserve special attention in the case of SMEs or small and medium practices (SMPs).

The next panellist shared the views of his organization's committee on SMPs. He presented his committee's assessment of the preliminary version of the Exposure Draft of the IASB SME standard. He stated that his committee was satisfied with the high priority afforded to the IASB SME project, the extent of consultations and stakeholder engagement, and the length of time that was going to be provided to respond to the exposure draft and the decision of the IASB to conduct field testing. Additional areas of satisfaction included broad definition of non-public accountability, stand-alone nature of the proposed standard and emphasis on historical cost as basis for measurement. The speaker noted several areas of concern, including inadequacy of the analysis the IASB conducted on specific needs of users of SME financial statements; enforceability of the SME standard, given that many SMEs were exempt from audit; and the extent of fair value measurement requirements that still remained in the preliminary Exposure Draft. He also discussed the financial reporting needs of micro-entities and expressed his organization's interest in cooperating with UNCTAD-ISAR in this area.

The next speaker said that there was widespread acceptance of the need for considering the special needs of SMEs with respect to accounting and financial reporting. He gave examples of countries that developed guidance for SMEs, including some that looked into UNCTAD-ISAR's SMEGAs, in developing their own guidance. He urged participants to respond when the IASB's SME Exposure Draft was published at the end of the year. In responding to the Exposure

Draft, the panellist reminded participants to consider that user needs of financial information might be different, and to take into account cost-benefit considerations and preparers' concerns. He also said they should consider the appropriateness of simplifications of recognition and measurement requirements, and also assess whether there was a need for a third tier of financial reporting guidance for SMEs.

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

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

I. Introduction

For over three decades, the United Nations provided an important forum where policymakers, regulators, standard-setters, professional accountancy organizations, academia, and other stakeholders deliberated with a view to increasing the comparability and reliability of corporate reports. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at UNCTAD has served as a focal point within the United Nations system for deliberations on corporate transparency matters.

The year 2005 marked a watershed in the history of financial reporting. An unprecedented number of enterprises and countries around the world adopted International Financial Reporting Standards (IFRS) as their basis for financial reporting. In the light of the widespread transition to IFRS, the twenty-second session of ISAR reviewed practical implementation issues of IFRS. The UNCTAD secretariat prepared an issues note on the Review of practical implementation issues of International Financial Reporting Standards (TD/B/COM.2/ISAR/28) to facilitate ISAR's consideration of the topic.

In concluding its deliberations, ISAR reiterated the importance of a common-set of principles-based and high-quality financial reporting standards in support of the coherence and consistency of the international financial system for mobilizing and efficient allocation of financial resources and for facilitating investment needed for the economic development of member States. Sound and internationally comparable corporate financial reporting that meets

the requirements of financial markets improves investor confidence, facilitates risk assessment in making investment decisions, and helps to reduce the cost of capital.

ISAR also recognized that in order to reap the full benefits of harmonized global reporting standards and their consistent application in countries with different economic and business environments, a number of practical implementation challenges need to be addressed to assist developing countries and countries with economies in transition in meeting internationally recognized standards, particularly in the area of institutional and technical capacity-building.

In concluding its twenty-second session, ISAR agreed to conduct further reviews of the practical implementation challenges of IFRS, as well as ways to meet these challenges, including by preparing country case studies. One of the objectives of such reviews would be to develop guidance on good practices in IFRS implantation that could assist policymakers, regulators and others in considering feasible implementation strategies to meet international standards in enterprise financial reporting and enhance their input into the process of international convergence.

In accordance with the request of the twenty-second session of ISAR, the UNCTAD secretariat conducted country case studies in Brazil, Germany, India, Kenya and Jamaica. The objective of the case studies is to draw important lessons learned in the practical implementation of IFRS and share these with member States that are either implementing IFRS or that intend to do so in the future. The main findings of the case studies are summarized in this chapter. It is important to note that although countries were selected to ensure coverage of diverse regions, economic systems and approaches in IFRS implementation, the case studies that have been prepared do not represent the whole range of issues in this area. The objective of the case studies is to provide an overview of status of IFRS implementation and main challenges faced in this respect rather than an in-depth and detailed analysis of these issues which could be a subject of further research and discussion.

The individual country case studies can be found in the following documents: Brazil – TD/B/COM.2/ISAR/33/Add.1, Germany – TD/B/COM.2/ISAR/33/Add.2, India – TD/B/COM.2/ISAR/33/Add.3, Jamaica – TD/B/COM.2/ISAR/33/Add.4, and Kenya – TD/B/COM.2/ISAR/33/Add.5.

II. Recent trends towards convergence with IFRS

Since the twenty-second session of ISAR, several developments have occurred supporting the trend towards convergence with IFRS. In assessing the widespread transition to IFRS in 2005, Sir David Tweedie, the Chairman of the International Accounting Standards Board, stated that the implementation of IFRS had gone "surprisingly well". However, the Chairman also noted that those tasked with the implementation of IFRS found the process to be more demanding than expected.¹ He also indicated that close to 100 countries now require, permit, or have adopted a formal policy of convergence with standards developed by the IASB.²

At the end of February 2006, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States published a Memorandum of Understanding (MoU) reaffirming their shared objectives of developing high quality, common accounting standards for use in the world's capital markets.³ The IASB and the

¹ KPMG (2006). *International Financial Reporting Standards: Views on a financial reporting revolution*, April , pp. 35-38.

² Statement of Sir David Tweedie, Chairman, IASB before the Committee on Banking, Housing and Urban Affairs of the United States of America Senate, Washington D.C: 14 June 2006.

³ Further information on the Memorandum of Understanding can be found at; <http://www.iasb.org>.

FASB stated that the MoU was a further elaboration of the objectives and principles first described in the Norwalk Agreement that they signed in October 2002.

In accordance with the MoU the FASB and the IASB signed in February 2006, the two organizations will reach a conclusion on whether major differences in focused areas should be eliminated through one or more short-term standard-setting projects, and if so, their goal will be to complete or substantially complete work in those areas by 2008. The two organizations will examine several topics for short-term convergence – some of them jointly, and others just one Board alone. Topics that both Boards will examine jointly are impairment and income tax. The FASB will examine fair value option, investment properties, research and development, and subsequent events. The IASB will examine borrowing costs, government grants, joint ventures and segment reporting.

In March 2006, the European Federation of Accountants (FEE) called for mutual recognition between IFRS and the United States Generally Accepted Accounting Principles (US-GAAP).⁴ FEE took the view that an acceptable minimum level of convergence between the two standards had been reached and urged for the elimination of reconciliation statements or other forms of disclosure for foreign issuers that prepare their financial statements in accordance with IFRS and that are listed in the United States of America, or United States issuers listed in the European Union that prepare their financial statements in accordance with US-GAAP.

In May 2006, the Financial Times reported that some partners based in the United Kingdom at the accounting firm of PricewaterhouseCoopers (PwC) were of the view that convergence of IFRS and US-GAAP would "result in a set of United States-style standards likely to be too complex and prescriptive". These PwC partners also considered that the IASB should focus on improving its standards.⁵ Following this, the then Chairman of the Trustees of the International Accounting Standards Committee Foundation was obliged to publish a response in the Financial Times justifying why efforts towards convergence should continue.⁶

The Accounting Standards Board of Japan (ASBJ) and the IASB held their third meeting in March 2006 and reviewed progress towards convergence of Japanese Generally Accepted Accounting Principles (GAAP) with IFRS. The meeting noted that significant progress had been made in six areas, namely: valuation method of inventories; segment reporting; related-party disclosures; uniformity of accounting policies on overseas subsidiaries; investment property; and cost of issuing new shares. The ASBJ and the IASB agreed to add three new items to the convergence programme. These are asset retirement obligations, construction contracts and disclosure of financial instruments at fair value.⁷

In February 2006, the Ministry of Finance of China released 39 Chinese Accounting Standards for Business Enterprises. The new system of accounting standards in China is a step towards substantial convergence with IFRS. All listed companies in China will be required to prepare their financial statements in accordance with the new accounting standards starting from 1 January 2007.⁸

In January 2006, the Canadian Accounting Standards Board approved a five-year strategic plan with respect to the future direction of Canadian Generally Accepted Accounting Principles (GAAP). In accordance with the plan, Canadian GAAP applicable for listed companies will

⁴ Fédération des Experts Comptables Européens (FEE) (2006). Financial Reporting: Convergence, Equivalence and Mutual Recognition, FEE position paper, March.

⁵ Financial Times, London, 3 May 2006.

⁶ Tommaso Pada-Schioppa, "Work on converging accounting standards must go on", Financial Times, London, 19 May 2006.

⁷ Further information can be found at the website of the Accounting Standards Board of Japan at: <http://www.asb.org.jp>.

⁸ Ministry of Finance of China, Release Ceremony for Chinese Accounting Standards System and Auditing Standards System held in Beijing, Press Release 15 February 2006.