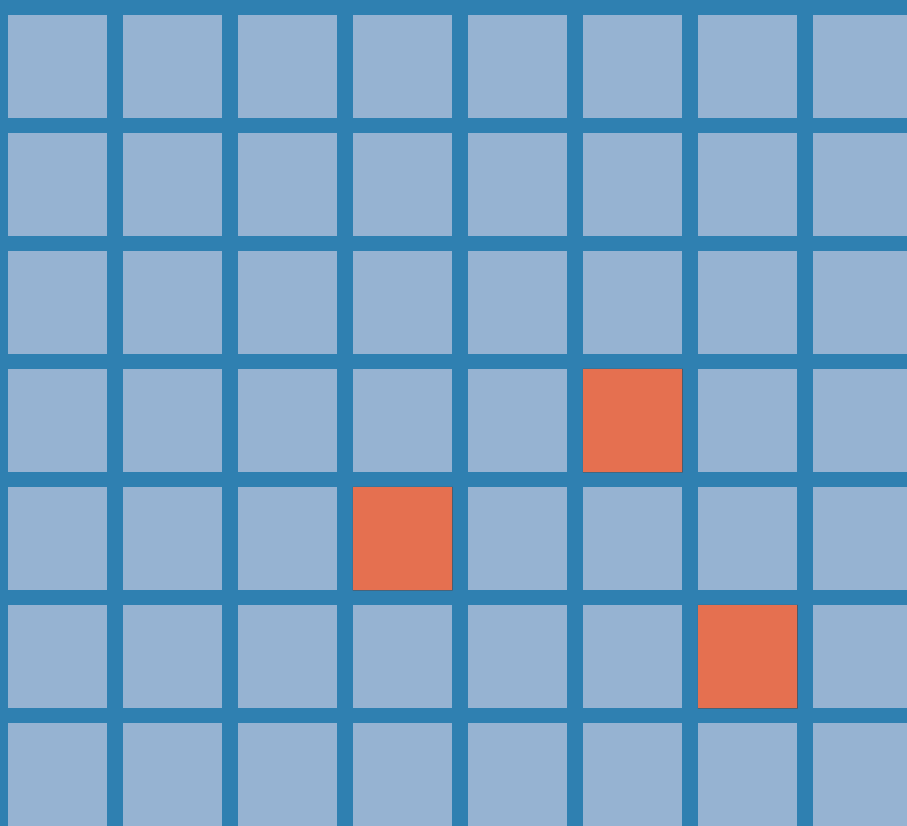




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Preface

For close to three decades, the United Nations has been contributing towards promoting high-quality corporate reporting through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). In the wake of the financial crisis, we have come to realize again the critical importance of high-quality corporate reporting for fostering investor confidence, facilitating international flows of financial resources and contributing to the maintenance of a stable economic environment. It is now widely recognized that many flawed private sector financial instruments, along with inadequately designed public sector monetary policies were at the core of the recent financial crisis, so more transparency in these areas would certainly have helped, if not to avert the crisis at least to minimize its negative impacts. In this sense, a strong reporting system helps to reduce corruption and mismanagement of resources. The lessons learnt from the economic crisis should not be lost.

The relative weight of developing countries in the global economy has been increasing rapidly over recent years. As they continue integrating into the global trading and financial systems, they need to strengthen their respective national accounting infrastructures, essential to attract and provide services to international investments and institutional and technical capacities to be able to comply with international requirements, standards and codes. Accordingly, human, regulatory and institutional capacity-building aimed at raising the quality of corporate reporting in these countries is highly critical. In this respect, UNCTAD-ISAR has been actively engaged in developing a policy guidance tool for member States for assessing the current status of their existing corporate reporting capacity and setting priorities to reduce gaps identified through such assessment. Indeed, UNCTAD-ISAR could not have taken this initiative at a more appropriate time.

Additionally, efforts aimed at enhancing quality of corporate reporting need to consider disclosures with respect to critical non-financial issues such as climate change that are increasingly being used by investors to assess a company's performance and sustainability in the long term. Measurement and reporting are critical steps in the practical implementation of any outcome. This is an area where more work needs to be done to develop a single global standard as existing national regulations and international guidelines on climate change disclosures lack consistency and comparability from country to country. UNCTAD-ISAR has an important role to play in this respect.

It is my pleasure to present to readers this volume, which contains a review of recent developments on accounting and reporting issues as well as the deliberations of ISAR on the critical issues noted above.



Supachai Panitchpakdi
Secretary-General of UNCTAD

Introduction

This volume contains a review of the main developments in the area of accounting and reporting during 2011, including the proceedings of the twenty-eighth session of ISAR, which was held at the Palais des Nations in Geneva from 12 to 14 October 2011. It contains discussion and analysis of a number of corporate reporting issues that policymakers, regulators, standard setters, private sector as well as public sector accountants, auditors, academia, and other interested readers will find useful for keeping up-to-date with developments in the corporate reporting arena, including financial and non-financial reporting.

Chapter I presents trends and highlights of key developments in accounting and reporting that have occurred since the twenty-seventh session of ISAR in 2010. These include developments at a global level initiated by such forums and organizations as the Group of Twenty (G20), the Financial Stability Board, the International Financial Reporting Foundation and the International Accounting Standards Board (IASB). The chapter also covers activities at the regional and national levels such as: the Asian–Oceanian Standard-setters Group, the Group of Latin American Standard Setters (GLASS) and the Emerging Economies Group of the IASB. Chapter I also provides updates on regional bodies including the Confederation of Asia and Pacific Accountants, the Eastern, Central and Southern African Federation of Accountants and the Federation of Mediterranean Accountants. Additionally, the chapter presents summaries of key findings of the World Bank’s Reports on the Observance of Standards and Codes (ROSC) on Accounting and Auditing that were published during the intersessional period of ISAR.

Chapter II reflects discussions of the twenty-eighth session of ISAR on a draft assessment questionnaire and measurement methodology on capacity-building for high-quality corporate reporting. This assessment tool provides guidance for assessing and benchmarking countries’ existing capacity for high-quality corporate reporting in order to identify gaps and priorities and decide on further steps in building and strengthening the accounting infrastructure. The questionnaire consists of detailed questions on essential elements that need to be in place in a country to ensure that corporate reports are prepared in accordance with international benchmarks and good practices. The chapter outlines the main issues and challenges that were identified in developing the tool in preparation for the twenty-eighth session of ISAR and which were discussed during the session.

Chapter III addresses issues on environmental accounting. It contains material from a report entitled “Inventory of national and regional developments on climate change-related disclosure”. The report was prepared by the Climate Disclosure Board and its findings were presented at the twenty-eighth session of ISAR. The study reviews climate change-related reporting requirements in a sample of countries from around the world. The findings of this study show that countries have different forms of climate change-related reporting. The absence of a single approach to the development of provisions and practices on climate disclosure across jurisdictions makes comparison of activities difficult, and complicates efforts to harmonize practices between countries. International cooperation is needed to promote harmonization and minimize the emergence of an array of differing and inconsistent approaches.

Chapter IV contains two country case studies on corporate governance disclosure of enterprises. The studies, concerning the Russian Federation and the Republic of Trinidad and Tobago, were presented at the ISAR session as part of its long-term standing agenda item on corporate governance disclosure practices. These studies were prepared based on the UNCTAD–ISAR publication *Guidance on Good Practices in Corporate Governance Disclosure* as a benchmark. The study on the Russian Federation concludes that the sample has relatively high rates of disclosure for some topics, with the majority of companies meeting most of the explicit disclosure requirements of Russian law. The study of corporate governance disclosure in Trinidad and Tobago concludes that while the sample has relatively high rates of disclosure for a few topics, with most companies exceeding the disclosure requirements of Trinidad and Tobago, the overall level of disclosure remains low compared to other emerging markets. Policy options discussed in the case studies include strengthening disclosure requirements and providing capacity-building and training activities targeted at company directors to raise awareness about international best practices in corporate governance disclosure.

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UNCTAD expresses its appreciation to Damir Kaufman (Croatia), Chair of the twenty-eighth session of ISAR and Ashraf El Sharkawy (Egypt), Vice-Chair-cum-Rapporteur, for guiding the session to a fruitful conclusion. UNCTAD is grateful to Greg Tanzer, Secretary General, International Organization of Securities Commissions for delivering an insightful keynote address at the opening of the twenty-eighth session of ISAR. UNCTAD also acknowledges with appreciation a special address delivered by Jérôme Haas, President, Accounting Standards Authority of France. UNCTAD gratefully acknowledges the contributions to the panel discussion on recent developments in corporate reporting and related capacity-building challenges of Henri Fortin, Head, Centre for Financial Reform, World Bank; Richard Martin, Head, Financial Reporting, Association of Chartered Certified Accountants; Jim Sylph, Executive Director, International Federation of Accountants; and Samiuela Tukuafu, Principal Financial Sector Specialist, Asian Development Bank.

UNCTAD would like to thank the following experts for sharing their perspectives, either during the panel presentations at the twenty-eighth session of ISAR, or during the country level round-table discussions that UNCTAD organized in their respective countries: Guillermo Braunbeck, Academic Fellow, International Financial Reporting Standards (IFRS) Foundation, London, United Kingdom of Great Britain and Northern Ireland; Nelson Carvalho, Professor, University of Sao Paulo, Brazil (Chair, UNCTAD–ISAR Consultative Group on Capacity-building Framework); Elsa Beatriz Garcia, Board Member, Mexican Financial Reporting Standards Board, Mexico; Ewald Muller, Senior Executive, South African Institute of Chartered Accountants, South Africa; Ivica Smiljan, Chair, Accounting Standards Board, Croatia; and Vo Tan Hoang Van, Partner, Ernst and Young Viet Nam Ltd., Viet Nam. UNCTAD is grateful to the following panellists for their contributions to the discussions on the legal and regulatory framework and the institutional framework aspects of the draft assessment tool: Paul Hurks, Director, International Accountancy Education and Development, Royal Netherlands Institute for Registered Accountants; Nancy Kamp-Roelands, Chair, twenty-seventh session of ISAR; Gabriella Kusz, Technical Manager, Member Body Development, International Federation of Accountants; Mike Walsh, Special Projects Consultant, Association of Chartered and Certified Accountants; and Luis A. Werner-Wildner, President, Inter-American Accounting Association. UNCTAD acknowledges with appreciation input from the following experts to the panel discussion on the human capacity-building process pillars of the draft assessment tool: Mark Allison, Chair, International Accounting Education Standards Board; Gert Karreman, Professor, Leiden University, the Netherlands; Belverd Needles, Professor, DePaul University, United States of America; William Phelps, Executive Vice President, CARANA Corporation; and Lesley Stainbank, Professor, University of Kwazulu-Natal, South Africa.

UNCTAD expresses its appreciation to: Lisa French, Director, Sustainability Reporting Framework, Global Reporting Initiative; Jessica Fries, Director, International Integrated Reporting Committee; Lois Guthrie, Executive Director, Climate Disclosure Standards Board; and Cristina Tébar Less, Senior Policy Analyst, Investment Division, Directorate for Financial and Enterprise Affairs, Organization for Economic Cooperation and Development, for their contributions to the panel discussion on integrated reporting and climate change-related disclosure. UNCTAD is also grateful to

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On the eve of the twenty-eighth session of ISAR, UNCTAD organized a technical workshop on fair value measurement and classification and measurement of financial instruments. More than 200 delegates took part in the workshop. UNCTAD expresses its gratitude to: Gerald Edwards, Senior Advisor Accounting and Auditing Policy, Financial Stability Board, for delivering an excellent keynote address at the opening of the workshop and to the following panellists for their contributions to the panel discussions: Jorge Gil, Chairman, Accounting and Auditing Standards Board, Argentina; Stephen Brickett, Director, IFRS Technical Advisory and Business Solutions, Standard Bank, South Africa; Yu Chen, Deputy Director, Accounting Regulatory Department, Ministry of Finance, China; Lucio di Sisto, Director, Group Finance Implementation, UBS; Reynir Gylfason, Director, Audit, Financial Services, KPMG, Zurich; Richard Martin, Head of Financial Reporting, Association of Chartered and Certified Accountants; Vincent Papa, Senior Policy Analyst, CFA Institute; Sergio García Quintana, Member of the Financial Instruments Commission of the Consejo Mexicano de Normas de Información Financiera, Mexico; Joao Santos, Financial Instruments Team, International Accounting Standards Board; Sankaran Santhanakrishnan, Council Member, Institute of Chartered Accountants of India; Andrew Spooner, Partner, Deloitte, United Kingdom; Richard Thorpe, Head of Accounting, Audit and Reporting, Financial Services Authority, United Kingdom; Mark Walsh, Principal, Accounting Standards Board, Canada.

The following staff members of UNCTAD contributed to the successful organization and conclusion of the twenty-eighth session of ISAR and the technical accounting and financial reporting workshop: Tatiana Krylova, Head, Enterprise Branch, Division on Investment and Enterprise; Jean-Francois Baylocq, Chief, Accounting and Corporate Governance Section; Yoseph Asmelash, Anthony Miller, Edvins Reisons, Isabel Garza Rodriguez, Vanessa McCarthy, Nathalie Eulaerts, Jacqueline Du Pasquier and Claudia Salgado.

Abbreviations

ACCA	Association of Chartered and Certified Accountants
AGM	annual general meeting (of shareholders)
ASX	Australian Stock Exchange
BIS	Department for Business, Innovation and Skills (United Kingdom)
CAPA	Confederation of Asia and Pacific Accountants
CARICOM	Caribbean Community
CBTT	Central Bank of Trinidad and Tobago
CDSB	Climate Disclosure Standards Board
CEO	chief executive officer
CFO	chief financial officer
CPD	continuing professional development
CSR	corporate social responsibility
DEFRA	Department for Environment, Food and Rural Affairs (United Kingdom)
DPOC	Due Process Oversight Committee
EpE	Enterprise for the Environment
ETS	Emissions Trading Scheme
EUAMD	Modernization of Accounting Directive 2003/51/EC (European Union)
FASB	Financial Accounting Standards Board
FCSM	Federal Commission for the Securities Market, now renamed as the Federal Service for the Financial Markets (FSFM) (Russian Federation)
FRC	Financial Reporting Council
FSB	Financial Stability Board
FSFM	Federal Service for the Financial Markets, formerly known as the Federal Commission for the Securities Market (FCSM) (Russian Federation)
G20	Group of Twenty
GAAP	generally accepted accounting principles
GDP	gross domestic product
GHG	greenhouse gas
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IES	International Education Standards
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee

IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IOSCO	International Organization of Securities Commissions
IPSAS	International Public-sector Accounting Standards
IPSASB	International Public-sector Accounting Standards Board
ISAs	International Standards on Auditing
ISAE	International Standard on Assurance Engagements on Greenhouse Gas Statements
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
ISO	International Organization for Standardization
JICPA	Japanese Institute of Certified Public Accountants
JSC	Joint-Stock Companies
KPI	key performance indicator
MICEX	Moscow Interbank Currency Exchange (stock exchange)
MOF	Ministry of Finance (of Trinidad and Tobago)
OECD	Organization for Economic Cooperation and Development
ORSE	Study Centre for Corporate Social Responsibility
PAO	professional accountancy organization
PSOJ	Private Sector Organization of Jamaica
RAS	Russian Accounting Standards
RID	Russian Institute of Directors
ROSC	Reports on the Observance of Standards and Codes (World Bank)
RTS	Russian Trading System (stock exchange)
SAI	Supreme Audit Institution
SEC	Securities and Exchange Commission (United States of America/Republic of Trinidad and Tobago)
SMEs	small and medium-sized enterprises
SMO	IFAC Statements of Membership Obligations
TTSE	Trinidad and Tobago Stock Exchange
UNCTAD	United Nations Conference on Trade and Development
US GAAP	United States of America generally accepted accounting principles
WEF	World Economic Forum
XBRL	extensible business reporting language

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Chapter I

Review of recent developments in accounting and reporting

Introduction

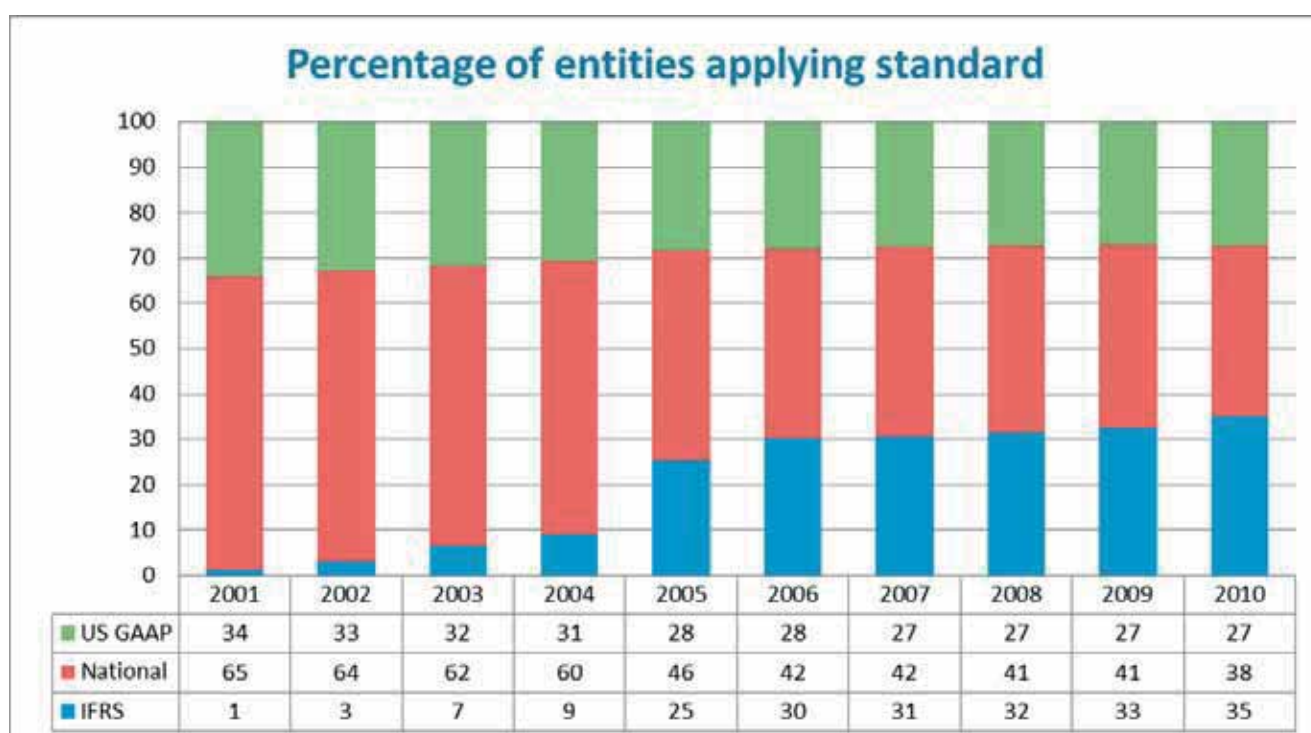
Through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), UNCTAD has been contributing to the global efforts aimed at promoting reliability and comparability of corporate reports. In the wake of the financial crisis, the call for more reliable and comparable corporate reports has been growing louder. In this context, this chapter reviews some of the major developments in the area of accounting and reporting that have occurred since the twenty-seventh session of ISAR which took place at the Palais des Nations in Geneva in October 2010. The review is based on publicly available information and is thus limited in scope. It does not present developments in this area that occurred in all member States. Section A of the chapter presents trends with respect to the implementation of International Financial Reporting Standards and related auditing issues. Section B of the chapter presents developments at a global level covering the G20, the Financial Stability Board, the International Financial Reporting Foundation and the IASB. Section C discusses major developments at regional and national levels and section D presents summaries of recent World Bank ROSC.

A. Major trends in International Financial Reporting Standards and implementation

It has been ten years since enterprises around the world started implementing the IFRS issued by the IASB. Over the past decade, the number of enterprises that prepare their financial statements in accordance with IFRS has been growing. To illustrate this trend, we review a sample of the largest 5,000 entities (in terms of total assets at the end of 2010) from different parts of the world and examine the accounting standards they applied to prepare their financial statements since 2001. A country breakdown of the entities included in the sample is presented in appendix I.1. At the end of 2010, the entities included in the sample had a combined total market capitalization of more than \$42 trillion. This amount represents about 78 per cent of the total market capitalization of all members of World Federation of Exchanges for 2010.¹ The share of market capitalization of entities that prepared their financial statements in accordance with IFRS is 42 per cent or close to \$18 trillion. Those that applied United States of America generally accepted accounting principles (US GAAP) had 33 per cent and the ones that used national GAAP had 23 per cent of the total market cap for the sample.

¹ See <http://www.world-exchanges.org/files/file/stats%20and%20charts/2010%20WFE%20Market%20Highlights.pdf> (accessed 15 February 2013).

In 2010, 35 per cent of the entities included in the sample prepared their financial statements in accordance with IFRS, 38 per cent applied national standards, and 27 per cent applied US GAAP (figure I.1). From 2009 to 2010, the number of entities that applied IFRS increased by more than 11 per cent. The majority of entities that adopted IFRS in 2010 are from Brazil, followed by Chile. The IFRS adoption trend was in a steady rise from 2001 to 2004. Based on the number of entities in the sample on which accounting standards data are available, the use of IFRS increased from 1 per cent in 2001 to 9 per cent in 2004. With the adoption of IFRS in the European Union in 2005, the percentage of entities among the sample that applied IFRS rose to 25 per cent. The number of entities that applied national standards (other than US GAAP) was 65 per cent in 2001. This figure decreased to 60 per cent in 2004 and as noted above, the figure dropped further down to 38 per cent in 2010. The percentage of entities applying US GAAP decreased from 34 per cent in 2001 to 27 per cent in 2010. More than 9 per cent of the entities that applied US GAAP in 2010 are based outside of the United States – mostly in Japan and Bermuda. In Japan, the majority of entities are applying national standards; some are using US GAAP and a few are implementing IFRS. Japan has been converging its national standards with IFRS. The Japanese regulatory environment allows Japanese companies that are also listed in the United States stock to prepare their financial statements in accordance with US GAAP – thus avoiding the requirement to prepare two sets of financial statements.



Source: UNCTAD based on data obtained from Thomson Data Stream Database.

Figure I.1. The relative share of International Financial Reporting Standards, national (local) accounting standards and United States generally accepted accounting principles in terms of application by the enterprises represented in the sample

The analysis above shows evidence of the incremental use of IFRS around the world. In 2001, only 1 per cent of the sample applied IFRS. This has grown to 35 per cent in 2010. The number of entities applying local GAAP has dropped from 65 per cent in 2001 to 38 per cent in 2010. The use of US GAAP has also shown a relative decline from 34 per cent in 2001 to 27 per cent in 2010.

In August 2011, the Association of Chartered and Certified Accountants (ACCA) conducted a survey to assess perspectives of chief financial officers (CFOs) and investors on global standards. A summary of the report is presented in appendix I.2. A total of 163 senior executives participated in the survey. Over 52 per cent of the respondents indicated that they view global standards more positively in the wake of the economic difficulties of the past few years. More than 40 per cent said IFRS improved access to capital while 25 per cent indicated that adoption of IFRS lowered the cost of capital. It is also important to highlight that more than 40 per cent of senior executives consider that IFRS improve access to capital.

B. International developments

Group of Twenty

The G20 countries have continued highlighting the importance of a single set of high-quality global accounting standards. In concluding the G20 Seoul Summit (Seoul, Republic of Korea, 11–12 November 2010) the G20 re-emphasized the importance they place on achieving a single set of improved high-quality global accounting standards. They called on the IASB and the Financial Accounting Standards Board (FASB) in the United States to complete their convergence projects by the end of 2011. Furthermore, they called on the IASB to further improve the involvement of stakeholders – including outreach to, and membership of, emerging market economies – in the process of setting the global standards, within the framework of an independent accounting standard setting process.²

Financial Stability Board

The Financial Stability Board (FSB) has been mandated by the G20 inter alia to call on the accounting standards setters to improve standards on valuation and provisioning. The FSB has also been mandated to call on the IASB and FASB to work towards achieving a single set of global accounting standards. In this context, in November 2010 the FSB presented a progress report to the G20 Seoul Summit on the G20's recommendations for strengthening financial stability.³ With respect to strengthening accounting standards, the FSB report covered impairment of financial assets, derecognition, valuation uncertainty in fair value measurement guidance, and netting/offsetting of financial instruments. In April 2011, the FSB presented a progress report to the G20 finance ministers and Central Bank governors.⁴ In this report, the FSB noted progress that the IASB and FASB were making towards achieving convergence on their key standards covering topics such as financial instruments,

² G20 Seoul Summit 2010, *The Seoul Summit Document*, 11–12 November 2010.

³ Available at http://www.financialstabilityboard.org/publications/r_101111b.pdf (accessed 15 February 2013).

⁴ FSB, *Progress Report on the Implementation of the G20 Recommendations for Strengthening Financial Stability*. Available at http://www.financialstabilityboard.org/publications/r_110415a.pdf (accessed 15 February 2013).

impairment of financial assets, balance sheet netting of derivatives and other financial instruments, leasing, and revenue recognition.

International Accounting Standards Board

The IASB completed a number of projects during 2010 and 2011. In October 2010, the Board issued additions to IFRS 9 Financial Instruments. The additions address situations where reporting entities choose to measure financial liabilities on a fair value basis. The IASB also issued several amendments to existing International Accounting Standards (IAS). In December 2010, an amendment to IAS 12 Income Taxes was published. The amendment addresses issues that arise when assets are measured using the fair value model in IAS 40 Investment Property and recovered through use or through sale of the property in question. IFRS 7 Financial Instruments Disclosures was amended to improve disclosure requirements pertaining to transferred financial assets. In October 2010, the IASB published its first Practice Statement – Management Commentary. The Practice Statement provides – to entities that prepare their financial statements in accordance with IFRS – a broad framework for the presentation of narrative reporting to accompany financial statements.

In May 2011, the IASB published:

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements together with the related interpretations statement Standard Interpretations Committee 12 Consolidation – Special Purpose Entities. IFRS 11 Joint Arrangements established principles for financial reporting by parties to a joint arrangement. It supersedes IAS 31 Interests in Joint Ventures together with the related interpretation statement Standard Interpretations Committee 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 12 Disclosure of Interests in Other Entities brings together disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 13 Fair Value Measurement defines fair value and provides a framework for applying fair value measurement when required or permitted by other IFRS. The standard itself does not introduce any new fair value-based measurement requirements.

The IASB continued work on its projects related to the financial crisis. These include second and third phases of IFRS 9 Financial Instruments, namely, impairment, hedge accounting (both general and macro) and asset and liability offsetting. Impairment is a joint project with the FASB. At the end of January 2011, both Boards published a supplement⁵ to Exposure Draft ED/2009/12. The supplementary Exposure Draft was issued to assist both Boards to develop a common approach that addresses their respective objectives – primarily with respect to the timing of the recognition of expected credit losses. At the joint IASB–FASB meeting in June 2011, the Boards discussed a "three-bucket" expected loss approach for the impairment of financial

⁵ Available at <http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Instruments-A-Replacement-of-IAS-39-Financial-Instruments-Recognition/Impairment/Supplementdoc/Documents/SupplementarydocFinancialInstrumentsImpairmentJan2011.pdf>

assets.⁶ The Boards indicated that the guiding principle of the three-bucket approach was reflecting the general pattern of deterioration of the credit quality of loans. Allowance balances would be established for all financial assets subject to impairment accounting. The different phases of the deterioration in credit quality would be captured through the three buckets that determine the allowance balance. The three-bucket approach would encompass:

- Bucket 1: In the context of portfolios, assets evaluated collectively for impairment that do not meet the criteria of Buckets 2 or 3 (this would include loans that suffered changes in credit loss expectations as a result of microeconomic events that are not particular to either a group of loans or a specific loan).
- Bucket 2: Assets affected by the occurrence of events that indicate a direct relationship to possible future defaults, although the specific assets in danger of default have not yet been identified.
- Bucket 3: Assets for which information is available that specifically identifies that credit losses are expected to occur, or have occurred on individual assets.

The IASB indicated that the revised draft standard on impairment would be re-exposed for public comment in 2012. With respect to general hedge accounting, the IASB indicated that it will issue an IFRS in the first half of 2012. An exposure draft on macro-hedge accounting was scheduled to be issued also in the first half of 2012. Regarding asset and liability offsetting, a final standard was published at the end of 2011.

The IASB made progress on leases and revenue recognition. Both projects are part of the memorandum of understanding that the IASB and FASB signed to converge their standards. The Boards have been working on these projects jointly. Following the publication of an Exposure Draft on Leases in August 2010, the Boards received 760 comment letters.⁷ Most respondents supported the recognition of lease obligations and related assets on the lessee's statement of financial position. Respondents also expressed concerns regarding the following: the complexity and cost of implementing the proposals, specifically the initial and subsequent measurement of lease assets and liabilities; the reduced comparability arising from the level of estimation and judgment required by the proposals (for example, determination of lease term and calculation of variable lease payments); the definition of a lease, and whether all arrangements meeting the proposed definition should be accounted for in accordance with the proposals; and the direction and objectives of the proposals on lessor accounting.

The Exposure Draft on Revenue Recognition that was published in June 2010 attracted 986 comment letters.⁸ Most respondents supported the Board's main proposal requiring an entity to recognize revenue when it transfers goods or services to a customer in the amount of consideration that the entity expects to receive from the customer. Respondents also expressed concerns regarding the practical application of the following: the concept of control and the indicators of control to the service contracts and contracts for the continuous transfer of a work-in-progress asset to the customer; the principle of distinct goods or services for identifying separate

⁶ IASB, *IASB Update*, London, June 2011.

⁷ Comment letter summary prepared by IASB and FASB staff, January 2011.

⁸ Comment letter summary prepared by the IASB and FASB staff, December 2010.

performance obligations in a contract. Many respondents were concerned that the proposed principle – as published in the Exposure Draft – could lead to inappropriate disaggregation of the contract. The Boards published a revised draft in the fourth quarter of 2011.

The IASB and FASB have been converging their standards with a view to facilitating adoption of IFRS in the United States. In February 2010, the Securities and Exchange Commission (SEC) of the United States published a statement in support of the convergence of global accounting standards. The SEC was expected to decide on whether to incorporate IFRS into the financial reporting system of the United States. This decision is still pending. At the end of May 2011, the SEC published a document outlining a framework⁹ for a possible incorporation of IFRS in the country. The document, an SEC staff note, was published to illustrate that: the decision faced by the SEC in an effort to achieve a single set of high-quality, globally accepted accounting standards is not necessarily a binary decision (that is, either requiring the use of IFRS by all United States issuers immediately or not); incorporation of IFRS is not consistent with the SEC maintaining its ultimate authority over the United States accounting standard setting; and that there are potential ways to accomplish the broad objective of pursuing a single set of high-quality, globally accepted accounting standards while minimizing cost, effort and other transition obstacles. The proposed method of incorporation appears to be a hybrid of convergence and endorsement (“condorsement”).

IFRS Foundation Monitoring Board

The Monitoring Board¹⁰ of the IFRS Foundation was established following the constitutional review conducted by the (then) International Accounting Standards Committee Foundation during 2008–2010, representing one of the important developments of the global institutional setting in the area of corporate reporting. In February 2011, the Monitoring Board released for public comment a *Consultative Report on the Review of the IFRS Foundation’s Governance*.¹¹ The Monitoring Board stated that the fundamental question it sought to consult on was whether the governance structure of the IFRS Foundation effectively prompted the IASB’s primary mission of setting high-quality, globally accepted standards as set forth in the constitution of the IFRS Foundation, and whether the IASB was appropriately independent and yet accountable. The consultation document contained 17 questions relating to the IASB, the Trustees, the Monitoring Board and other issues. In addition to the consultation document, in March 2011 the Monitoring Board held four public round-table meetings that took place in Belgium, Malaysia, Japan, and the United States. In September 2011, the Monitoring Board published a summary¹² of the 76 comments it received on the consultative document. The comments came from organizations that represented the accounting profession, regulators, preparers, national standard-setters, and investors. Four comments were also provided by individuals.

⁹ United States Securities and Exchange Commission, Office of the Chief Accountant, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, Exploring a Possible Method of Incorporation, A Securities and Exchange Commission Staff Paper*, 26 May 2011.

¹⁰ Further information on the Monitoring Board can be accessed at http://www.iosco.org/monitoring_board/ (accessed 19 February 2013).

¹¹ Available at http://www.iosco.org/monitoring_board/pdf/Review_of_the_IFRS_Foundation_Governance_Report.pdf (accessed 19 February 2013).

¹² Available at www.iosco.org/monitoring_board/pdf/20110908%20Final%20Draft%20Summary%20of%20Comments.pdf (accessed 19 February 2013).

In the consultation document, the Monitoring Board proposed to urge for concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds. The summary document indicated that while most respondents fully or partially agreed with the proposal, a smaller number disagreed. Those who agreed with the proposal were of the view that diversity of geographical background of board members was critical for an organization acting in the public interest. Diversity would also address the concerns about the legitimacy of the organization and also enhance the IASB's credibility. The summary document further revealed that the smaller number of respondents who disagreed with the proposal were mainly from Europe. One of the reasons why they disagreed with the proposal includes the fact that they were not convinced that there are problems with the current composition of the Board. Many respondents were of the view that the IASB's membership should be composed of countries that are actually applying IFRS or those that have expressed a firm commitment to do so. The Monitoring Board is expected to draw up an action plan for implanting governance improvements that have been identified through the consultation process.

IFRS Foundation Trustees

In October 2010, the Trustees of the IFRS Foundation appointed¹³ a new Chair of the IASB for a five-year term (renewable). They also appointed a Vice-Chair for a five-year term (renewable). The Chair and Vice-Chair took up their posts on 1 July 2011.

During the period issues of sustainability of policies and activities towards IFRS implementation were discussed. The annual report of the IFRS Foundation shows that for the financial reporting period ending 31 December 2011,¹⁴ the Foundation ran a deficit of over GBP 2 million – reducing its reserves from GBP 9.7 million in 2009 to GBP 7.9 million 2010. The Trustees attribute the operating loss to the following needs: hiring additional members of the IASB – which has grown from 14 to 15 members; finalizing the convergence work between the IASB and the FASB; developing sufficient infrastructure internally to support a trustee body with increased responsibilities and a growing technical staff infrastructure; and undertaking enhanced consultations with stakeholders – as reflected in the growth of meetings, as well as travel and technology costs. The Trustees highlighted that running an operating loss such as the one that occurred in 2010 was not a sustainable policy and indicated that, moving forward, they would look into expanding revenue sources for the Foundation.

Due Process Oversight Committee

In the 2010 annual report of the IFRS Foundation, the Due Process Oversight Committee (DPOC) noted¹⁵ that during 2010, its priority areas were: monitoring the IASB's compliance with its due process as it completes its convergence programme; reviewing the efficiency of the IFRS Interpretations Committee; considering the extent to which the IFRS Foundation should be involved in the development of extensions to the extensible business reporting language (XBRL) taxonomy; and assisting the IASB with its own outreach activities. The DPOC indicated that in 2010 some constituents expressed concern with respect to the large number of documents published by the IASB requiring input around the same time period. The large volume didn't allow

¹³ Available at <http://www.ifrs.org/News/Announcements+and+Speeches/October+2010+Trustees+meeting.htm> (accessed 19 February 2013).

¹⁴ Available at http://media.ifrs.org/iXBRL_IFRSF_2011_06_28.xhtml (accessed 19 February 2013).

¹⁵ Available at http://www.ifrs.org/The-organisation/Governance-and-accountability/Annual-reports/Documents/IFRSANNUALREPORT_ALL_12July.pdf (accessed 27 February 2013).

constituents to provide high-quality input in a timely manner. The DPOC indicated that the IASB and FASB would limit the number of documents published for comment at one time. The DPOC further noted that it had initiated a review of the IFRS Interpretations Committee, and agreed to determine the extent to which the IFRS Foundation should be involved with respect to the development of XBRL taxonomy for IFRS. The DPOC has agreed to assist the IASB in its outreach activities, particularly with respect to the investor community and prudential regulators. The DPOC had set the following priorities for 2011: reviewing the IASB's due process; creating enhanced DPOC protocol; enhancing transparency of its activities; increasing engagement with the IASB.

IFRS for small and medium-sized enterprises

Since the twenty-seventh session of ISAR, additional jurisdictions have adopted the IFRS for small and medium-sized enterprises (SMEs). For example, in July 2011, the Parliament of Mauritius adopted amendments¹⁶ to the country's Companies Act 2001 to permit certain classes of entities to use the IFRS for SMEs as issued by the IASB. According to the amendment, the class of entities that may use the IFRS for SMEs include: a private company, other than a small private company, or public company, which does not qualify as a public-interest entity as defined in the country's Financial Reporting Act; and any group of companies that does not qualify as a public-interest entity under the Financial Reporting Act. Other examples of countries that will be implementing the IFRS for SMEs include the Bahamas, Peru, Nepal, and Zimbabwe.

In June 2011, the SME Implementation Group published its first questions and answers guidance.¹⁷ The guidance was in relation to whether a parent entity that itself didn't have public accountability may present its separate financial statements in accordance with the IFRS for SMEs – if it is part of a group that is required (or elects) to present consolidated financial statements in accordance with full IFRS. The guidance affirmed that such an entity could use the IFRS for SMEs.

C. Regional and national developments

This section discusses some of the major developments at regional and national levels. For many years ISAR has been providing a platform to regional and national organizations to share experiences and good practices to facilitate international harmonization and comparability of accounting and reporting. Therefore, this chapter also contains updates from the Confederation of Asia Pacific Accountancy, the Eastern, Central and Southern African Federation of Accountants, and the Federation of Mediterranean Accountants submitted to the UNCTAD secretariat on the occasion of the twenty-eighth session of ISAR (appendix I.3).

Asian–Oceanian Standard-setters Group

The Asian–Oceanian Standard-setters Group held its fifth International Financial Reporting Standards Regional Policy Forum from 23 to 24 May 2011 in Kuta, Bali, Indonesia. The meeting was attended by 21 jurisdictions representing accounting standard setters, central banks, money market regulators, tax regulators, governments

¹⁶ Available at <http://www.gov.mu/portal/goc/mof/EcoFinMeaMiscProvAct2011.doc> (accessed 19 February 2013).

¹⁷ Available at http://www.ifrs.org/IFRS-for-SMEs/Documents/IFRSforSMEsQA2011_01.pdf (accessed 27 February 2013).

and stock exchanges. The communiqué¹⁸ issued on 24 May 2011 noted that several countries in the Asian–Oceania region, including Indonesia, Malaysia and Singapore, would be implementing or converting to IFRS by 2012, and that 2011 was the final year for preparations. The outcomes of the forum include an agreement among participants:

- Reaffirming their commitment to the goal of ultimate adoption of IFRS and to achieve one global set of high-quality accounting standards;
- Agreeing that the goal of IFRS implementation may need to be facilitated through a process of convergence;
- Agreeing that accounting standard setters in the region should work together and increase the regional voice;
- Affirming that IFRS adoption is not just an accounting issue – the support of governments and other regulatory and policy bodies is critical.

Furthermore, participants shared similar concerns, noting the increasing awareness among investors demanding IFRS-based financial statements.

IFRS Foundation regional office in Tokyo

In February 2011, the IFRS Foundation announced¹⁹ its intention to establish an office in Tokyo for enhanced liaison in the Asia–Oceania region. The Foundation further indicated that resources would be deployed in Tokyo to assist ongoing consultations and to provide assistance to those countries in the region that were using or planning to adopt IFRS.

China, Japan and the Republic of Korea

In January 2011, the accounting standard-setting bodies of China, Japan, and the Republic of Korea signed a memorandum of understanding²⁰ with a view to:

- Continuing communicating with one another on accounting standards development in their respective jurisdictions, and improving the understanding among each other;
- Exchanging views and experiences among each other on convergence work with IFRS and related implementation issues;
- Cooperating on the governance and strategy of the IFRS Foundation;
- Strengthening communication on technical issues of IFRS and endeavouring to reach consensus in commenting on major projects of the IASB.

Latin American Accounting Standard-setters Group

In August 2011, six Latin American countries – Argentina, Brazil, Chile, Mexico, Uruguay, and the Bolivarian Republic of Venezuela formed the Latin American Accounting Standard-setters Group²¹ with a view to promoting a common position in interacting with the IASB. At its first meeting, the Group approved regulations for its Board and established a Technical Working Group that will be composed of one representative from each country.

¹⁸ Available at <http://www.ifrs.org/News/Announcements-and-Speeches/Documents/CommuniqueIFRSRFP2011Bali.pdf> (accessed 27 February 2013).

¹⁹ Available at <http://www.ifrs.org/News/Press+Releases/Tokyo+office.htm> (accessed 19 February 2013).

²⁰ Available at <http://kjs.mof.gov.cn/zhengwuxinxi/gongzuodongtai/201103/P020110301520629535302.pdf> (accessed 19 February 2013).

²¹ Available at http://www.facpce.org.ar/web2011/Noticias/ot_reunion_glenif.html (accessed 19 February 2013).

Emerging Economies Group of the IASB

In July 2011, the Emerging Economies Group of the IASB was established in Beijing. According to the communiqué that was published at the conclusion of the first meeting of the Group, its membership will be drawn from emerging economies that are members of the G20 together with Malaysia. The permanent members of the Group will be representatives designated by and from national accounting standard setters in the member countries. The Group intends to hold two annual meetings a year. At its first meeting, the Group addressed the issue of fair value measurement in emerging economies.

D. World Bank Reports on the Observance of Standards and Codes on Accounting and Auditing

Important trends in the area of accounting and reporting are reflected also in the World Bank ROSC on Accounting and Auditing. Since the twenty-seventh session of ISAR, the World Bank has published these Reports for Bosnia and Herzegovina,²² Mauritius,²³ Nigeria,²⁴ and Zimbabwe.²⁵

Bosnia and Herzegovina

The ROSC on Accounting and Auditing on Bosnia and Herzegovina was a follow-up to the assessment the World Bank conducted in 2004. The follow-up ROSC was published in December 2010. The report notes that the institutional framework for corporate financial reporting in the country has improved since 2004. It also highlights the progress that was made with respect to aligning the State and entities laws with the European Union's *acquis communautaire* with respect to financial reporting. The specific improvements relate to: the harmonization of accounting and auditing laws; an increased availability of IFRS translations; the implementation of auditors' registers by each entity; a single curriculum for professional education issued by the country's Commission for Accounting and Auditing; enhanced requirements for continuing professional development.

In November 2010, the Association of Accountants and Auditors of Republika Srpska and the Union of Accountants, Auditors and Financial Workers of the Federation of Bosnia and Herzegovina were admitted to the International Federation of Accountants (IFAC) as full member and associate member, respectively. The ROSC found that all business entities in the country were required to apply "full IFRS" regardless of their size. This requirement placed undue burden on SMEs and was not in line with the fourth and seventh European Directives of the European Union. Monitoring and enforcement arrangements did not ensure that the quality of financial statements published by public-interest entities met the standard of IFRS. Financial sector regulatory agencies such as those for banking and insurance did not monitor compliance with accounting requirements. A review of financial statements carried out as part of the ROSC assessment indicated instances of non-compliance with IFRS in

²² Available at http://www.worldbank.org/ifa/rosc_aa_bosniaherzegovina_eng.pdf (accessed 19 February 2013).

²³ Available at http://www.worldbank.org/ifa/rosc_aa_mauritius2011.pdf (accessed 19 February 2013).

²⁴ Available at http://www.worldbank.org/ifa/rosc_aa_nigeria_2011.pdf (accessed 27 February 2013).

²⁵ Available at [http://www.worldbank.org/ifa/rosc_aa_zimbabweZimbabwe--ROSC%20A&A%20\(Final-%20February%2015,%202011\).pdf](http://www.worldbank.org/ifa/rosc_aa_zimbabweZimbabwe--ROSC%20A&A%20(Final-%20February%2015,%202011).pdf) (accessed 19 February 2013).

published public-interest entity financial statements. A review of related audit reports also identified inadequate compliance with International Standards on Auditing (ISAs).

The ROSC provided a number of short-term and medium-term policy recommendations for the country to implement. With respect to accounting for SMEs, the report called for adoption of a financial reporting framework based on the IFRS for SMEs and aligned with the European Union Directives. The report notes that a simplified framework would reduce the burden on SMEs, improve the quality of financial statements and help SMEs to access finance from potential lenders. Another recommendation was in relation to translated versions of IFRS, clarified ISAs, and the Code of Ethics published by the International Ethics Standards Board for Accountants. The ROSC called for the accounting and auditing professional bodies to which the country had delegated responsibility for translation of these standards to continue ensuring that translated materials are made available to accountants, auditors, students and preparers. With respect to the accounting curricula, the recommendation was for the Bosnia and Herzegovina Accounting and Auditing Commission to conduct a review of the curricula, reading lists, examination strategies and other requirements of the uniform professional accounting and auditing education programme with a view to ensuring that the initial professional development needs of the accountants and auditors remain relevant to the needs of the country's economy. Adequate financial resources and personnel should be allocated to the securities commissions of the country to strengthen the monitoring for financial information and to commence enforcement.

Mauritius

The World Bank ROSC on Accounting and Auditing in Mauritius, published in June 2011, was a follow-up to the one that was conducted in 2003. The report, which was carried out from November 2010 to April 2011, noted that significant improvements had been made in financial reporting practices in the country. A Financial Reporting Act was enacted in 2004. This resulted in the establishment of a Financial Reporting Council and the Mauritius Institute of Professional Accountants (MIPA). Furthermore, the country's Companies Act, Banking Act, and Insurance Act were amended to ensure consistency in their respective financial reporting requirements. The human capacity of the Registrar of Companies had been strengthened. However, the ROSC also highlighted some weaknesses with respect to institutions. Due to limited financial and human resources, the MIPA had not been able to meet its legal responsibilities and membership obligations with the IFAC. The definition of public-interest entities in the Financial Reporting Act was restrictive, excluding some listed companies from the oversight scope of the Financial Reporting Council (FRC). The Financial Reporting Act didn't provide the FRC with powers to sanction senior management of entities that fail to comply with financial reporting requirements. There were compliance gaps with adopted accounting and auditing standards.

The ROSC made a number of policy recommendations aimed at overcoming the weaknesses identified. It called for a strengthening of the MIPA, including through twinning arrangements so that the professional body would be in a better position to enhance its technical, institutional and financial capacity, which was required for it to meet its legal responsibilities, as well as its membership obligations to IFAC. Another recommendation was aimed at developing an internationally recognized local accounting professional qualification. The ROSC further recommended that the Financial Reporting Act be amended to enhance the definition of public-interest entities by including qualitative as well as quantitative criteria. Another recommendation was

for the Companies Act to be revised to require medium-sized companies within a certain threshold to apply the IFRS for SMEs.

Nigeria

The ROSC on Accounting and Auditing on Nigeria published in June 2011 was also a follow-up to a review conducted in 2004. The ROSC of 2011 highlighted the limited implementation of the 2004 Country Action Plan Nigeria had developed. The Country Action Plan items that were fully implemented were with respect to: raising awareness of investors, directors, managers and auditors with a view to improving compliance with financial reporting requirements by public-interest entities; adding a paper on business ethics to the professional qualification examinations; revising university curricula to enable students to gain exposure to practical application of IFRS and ISAs; strengthening the Institute of Chartered Accountants of Nigeria to comply with its IFAC membership obligations. The rest of the action plan items were only partially implemented. The ROSC on Nigeria underscored that a number of banks in the country exploited loopholes in Nigerian accounting and auditing standards, weaknesses in regulatory bodies and enforcement organizations, and made use of creative accounting to boost their balance sheets – ultimately leading to the banking crisis that occurred in the country in 2008.

The ROSC made a number of policy recommendations relating to:

- Updating the statutory framework of accounting, auditing, and corporate financial reporting;
- Strengthening the capacity of the accounting and auditing regulatory body for issuing, monitoring, enforcing accounting and auditing standards;
- Building the capacity of the professional accountancy bodies to function as modern professional organizations and to comply with their membership obligations to IFAC.

One of the major recommendations with respect to the statutory framework of the country called for the amending of the Companies and Allied Matters Act of 1990 to take into account reforms that the Nigerian Government had introduced with regard to enhancing the quality of corporate reporting. In particular, the Companies and Allied Matters Act needed to be amended to include enabling provisions for the implementation of IFRS and ISAs. With respect to financial sector regulators, the report recommended that the Central Bank of Nigeria and the Nigerian Deposits Insurance Corporation support the implementation of IFRS in the banking sector to meet the mandatory adoption of the standards by January 2012. Furthermore, the report called for the development of technical IFRS capacity in the Securities and Exchange Commission of the country.

Zimbabwe

The ROSC on Accounting and Auditing on Zimbabwe, conducted from August 2010 to February 2011, identified a number of areas that need strengthening. These pertained to the statutory framework, accounting and auditing standards, and quality of financial reporting in the country. The Companies Act of the country that was enacted in 1999 required the form and content of the financial statements of all companies in the country to be prepared in compliance with the standards issues by the Zimbabwean Accounting Practices Board. However, the Companies Act had not been updated to

recognize IFRS as the standards that the Board had been adopting as issued by the IASB. The Companies Act did not take into consideration the burden that IFRS would place on SMEs as it requires all companies to apply the same accounting standards regardless of the size of the entity. The Act contained basic requirements regarding the audit of financial statements. The Act did not prescribe the qualification and membership requirements for the auditor. Neither did the Act provide for monitoring and enforcement mechanisms to ensure compliance with its provisions on auditing. The country's Insurance Act and the Banking Act did not specify the accounting or auditing standards to be used by insurance companies, banks and their respective auditors. The ROSC noted that the country had been experiencing hyperinflation and highlighted the significant challenges the accountancy profession in the country faced in applying IAS 21, the Effects of Changes in Foreign Exchange Rates, IAS 29, Financial Reporting in Hyperinflationary Economies, and all IFRS that had fair value implications.

The policy recommendations in the ROSC on Zimbabwe include:

- Amending the Companies Act to give legal backing to an accounting standard setter for the country;
- Specifying reporting requirements for different types of entities classified in the Companies Act;
- Specifying in the Companies Act requirements for an auditor;
- Amending the Public Accountants and Auditors Board in such a way that the composition of the Board would be independent both in appearance and fact, that the Board would be recognized as the standard setter for accounting, auditing, and ethics, and professional accounting, and that auditing firms be required to register with the Board.

Other recommendations pertained to institutional capacity building, strengthening the accountancy profession and aligning university-level education with professional training.

Conclusions

This chapter presents major developments in the area of accounting and reporting that have occurred since the twenty-seventh session of ISAR. Although significant progress has been made with respect to implementation of IFRS, the G20's objective to achieve a single set of high-quality accounting standards has not yet been achieved. While IFRS are being used for the preparation of the larger share of market capitalization around the world, the share of national standards, including US GAAP, is still very significant. In the coming years, the majority of new IFRS adopters will be developing countries and countries with economies in transition. Thus, there is a critical need for facilitating the sharing of experiences on implementation of IFRS and on building the institutional and human capacity required for successful implementation. With most of the major IFRS development projects of the IASB completed, one of the major challenges for the future is ensuring consistent implementation and enforcement of the standards. In this respect, UNCTAD-ISAR has a critical role, particularly in assisting developing countries and countries with economies in transition in formulating appropriate policies and capacity-building projects with a view to implementing international standards and codes on corporate reporting in an effective and efficient manner.

Appendix I.1. Breakdown by country/jurisdiction of entities included in the trends analysis

<i>Country /jurisdiction</i>	<i>No. of entities</i>		<i>Country /jurisdiction</i>	<i>No. of entities</i>		<i>Country /jurisdiction</i>	<i>No. of entities</i>
Argentina	15		Greece	30		Panama	1
Australia	105		Hungary	5		Peru	10
Austria	27		Iceland	1		Philippines	28
Bahamas	1		India	163		Poland	26
Bahrain	9		Indonesia	36		Portugal	20
Bangladesh	2		Ireland	14		Qatar	17
Barbados	1		Israel	54		Republic of Korea	158
Belgium	33		Italy	82		Romania	4
Bermuda	31		Jamaica	2		Russian Federation	79
Brazil	116		Japan	616		Saudi Arabia	31
Bulgaria	2		Jordan	8		Singapore	52
Canada	161		Kenya	2		Slovakia	2
Cayman Islands	1		Kuwait	19		Slovenia	5
Chile	43		Lebanon	6		South Africa	44
China	314		Liechtenstein	2		Spain	62
China, Hong Kong SAR	141		Lithuania	2		Sri Lanka	2
China, Taiwan Province of	104		Luxembourg	16		Sweden	52
Colombia	22		Malaysia	47		Switzerland	81
Croatia	4		Malta	1		Thailand	32
Cyprus	3		Mexico	43		Trinidad and Tobago	1
Czech Republic	4		Morocco	10		Tunisia	8
Denmark	28		Netherlands	52		Turkey	39
Ecuador	1		New Zealand	7		United Arab Emirates	36
Egypt	19		Nigeria	17		United Kingdom	180
Estonia	1		Norway	47		United States	1225
Faroe Islands	1		Oman	6		Venezuela, Bolivarian Republic of	11
Finland	26		Pakistan	18		Zimbabwe	13
France	146						
Germany	114					Total	5000

Appendix I.2. Association of Certified and Chartered Accounts Survey on Global Standards

Towards greater convergence

Over the last two decades, the rapid advance of globalization has helped to facilitate international business and eliminate barriers to capital flows. From the perspective of accounting, auditing and non-financial reporting, standards have struggled to keep pace with the development of commerce, preventing both investors and issuers from better aligning their interests. Lack of comparable performance measures force investors to base increasingly global asset allocation decisions on incomplete information. From a CFO perspective, increasingly global competition for capital leads corporate boards to focus more on near-term earnings and less on ensuring the long-term sustainability of their businesses.

Fortunately, significant progress is being made in addressing the standards gap. The implementation of IFRS in many of the world's major markets is providing a foundation that enables investors to make accurate cross-border comparisons of companies. It also allows companies to better communicate their strategy to shareholders. As the United States regulator, the SEC stands poised to make key decisions about IFRS implementation in the United States. The ACCA Survey seeks to gauge the value that both investors and CFOs see in IFRS and other global standards, such as those for auditing and non-financial reporting.

Some of its key findings:

Increasing familiarity with global standards in financial reporting continues to break down resistance to their implementation.

Respondents to this survey – comprising financial professionals from investors and issuers and in countries where IFRS is in varying stages of implementation – appear broadly positive about the benefits. More than 40 per cent say IFRS has improved access to capital, while around a quarter say adoption has lowered capital costs. Far fewer believe the implementation of IFRS is not worth the cost.

The effect of the financial crisis has been to improve perceptions of global standards among investors and issuers.

Over half (52 per cent) of respondents say they view global standards, such as IFRS, more positively in the wake of the economic difficulty of the past few years. Far more respondents now believe the benefits of IFRS outweigh its costs, compared with those who do not. Indeed, investors such as CalPERS, the California Public Employees Retirement System, says the costs of not investing in high quality accounting and auditing standards, in terms of potential investment portfolio losses, are far greater than any conversion costs. Furthermore, some 60 per cent of respondents see standards as a facilitator of more consistent regulation.

Investors favour global auditing standards.

Overall, more investors than CFOs see benefits from a switch to ISAs in terms of quality and cost. Just over one quarter (27 per cent) of CFOs see some benefit from these, compared with nearly twice as many (49 per cent) who see little or no benefit. Among investors, 44 per cent are positive on this, compared with 30 per cent who are not.

Rising demands from investors and customers for greater disclosure is fuelling an appetite for global standards in non-financial reporting.

Far more CFOs (37 per cent) believe standards will improve non-financial reports, such as those on corporate social responsibility and environmental risk, than those who think otherwise (9 per cent). Nearly half (46 per cent) believe that issuing non-financial reports to global benchmarks will improve their reputations among stakeholders and consumers. There is general agreement that companies' risk management would benefit from this, too.

Executives believe that global standards or benchmarks in corporate governance would encourage more long-term thinking.

Fully 70 per cent of both groups believe that standards for corporate governance would encourage more long-term thinking in the boardroom. As this research highlights, global standards are improving communication in ways that enable investors and issuers to align their interests, their objectives and their goals.

Although a more distant aspiration, there is a clear recognition of the potential benefits of integrated reporting.

More than two thirds of those surveyed say there is much to be gained – both in terms of better decision-making (39 per cent) and a more accurate picture of overall performance (28 per cent) – from the presentation of financial, governance and sustainability information in an integrated format. Interest in such reporting has increased markedly in the past decade, but with widely diverging approaches. Issuers in particular remain wary of the tendency for ever-greater disclosure and its effect on the value of the information it contains.

Appendix I.3. Updates submitted to the UNCTAD secretariat by regional accountancy organizations

(The following updates were provided to UNCTAD for a regular agenda item of its annual ISAR sessions on updates on regional developments and are published in the form they were submitted.)

A. Confederation of Asia and Pacific Accountants (CAPA)

About CAPA

CAPA is a regional organization representing over 30 national professional accountancy organizations (PAOs) in the Asia-Pacific region. Over 1 million accountants are represented by these PAOs. CAPA aims to be an inspirational leader for the accounting profession in this region. The vision of CAPA is for the profession in the region to be relevant and respected, trusted and valued by governments and businesses, and recognized for contributing to the development of sustainable financial markets and economies. The mission for CAPA is to develop, coordinate and advance the accounting profession in the region, by:

- Contributing to the formation and development of strong and sustainable professional accounting organizations capable of providing and maintaining accountants to effectively meet the needs of the country in which they operate;
- Fostering a cohesive accounting profession within the region, by facilitating the development of relationships and the sharing of knowledge amongst professional accounting organizations;
- Promoting the benefits of high quality financial management and reporting in public, not-for-profit and private sectors, including international standards in accounting, audit, ethics and accounting education;
- Liaising with governments, regional and national organizations to influence the development of public-sector financial management;
- Liaising with international, regional and national organizations to influence the development of efficient and effective capital markets;
- Promoting the value of professional accountants in the region;
- Providing input to, and supporting the global profession in, matters of public interest where the accountancy profession's expertise is most relevant, including establishing and issuing policy positions.

CAPA created a tagline “financial infrastructure is as important as physical infrastructure” in support of the development agenda which CAPA will continue to promote and advocate. At CAPA we believe our work is aimed at developing strong professional accounting organisations, robust financial systems in countries, and sustainable economies.

Major CAPA activities for 2011

1. International Public-sector Accounting Standards (IPSAS) leadership activity

In 2011, CAPA focused on encouraging convergence towards IPSAS by all member countries in the region. A successful high-level Conference and Roundtable on Improving Public Sector Financial Management was held in Seoul, Republic of Korea in May 2011 with the support and assistance from our members, the World Bank, Asian Development Bank and relevant stakeholders.

Improving the quality of financial reporting in the public sector is viewed by CAPA as critical in addressing the huge risks, such as unexpected sovereign debt crisis situations that may remain obscured, when robust accounting and reporting techniques are not used in the public sector.

From a public-interest perspective the move towards effective monitoring of financial performance within public sector entities is critical. CAPA supports accrual based financial reporting as the only means to provide the necessary high quality, transparent reporting of public sector activities and position.

Achievement of this ensures that the same high standards of financial reporting are applied by both the private and public sectors of an economy – thus leading to better informed decision-making at both the micro and macro levels.

CAPA therefore calls for governments in the Asia–Pacific region to fully recognize the need for robust financial systems, and to lead changes in public sector accounting and reporting to support enhanced public sector financial management.

A supporting position statement has been issued and follow-up activities are planned for the future.

2. CAPA conference

Held once every four years, the CAPA conference is a premium regional conference designed specifically for finance, accounting and business professionals for building relationships and sharing knowledge as a means of assisting the formation and development of strong and sustainable professional accounting organizations.

The theme “APAC Powerhouse: opportunities for the accounting profession” examines the emerging economic prowess of the Asia–Pacific region in the global economic landscape, the evolving role of the accountant, and the opportunities that this shift presents for the profession.

The 18th CAPA Conference hosted by CPA Australia and the Institute of Chartered Accountants in Australia was held from 6–9 September 2011 in Brisbane, Australia. The very successful conference attracted over 1,200 attendees from more than 30 countries. It was held in conjunction with CAPA Board, Assembly and Committee meetings. IFAC also arranged their board meeting in Brisbane in full support of the conference, with some of their board and staff members involved in speaking and chairing engagements.

3. SMO Compliance Activity and PAO Development Committee involvement

CAPA actively supports and leverages the work of IFAC, in fostering the SMO Compliance Program and the work of the PAO Development Committee

The SMO Compliance Program is promoted to all Members, though direct communications and visits. There is significant collaboration between CAPA and IFAC on such initiatives. Last year, two Members that were visited for Compliance Program purposes were in Fiji and Papua New Guinea.

In July 2011, together with IFAC staff, CAPA visited Mongolia to undertake discussions regarding SMO Compliance and assisted in the development of associated Action Plans with the Mongolian Institute of Certified Public Accountants (MonICPA). The meeting coincided with a CAPA Strategy Committee meeting and a Roundtable was held to understand the development and challenges faced by the profession in Mongolia. The progress and status of the MonICPA was impressive and the benefits from the successful visit have enhanced the standing of MonICPA.

A PAO Development Group is to be established by CAPA to focus on the needs of developing PAOs. This Group will link to the work of the IFAC PAO Development Committee and opportunities arising from collaborating with the donor community and aid agencies.

4. Donor Community Collaboration Initiative

CAPA working closely with the donor community around the world has benefited the profession. In 2010, the Asian Development Bank (ADB) generously funded the attendance of participants from many developing countries to attend CAPA's train-the-trainer workshops on IFRS for SMEs in India and Malaysia.

This February CAPA was involved in a 3-day Financial Management Training Workshop held by ADB and presented a session entitled "The Quality of Financial Management in the Asia-Pacific". The presentation emphasised that effective country Public Financial Management systems depend on a strong profession to implement quality accounting and audit frameworks.

There is always on-going liaison with the World Bank, ADB and other funding agencies. This is evident with their broad support at the IPSAS Conference, the CAPA Conference and future collaboration planned for several venues next year. In November 2011, CAPA expects to participate at the fourth High Level Forum on Aid Effectiveness hosted by OECD-DAC in Busan, Republic of Korea.

CAPA continually seeks ways to collaborate and actively work with the donor community in raising the profile of the profession and investing in the profession.

B. Eastern, Central and Southern Africa Federation of Accountants

Developments in the accountancy profession in Africa: From ECSAFA to PAFA

The Annual General Meeting of the Eastern, Central and Southern Africa Federation of Accountants – ECSAFA held on 29 April 2011 resolved that ECSAFA be dissolved by 31 December 2011 in order to pave way for the formation and strengthening of the Pan African Federation of Accountants – PAFA. PAFA was launched on 5 May 2011 in Dakar, Senegal. It currently has Thirty-Seven (37) members from Thirty-Four (34) countries as follows: OECCA – Benin, BICA – Botswana, OPC – Burundi, ICAC – Cameroon, the Congo Brazzaville, IDRC – Democratic Republic of the Congo, EPAFA – Ethiopia, GAA – the Gambia, ORNATOC-GB – Guinea-Bissau, ICAG – Ghana, OECCA – Côte d'Ivoire, ICPAK – Kenya, LIA – Lesotho, LICPA – Liberia, LCPAU – Libya, SOCAM – Malawi, OECCA – Mali, MIPA – Mauritius, OEC – Morocco, ICAN – Namibia, CFA – Namibia, ONECCA – the Niger, ICAN – Nigeria, ICPAR – Rwanda, ONECCA – Senegal, ICASL – Sierra Leone, SAICA – South Africa, SAIPA – South Africa, SACA – the Sudan, SIA – Swaziland, NBAA – United Republic

of Tanzania, ONECCA – Togo, OEC – Tunisia, ICPAU – Uganda, ZICA – Zambia, and ICAZ – Zimbabwe, ICPAZ – Zimbabwe.

PAFA Secretariat

The PAFA Secretariat is hosted by SAICA, South Africa.

PAFA Board

The PAFA Board is be made up of the following: President - Major General Sebastian Owuama (Nigeria), Vice President - Dr. Mussa Assad (United Republic of Tanzania), Thirteen (13) other board members from Cameroon, Democratic Republic of the Congo, Ghana, Kenya, Mali, Tunisia and Uganda, Interim CEO – Vickson Ncube.

The formation of PAFA will transform the accountancy profession on the African Continent. PAFA will be aiming to bring the accountancy profession in the African Continent to the same technical and leadership competencies as anywhere in the world. This will be achieved through realizing the PAFA Objectives which are as follows:

- (a) Provide a forum for cooperation and assistance among African professional accountancy organizations for the further advancement of the status of the accountancy profession;
- (b) Provide encouragement for and assistance with the formation and development of national professional accountancy organizations in Africa;
- (c) Engage in the development and enhancement of the accountancy profession in the African continent through participation in the development and the dissemination of the standards, guidelines and other pronouncements of the International Accounting Standards Board (IASB) and the independent standard-setting boards under the auspices of the International Federation of Accountants (herein after referred to as “IFAC”) and the establishment and implementation of appropriate strategies and work programs;
- (d) Promote the development of common technical, ethical and educational guidelines for the accountancy profession in Africa;
- (e) Engage national governments, regional trading and economic blocs and Development organizations in the development of the accountancy profession in the African continent;
- (f) Facilitate the development of a continental approach to accounting education and training by way of shared curricula and expertise;
- (g) Share and exchange information and best practices on technical matters, regulatory frameworks and corporate governance principles;
- (h) Identify and highlight challenges affecting the accounting profession in the African continent and formulate proposals towards the solution of these challenges;
- (i) Provide African accountants with a platform for the exchange of relevant significant information on the accountancy profession;
- (j) Work in cooperation with other organizations whose development efforts may be complementary to that of PAFA;

- (k) Communicate with and participate in the work of IFAC and IASB Boards and Committees in agreed areas and liaise with other international and regional organizations;
- (l) Influence and represent the African accountants in international accounting and other organizations.

To realize these Objectives, PAFA will seek to build alliances with national governments in Africa and international organizations. In its formative years, PAFA will be faced with challenges such as language diversity in the Continent, lack of capacity at its Secretariat and financial capacity. The alliances with national governments and international organizations will help overcome these challenges. It is the intention of PAFA to have its own capacity in the long run to achieve its objectives.

PAFA will continue to play a constructive role within the UNCTAD/ISAR Sessions.

C. Federation of Mediterranean Accountants

Update: activities by FCM and developments in the FCM region since the last meeting of ISAR

FCM was founded in 1999 to represent the accountancy profession in the Mediterranean area. Its membership includes 22 professional institutes of accountants from 17 Mediterranean countries, representing more than 320.000 professional accountants and auditors. FCM is an acknowledged IFAC Accountancy Grouping.

The reason behind FCM is indeed the word “Mediterranean”. Both the northern and the southern shores of the Mediterranean share an interest in an integrated Mediterranean market due to the impact of north/south economic, trade, investment, and population flows – and the cultural links and the common heritage of the various peoples.

Despite the enormous potential of the region, the unquestionable economic benefits, and the strong interest of the private sector, the process of integrating the Mediterranean region appears to be a long and complicated one.

At the end of 2010 the Mediterranean Region underwent a period of great change, the final outcome of which is still unpredictable: a profound transformation process is ongoing that will have lasting consequences, not only for the countries of the region but also for the rest of the world, and for the European Union in particular. One thing is clear however; the Mediterranean populations have an urgent need for reform, for more dynamic societies and economies.

The regional dimension has taken on increased importance and regional cooperation will be more vital than ever. There is a growing need for a more integrated regional market and for regional coordination mechanisms.

In terms of Euro-Mediterranean Cooperation the two key institutions for the realisation of these goals are:

- The European Union Commission;²⁶
- The Union for the Mediterranean.²⁷

So far, according to regional studies,²⁸ these two actors have not managed to become the engine for integration that the region requires.

While the European Union has been the biggest donor by far in the area, the effectiveness of this aid has been much criticised, with the major problems identified being:

- Non-strategic dimension / strategic dispersion;
- Lack of focus, i.e. too many activities in too many domains; and
- Lack of coordination.

Other criticisms relate to insufficient efforts with regard to trade development in the region. In other parts of the world, such as the NAFTA and ASEAN regions, the emphasis has been on symmetric commercial exchange rather than on asymmetric provision of public aid (Trade Not Aid) with more effective growth strategies based on economical exchanges and industrial integration as well as a preference for economic relations rather than political ones.

In conclusion, despite a few positive notes (the main being the creation of forums for Mediterranean countries administrations to regularly meet and decide upon common actions) in terms of convergence (measured by GDP per capita) the EuroMed cooperation has achieved far less than that of other large regions, such as the NAFTA and the ASEAN. In addition, the economic integration is insufficient and superficial, more commercial than productive, financial cooperation and mobility of professional workers are neglected, and a serious regulatory convergence strategy is not in place.

As a result of the recent upheavals in the southern Mediterranean countries, the European Union has tried to re-think its policies for the Mediterranean area. The first phase of this has been set out in two documents,²⁹ which put the focus on economic development especially through support for SMEs, trade agreements, and institution building.

FCM's Mission, Objectives & Activities

FCM is committed to working towards the realisation of a more integrated market between the Mediterranean countries. As part of its objective to contribute to economic developments in the Mediterranean region, FCM promotes the value of reliable, transparent and comparable financial information.

FCM is in a unique position to promote regional integration largely due to its membership composition, which includes both highly developed and developing organizations from all around the Mediterranean basin, including global organizations such as ACCA. Half of FCM's member bodies also belong to the European Union,

²⁶ Through the Barcelona Process – a multilateral forum of dialogue and cooperation between the European Union and its Mediterranean partners. See http://eeas.europa.eu/euromed/index_en.htm.

²⁷ A partnership launched in July 2008 in order to revitalize the Barcelona Process and to improve the strategic relationship between the European Union and the southern and Middle-Eastern partners, consisting of all twenty-seven member States of the European Union and of the 16 countries of the southern and eastern rims of the Mediterranean. See <http://www.ufmsecretariat.org/en/>.

²⁸ Available at <http://www.ipemed.coop/spip.php?article855> and www.iemed.org/publicacions/monografia7.pdf.

²⁹ See http://eeas.europa.eu/euromed/docs/com2011_200_en.pdf and http://ec.europa.eu/world/enp/pdf/com_11_303_en.pdf.

which is a successful example of regional integration. These members can share their experiences of integration and the challenges faced in adapting national regulations to regional directives.

FCM strives to ensure that regional interests and opinions are considered on an international level within the profession. FCM also liaises with regional public authorities to ensure they consider professional themes in the context of the Euro Mediterranean region.

FCM promotes cooperation among the professional accountancy bodies in the Euro Mediterranean region to enable them to act in concert on international developments affecting the profession, to facilitate the sharing of knowledge and to support them in their endeavours to achieve and maintain IFAC membership requirements and standards.

FCM performs as a platform for the following:

- A Network – to facilitate regional and bilateral cooperation and the exchange of information and best practice;
- A Forum – which through the organization of conferences, seminars, workshops, and research studies raises awareness of: the importance of financial reporting for the development and integration of regional economies, the main problems and issues in the region; technical matters, and of international best practices;
- Specific Targeted Action – to cooperate on specific capacity building action, to generate success stories, implementation feedback and an eventual virtuous circle effect through mechanisms such as Mentoring, Twinning Programmes etc.;
- Support to IFAC Compliance Programme.

On behalf of the accountancy profession FCM uses its unique position, coupled with its resulting regional expertise and existing rapport with the region's major institutions, to promote a regional perspective on the various factors capable of reinforcing the financial reporting infrastructure in the Mediterranean, namely: rules, profession and institutions. Also, given the importance of SMEs in regional activities and programmes, many FCM activities are focused on the area of financial reporting and SMEs. FCM increases the visibility of regional themes as well as the level of dialogue with policymakers.

FCM's main activities from October 2010 to October 2011

Besides its on-going activities and regular participation in working parties, and in the events and publications of major regional actors, FCM organized:

- The FCM Annual Conference in Marseille on December 1st 2010: *A Roadmap Towards Convergence in the Mediterranean Region: Strengthening Auditing and Accounting*³⁰. The objectives were to present an overview of the new perspectives for the Mediterranean region, to provide an opportunity to discuss how convergence of financial reporting systems can be achieved at regional level and to spotlight the importance of coordinated and effective regulation and implementation systems. The conference program included presentations and addresses by speakers from the European Union Commission, the UfM Secretariat, the French Government, the World

30 More information at: <http://www.fcmweb.org/activities.asp?mode=2&IDDocument=486>.

Bank, the CFRR, the MCMI, the UNCTAD, the IAASB, the IASB, the EFRAG, the FEE, the IFAC, and the ACCA.- Two seminars on 6-7 April 2011 in London: “*Access to Finance for Med MSMEs*” and “*Capacity Building for Financial Reporting in the Med Region*”.³¹ The seminars had a dual objective:

- To outline the importance of financial reporting in relation to access to finance for Med SMEs, which are currently at the heart of the agendas of regional policymakers;³²
- To generate discussion about how best to enhance financial reporting quality in the Mediterranean region. FCM’s aim is to have an ongoing discussion in the region on this topic.

Speakers at the event included representatives from the World Bank, the European Commission, the UNCTAD, the Centre for European Policy Studies (CEPS), the EFAA, the Milan Chamber of Commerce, the Italian Ministry for Economic Development, and the BIS Access to Finance Expert Group.

- Co-hosted the IFAC SMP Forum in Istanbul, Turkey, 21 March 2011.³³

- Supported/delivered speeches at FCM Members’ events:

- CNDCEC seminar session on the Mediterranean entitled “The Common Heritage of the Mediterranean” in Naples on the 21 October 2010;
- SCAAK first national conference, “Developing capacity – Developing economy” in Pristina on the 13 May 2011;
- ICPAC International conference in Cyprus on the 8 June 2011;
- CGCEE first international conference on the Mediterranean in Murcia on the 1 July 2011.

- Launched two surveys, one on Capacity Building and one on the Public Oversight in the region.³⁴

- Contributed to the High-Level CEPS-IEMED³⁵ WG report “*The Future of MSME’S Financing: Policy Recommendations*”.³⁶ Among other findings, the report underlines the importance of financial reporting for access to finance for SMEs and on capacity building actions in financial reporting.

- Planned a conference entitled “*SMEs Financial Regulation: striking the right balance between transparency and regulatory simplicity*”³⁷ which will be held in Rome on 5 December 2011. Speakers invited include the European Union Commission, the European Union Parliament, the IFAC, the FEE, the UfM, the World Bank, the UNCTAD, the EFAA, the ACCA, the Turkish and Moroccan governments, and the UEAPME.

31 More information at <http://www.fcmweb.org/activities.asp?mode=2&IDDocumento=495>.

32 European Union joint communication paper “A partnership for democracy and shared prosperity with the Southern Mediterranean” (Brussels, 8 March 2011): “The unrest in several Southern Mediterranean countries is clearly linked to economic weaknesses...There is a need for the countries of the region to reinvigorate their economies to deliver sustainable and inclusive growth, development of poorer regions and job creation. Small and medium size enterprises (SMEs) have a critical role to play in job creation. To thrive, they need a sound regulatory framework, conducive to business and entrepreneurship.”

33 More information at: <http://www.ifac.org/news-events/ifac-global-forum-highlights-role-smms-partnering-small-businesses>.

34 The surveys are available at <http://www.fcmweb.org/publications.asp>.

35 The high-level CEPS-IEMED Working Group looks at MSME financing in the Mediterranean. It comprises experts from OECD, ASCAME, BusinessMed, Anima, various banks and investment institutions, business schools, business councils, business and investment consultancies, and development cooperation networks and associations from around the Euro-Mediterranean region. More information at: <http://ec.europa.eu/enterprise/policies/international/promoting-neighbourhood/mediterranean/>.

36 CEPS-IEMED Working Group report: http://www.iemed.org/documents/2010_11_CEPS_final_declaration.pdf.

37 More information at: www.fcmweb.org/activities.asp?mode=2&IDDocumento=500.

Chapter II

Assessment questionnaire and measurement methodology for high-quality corporate reporting

Introduction and background³⁸

A strong corporate reporting infrastructure is key to improving transparency, fostering investor confidence, facilitating the mobilization of domestic and international financial resources, and promoting financial stability. Over the last decade, a series of international corporate reporting standards and codes have been developed. The increasing pace of globalization and international economic integration has strongly encouraged the application of such standards and codes worldwide. Nevertheless, the effective adoption and implementation of such standards and codes remains a challenge for many countries. Many developing countries, particularly least developed countries, lack critical elements of a corporate reporting infrastructure and the capacity to meet the financial and non-financial information needs of users of both public- and private-sector reports. In the face of these challenges, there is a need for a coherent approach to capacity-building in this area.

Responding to these capacity-building needs of member States, ISAR, at its twenty-seventh session, deliberated on the essential components of a capacity-building framework for high-quality corporate reporting (see documents TD/B/C.II/ISAR/56 and addendum TD/B/C.II/ISAR/56/Add.1). This debate reflected the efforts made in the wake of the financial crisis – at global level and by member States – towards strengthening the international financial architecture and improving the quality of corporate reporting, based on convergence with a common set of international reporting standards. It also emphasized the importance of developing tools to measure and benchmark progress and to identify priorities in the capacity-building process. In accordance with the agreed conclusions of the twenty-seventh session of ISAR, the UNCTAD secretariat has begun development of such a measurement tool.

The primary objective of this tool is to assist policymakers in identifying gaps and priorities, and also in measuring and benchmarking the progress made on building capacity for high-quality corporate reporting. Where relevant, the tool could also help to identify country needs for technical assistance, and to measure the impact of such assistance over time.

The tool consists of an assessment methodology and a related questionnaire. The assessment questionnaire will be subject to continuous update and improvement, and therefore will be constantly modified based on feedback received by users and as new standards are issued and other developments arise. The document can be downloaded from <http://tiny.cc/ADI>.

In developing the assessment methodology, UNCTAD sought expertise and views from its ISAR network – for example, at the meeting of the Consultative Group

³⁸ This chapter is based on the issues note prepared for the twenty-eighth session of ISAR, and it also incorporates discussions held during the session.

on Capacity-building held in Geneva in January 2011, and at the Accountancy Education Forum held in March 2011, which was organized jointly by UNCTAD and the International Accounting Education Standards Board. As part of the development process for the assessment methodology, UNCTAD organized country-level round tables with the support of the United Kingdom's Association of Chartered Certified Accountants. These took place in Brazil (hosted by the Federal Accounting Council), Croatia (hosted by the Ministry of Finance), South Africa (hosted the South African Institute of Certified Accountants) and Viet Nam (hosted by the Ministry of Finance), with the participation of high-level stakeholders including regulators, standard setters, report preparers and users, staff from academia and training institutions, and other relevant stakeholders in the area of accounting and reporting. Additional input was received from Mexico.

The main objectives of the round tables were to test the usefulness and validity of the questions in the questionnaire, to test the practicability and usefulness of the assessment methodology, and to identify areas for improvement in terms of substance, clarity and objectivity. The round tables also helped to raise awareness of accountancy capacity-building challenges. Furthermore, they highlighted the usefulness of the methodology and of the discussion process itself by bringing together key stakeholders and deliberating on a road map towards capacity-building.

The questionnaire has also benefited from the Accountancy Development Index Project, which was carried out by the United States Agency for International Development's Benchmarking International Standards of Transparency and Accountability project, and from the Statements of Membership Obligations developed by the International Federation of Accountants' Compliance Programme.

It was noted that the questionnaire would be constantly updated and improved, and therefore will be subject to modifications as new standards are issued and other developments arise.

The following sections deal with challenges and issues related to the assessment methodology, and presents the questionnaire, and the measurement approach for high-quality reporting.

A. Challenges and cross-cutting issues

Throughout the development of the methodology, a number of challenges and cross-cutting issues were identified and discussed. The following issues were raised in most of the debates.

As a tool to guide policy, the assessment questionnaire is designed to be used by all member States, in order for gaps to be identified and priority areas for capacity-building determined in a comparable manner. In this regard, the development of a tool that could be relevant for any country has been the main challenge encountered, due to the variety of the corporate reporting infrastructures and systems in place in different countries. In this regard, the questionnaire provides a global perspective on elements and aspects of the capacity needed for high-quality reporting, to allow for international benchmarking. It is not aimed at or even capable of reflecting areas of specific concern to a particular country. However, the proposed methodology allows stakeholders at the national level to adapt the questionnaire in order to identify needs and developments specific to the country in question.

In order to facilitate consistent interpretation across respondents, the questionnaire seeks to avoid the use of subjective language. In the context of institutions, where subjective terms such as “properly” were necessary, the questionnaire includes additional questions to define the terms and clarify their meaning. To the same end, the questionnaire includes a glossary of definitions, as formulated by relevant international bodies.

Another challenge was defining the scope of the questionnaire and deciding whether it should take a comprehensive approach and evaluate all areas of reporting in a country, or whether it should adopt a more specific approach and focus only on certain areas. There are areas of reporting that are more recent, not fully developed, or have been adopted only in certain areas of the world – such as standards on environmental, social and corporate governance reporting, and standards for public-sector financial reporting. Based on the observations and discussions of the Consultative Group on Capacity-building, the UNCTAD secretariat included all areas of financial and non-financial reporting in the questionnaire. The reason for this was to obtain a comprehensive picture reflecting good practices available around the globe, which can serve as a basis from which countries can select areas that they regard as priorities in the context of their national strategies.

The relevance of public-sector entities was highlighted during discussions encouraging UNCTAD to further develop the section of the questionnaire that assesses capacity needs to improve reporting by public-sector entities. The current version of the questionnaire takes into account this feedback. However, at present the questions covering public-sector entities are limited to adoption of IPSAS as formulated by the IFAC, and to auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). Further work on other matters related to capacity-building for high-quality reporting for public-sector entities will be needed in order to identify international benchmarks and good practices as they relate to IPSAS implementation, monitoring, quality control, and other aspects of capacity-building in this important area in a manner that is consistent with the framework used for corporate reporting.

Another challenge was determining which standards would be used as benchmarks in the assessment exercise. Key references were identified depending on the subject area, and the questionnaire refers to a range of international standards and widely accepted benchmarks on financial and non-financial reporting. Suggestions were also made to use some regional and national codes and guidance. However, it was felt that, at a global level, for the purposes of international harmonization, existing international benchmarks would be more appropriate, unless some national requirements of a particular country’s financial markets had such significance and scope that they could usefully be referred to as “good practice” to be considered in national capacity-building efforts.

In addition to the approach where implementation issues are addressed by questions related to enforcement, monitoring and compliance, views were expressed indicating the need for clear differentiation in the questionnaire of the indicators related to adoption of standards and codes from activities dealing with implementation. In this regard, it was noted that it would be difficult to objectively measure implementation levels – other than via surveys or other studies to be carried out by respondents, which could become costly and time consuming. A related challenge was addressed regarding

how to reflect the transitional nature of accounting systems in some countries, as well as countries' on-going efforts towards implementation of international standards that have not yet yielded measurable results but could do so at some point in the future. In this regard, it was stated that the objective of the exercise was to assess progress over time. Such progress should be reflected when the assessment is carried out on an on-going basis.

The statistical methodology employs a simple and clear statistical formula, in order to provide a user-friendly approach, avoid inconsistencies, and obtain a fair measurement of the relative progress of countries in their efforts to develop corporate reporting capacity. In an effort to be as objective as possible, and to provide a common framework at a global level, the questionnaire uses a binary yes/no style of questions based on observable facts about a country's capacity in the area of corporate reporting. No open-ended questions are used, because it was considered that these could introduce subjectivity into the results, reducing the tool's usefulness in providing comparable measurements of progress over time. The questionnaire also contains a column for explanatory notes and comments, allowing the binary findings to be put into the appropriate context. It should be noted that the final quantitative assessment, or score, derived from the questionnaire is intended solely to provide guidance to countries on their relative progress over time in building capacity within each pillar, and to highlight areas for further development. For this reason, the statistical formula and the structure of the questionnaire are designed in such a way that where comparatively greater capacity in corporate reporting exists, the tool will always reflect a higher assessment.

Another issue discussed was the weighting of the pillars. The measurement approach gives equal weight for pillars A, B and C. It was stated that since the number of questions and checklists in each pillar varies, it may be inadequate to assign the same value (weight) to each pillar, as this mechanism might distort the assessment of capacity. It was felt by some that certain questions were more relevant than others and should therefore have a bigger impact on the result. However, it was noted that different countries, and different stakeholders within countries, may have very different views on what is more relevant and how questions should be weighted. This is a common challenge which is faced by many international benchmarks. Whereas agreement by all stakeholders on an appropriate variable weighting scheme presents practical difficulties, an equal weighting scheme achieves the purpose of demonstrating progress over time and does so without the complexities of a variable weighting scheme. As noted above, keeping the assessment methodology as straightforward as possible is considered important for facilitating the understandability and user-friendliness of the tool. It was noted, for example, that the assessment methodology of the Public Expenditure and Financial Accountability programme had adopted a similar approach, again due to practicality considerations with respect to weighting at an international level.

In addition, there was discussion about how fair feedback could be ensured when there are multiple respondents for a certain section. One way to address this issue may be to invite all of the possible respondents to complete the questionnaire and then to average the score of their answers. Alternatively, the country could decide which one of the institutions involved is the most competent, taking different aspects into consideration. For example, a professional accounting organization may take into consideration aspects such as size of membership, IFAC membership, regional association membership, and certification programmes.

One of the key aspects discussed was the need to ensure that a wide range of experts responds to the questionnaire when the actual assessment exercise takes place. As the questionnaire covers a wide range of knowledge areas, a variety of respondents will be required in order to fill out the questionnaire properly. Therefore, one of the main concerns highlighted was the need for a respondents' profile description.

The questionnaire is based on the capacity-building framework and is built on its four interrelated pillars:

- Pillar A – Legal and regulatory framework
- Pillar B – Institutional framework
- Pillar C – Human capacity-building
- Pillar D – The capacity-building process.

B. Pillar A – Legal and regulatory framework

Pillar A, on the legal and regulatory framework, includes the following nine indicators:

- A.1 – Financial reporting and disclosure;
- A.2 – Public-sector financial reporting, disclosure and auditing;
- A.3 – Audit;
- A.4 – Environmental, social and governance reporting;
- A.5 – Enforcement, monitoring of implementation, and compliance on corporate reporting requirements;
- A.6 – Licensing of auditors;
- A.7 – Corporate governance;
- A.8 – Ethics;
- A.9 – Investigation, discipline and appeals.

Based on existing good practices, the questionnaire identifies different types of entities (for example, listed and non-listed companies, SMEs, public-interest entities) to which the legal and regulatory framework applies. For example, the requirements for listed companies are usually more stringent than the requirements for privately owned companies. This distinction was included in the questionnaire, with a view to more accurately assessing the corporate reporting infrastructure in a country as it applies to different types of entities. The questionnaire has been designed taking into consideration the different approaches that countries have been taking towards implementing IFRS. For example, in some countries the requirement for full IFRS applies only to listed companies, while the remaining entities use another set of standards but may be permitted to use full IFRS if they wish to do so. Some countries apply IFRS to consolidated financial statements only. Others also apply them in the case of separate financial statements. In certain countries, IFRS are not required for listed companies, although entities are permitted to apply them. The relevance of IFRS and of IFRS for SMEs has been questioned, depending on the relative economic development of a country; the same concerns may apply to ISAs. The questionnaire is designed to accommodate a variety of scenarios, in order to lead to fair benchmarking where harmonization towards the international requirements for high-quality corporate reporting is concerned.

The concept of “public-interest entities” is included in the questionnaire, with a view to enquiring not only about the situation in countries with regard to listed companies, but also about the situation with regard to other entities of significant public

relevance such as banks and insurance companies, as well as entities of major national interest because of the nature of their business, their impact on the economy, their size, or their number of employees. The questionnaire provides a definition of public-interest entity, since some countries do not have a national definition of the term.

When referring to a particular standard, the questionnaire makes reference to the most recent version of that standard. There were suggestions that stating the specific version for each standard would improve the clarity of the tool. However, the questionnaire is intended to be used in several evaluations in order to assess progress over time; this implies that the questions would need to be modified each time a standard is issued. Given that the respondent group is intended to be composed of specialists from all areas covered in the questionnaire, it is reasonable to assume that they will be aware of the current version of the standards to be used for their respective areas of specialization.

C. Pillar B – Institutional framework

Pillar B consists of the following four indicators:

- B.1 – Institutional responsibilities;
- B.2 – Coordination;
- B.3 – Funding;
- B.4 – Professional accounting organizations.

Due to the variety of institutional frameworks in place in countries around the world, it was decided to avoid making explicit references to specific institutions in the questionnaire. Instead, the questions are focused on the existence of key functions/activities required along the reporting chain to ensure high-quality corporate reporting and on clarity of related responsibilities.

The questionnaire includes a definition of the term “independence” as it concerns institutions. In this context, independence means that the institutions are able to keep their objectivity and perform their duties without being forced to take a certain approach or to benefit a certain party. One possible way of assessing independence could be by considering the institution’s sources of funding and any conflict of interest on the part of those organizations or persons providing the funding.

D. Pillar C – Human capacity-building

Pillar C encompasses the following eight indicators:

- C.1 – General assessment;
- C.2 – Professional education and training;
- C.3 – Professional skills;
- C.4 – Assessment of accountancy capabilities and competencies;
- C.5 – Practical experience requirements;
- C.6 – Continuing professional development;
- C.7 – Specialized training;
- C.8 – Requirements for accounting technicians.

As discussed in earlier paragraphs, there are some issues with regard to accounting education programmes. For instance, countries usually have many institutions providing university courses, and this fact makes it very difficult to decide which one of the institutions should be selected to respond to the questionnaire.

When considered necessary, the questionnaire makes a distinction between accountants and auditors, despite the fact that in many countries such a distinction is not made and an auditor has to be an accountant. The process that must be followed in order to become an accountant or an auditor varies from country to country: in some countries a degree in accountancy at university level is required; in others, the qualification of accountant is reached at advanced (for example, master's) level; and in yet other countries, qualification requirements are fulfilled through enrolment in a professional accountancy organization without any need to attend university courses. In addition, IFAC refers to the accountancy profession in general, without differentiating between accountants and auditors. For instance, the Code of Ethics is applicable to all professional accountants; the term "professional accountant" is defined according to IFAC as "an individual who is a member of an IFAC member body". The questionnaire allows countries to reflect on such differences and still to respond in a consistent and comparable manner.

It was felt that, since the questionnaire measures capacity, the issue of supply and demand of accountants and auditors needed to be addressed. However, it remains difficult to assess whether the number of accountants and auditors available in the country is adequate to fulfil the demand. It is not clear how to measure the size of the demand or the supply, or how to establish whether the supply is sufficient to satisfy the demand. The idea behind the supply/demand question was to find out whether the number of accountants graduating in the country is sufficient to fill all the positions required by the different entities participating in the reporting chain. One possible solution that was suggested with regard to this issue could be to obtain estimates from recruitment organizations operating in the countries. Another option is to exclude the question altogether if the assessment cannot be conducted in a satisfactory manner.

E. Pillar D – The capacity-building process

This pillar was not considered for measurement, because the questionnaire is intended to evaluate the current status of the country, whereas this pillar deals with the strategy and action plan to be carried out at national level in order to improve the corporate reporting infrastructure. National stakeholders need to coordinate among themselves, and decide on priorities, time frames and human and financial resources in order to better tackle the adoption and implementation of standards and codes. However, this section remains as part of the questionnaire in order to emphasize this area's importance in building capacity for high-quality corporate reporting.

Conclusions

Development of a quantitative measurement tool is a challenging exercise, particularly at a global level. It is challenging to find a common international denominator for all the diverse and complex national systems of corporate reporting. However, another challenging issue is the need to measure progress towards harmonization in accordance with international requirements in a consistent and comparable manner. Therefore, the quantitative analysis resulting from the assessment exercise should complement other projects that look at the qualitative aspects of accounting reforms and improvements, together with the related surveys and discussions.

Discussions on these issues stressed the importance of the tool for building capacity for high-quality corporate reporting and highlighted the following points:

- (a) The importance was stressed of the practical feedback received from the national round tables to develop and further improve the draft assessment methodology presented to the twenty-eighth session of ISAR for its consideration.
- (b) It was noted that the discussions on the questionnaire had brought together a number of stakeholders representing key players in the areas of corporate reporting, including policymakers, regulators, professional accountancy organizations, and educators.
- (c) The “yes or no” format of the assessment questionnaire was practical and less subjective. However, not all issues could be presented in a yes or no format, and therefore the column for comments, which was provided in the questionnaire, would be useful. Furthermore, the different approaches that countries took with respect to implementation of international standards and codes, as well as the variations among countries with respect to their institutional settings, were viewed as challenges to maintaining a uniform measurement approach in all countries. Also, the view was expressed that the assessment tool needed to take into account the efforts that countries were making towards adopting international standards, even if the countries concerned had not reached full adoption of standards at the time the assessment was being conducted.
- (d) With respect to microenterprises and SMEs, panellists noted that countries could be implementing national standards as opposed to IFRS for SMEs. The area of public sector reporting was viewed as being somewhat removed from the general area of corporate reporting. Furthermore, there was a general understanding that IPSAS were in the early stages of implementation and had not been implemented as widely as the IFRS. The assessment tool needed to take into account alternative benchmarks for the public sector.
- (e) The assessment tool was useful not only in providing a snapshot of the state of corporate reporting in a country, but also in providing a road map to identify priorities and to build the necessary capacity, and as a means for measuring progress over time – including developing technical assistance projects and measuring their impacts.
- (f) It was also recognized that the assessment tool would be a living document and would be subject to further refinements based on feedback received from the pilot tests, and eventually from actual assessments. There was also a general understanding that during the initial phase, countries would conduct a self-assessment exercise. However, the importance of peer review and independent validation was also emphasized. Pilot tests needed to ensure that those who conducted a self-assessment exercise had all the required knowledge about all aspects of the pillars. Delegates also indicated a need for continuing further cooperation among international players dealing with improving the quality of corporate reporting.

For more detailed information on discussions of the assessment questionnaire and the methodology the reader is referred to the report on the twenty-eighth session of ISAR available at http://archive.unctad.org/en/docs/ciisard61_en.pdf (accessed 19 February 2013).

In concluding its deliberations on the main agenda item, the Group of Experts requested the UNCTAD secretariat to conduct pilot tests of the capacity-building

measurement methodology during the intersessional period and to report on its findings at the next session. In this context, the session welcomed the initiatives taken by those member States that had expressed their willingness to participate in the pilot tests. Furthermore, the Group of Experts invited other member States willing to participate in the pilot test of the measurement tool to advise the UNCTAD secretariat accordingly. It also invited development partners and interested member States and institutions to support the pilot-testing exercise by contributing extrabudgetary resources to the UNCTAD–ISAR Trust Fund.

Chapter III

Inventory of national and regional developments on climate change-related disclosure³⁹

Introduction

Environmental reporting has been a subject of work for ISAR for a number of years. The Group of Experts addressed this subject, for example, in the publication *Accounting and Financial Reporting for Environmental Costs and Liabilities* (1999) and in *A Manual for the Preparers and Users of Eco-efficiency Indicators* (2003). Since ISAR began its work in this area, environmental reporting (and especially disclosure on climate change related emissions) has become increasingly important. At UNCTAD XII, United Nations Member States called on UNCTAD, through ISAR, to continue to contribute to the field of environmental reporting with a view to promoting a harmonized approach among Member States. Among the range of environmental issues that companies and communities face, reducing climate-change related emissions has been identified by United Nations Member States as a particularly urgent goal. As countries continue to work towards a new international agreement on climate change, corporate reporting on this subject remains important. The implementation of various policy options to curb climate change emissions will benefit from, or require, high quality reporting practices.

In UNCTAD's *World Investment Report 2010*, it was observed that ISAR can facilitate an exchange of experiences between government regulators and various global multi-stakeholder initiatives working on standardizing climate change-related reporting. Since that time, the Climate Disclosure Standards Board (CDSB) has been working closely with the UNCTAD secretariat to assist in building consensus with a view to promoting harmonization between existing national regulatory and voluntary reporting standards.

This chapter was produced by the CDSB in collaboration with the UNCTAD secretariat. The study provides a review of climate change-related reporting requirements in countries around the world (table III.1). The purpose of this chapter is to develop an understanding of current climate change-related disclosure provisions and global trends in this area. It provides a non-exhaustive inventory of national and regional laws, codes, guidance and practices (collectively referred to as “provisions”) that directly or indirectly affect the way in which climate change-related information is reported by corporations.

³⁹ This chapter is based on a study prepared for the twenty-eighth session of ISAR by the CDSB (www.cdsb.net) that was produced under the overall direction of Lois Guthrie, Executive Director of the CDSB. The CDSB wishes to thank the UNCTAD secretariat for their assistance in producing this document, which included methodological guidance and editorial comments. The chapter also incorporates discussions held during the session.

Table III.1. List of jurisdictions covered⁴⁰

1. Australia	9. Japan
2. Brazil	10. New Zealand
3. Canada	11. Singapore
4. China	12. South Africa
5. Denmark	13. Sweden
6. European Union (at European Union level)	14. United Kingdom
7. France	15. United States
8. India	

Certain established forms of reporting such as financial reporting and corporate governance disclosure are based on similar regulatory approaches around the world. The consistency of approach, regulatory oversight and content of such reporting requirements is in part attributable to the coordinating activity of organizations such as the IASB and the International Organization of Securities Commissions (IOSCO). By contrast, provisions relevant to climate change-related disclosure are created and overseen by a wide range of lawmakers, standard setters, and industry best practices, including provisions in the areas of finance, energy and environment, stock exchange listing rules, corporate governance, trade and commerce, and corporate social responsibility.

Provisions that affect disclosure can be introduced by securities, financial, environment, energy and corporate governance regulators and policymakers, standard setters, stock exchanges, non-governmental organizations, investor groups and so on. The range of organizations involved varies from country to country as does the type of provision concerned. Provisions can take the form of law aimed specifically at climate change mitigation, pollution control legislation, trading schemes, corporate governance codes, financial reporting and management commentary rules, and company and environmental laws. As well as provisions applicable to reporting organizations, some jurisdictions, notably the United Kingdom and South Africa, also set requirements for institutional investors to make disclosures about how environmental, social and governance issues are taken into account in their decision-making processes.

The lack of a consistent approach to the development of provisions and practices on climate disclosure across jurisdictions makes comparison of activities difficult. In the absence of such a single body of law or a single type of regulator

⁴⁰ Countries were selected based on the availability of information during the period of research. This is not an exhaustive list of countries where climate-change reporting practices are being developed.

responsible for climate change-related disclosure, provisions take many different forms. These may include:

- (a) Legal requirements, also referred to as “mandatory” or “statutory” requirements or provisions;
- (b) Standards, protocols, codes, principles, guidance and the like:
 - (i) Developed through rigorous due process and stakeholder engagement;
 - (ii) Referenced in legislation as representing the approach that should be taken to comply with legal requirements;
 - (iii) That have become so widely adopted as to constitute de facto standards;
- (c) Government-sponsored guidance: normally, these are guidelines prepared by government departments that, whilst not representing legal requirements, provide authoritative guidance on how to comply with legal requirements or are designed to encourage practices and behaviours that support policy objectives.

Provisions may be at state, federal, national or regional level. Generally, provisions that affect climate change-related disclosure fall into one of the following two main categories:

- (a) Corporate governance-reporting provisions that explicitly or implicitly require organizations to make disclosures in annual securities, company or financial filings about climate change risk management and strategies that are part of their corporate governance frameworks;
- (b) Greenhouse gas/energy measurement and reporting provisions that prescribe rules and/or reference standards and/or methodologies that directly or indirectly affect the way in which greenhouse gases (GHGs) and energy consumption are monitored, measured, reported and/or traded.

The findings of this chapter show that a number of developed and developing countries around the world are pioneering different forms of climate change-related reporting. These efforts, however, lack harmonization and consistency. Greater international cooperation could usefully promote consistency between these emerging national initiatives.

A. Country profiles

The profiles below highlight some of the main regulatory and other developments in the jurisdictions examined. The profiles do not represent an exhaustive list of the relevant provisions in the countries/regions concerned. Rather, they are designed to illustrate the types of activity in progress around the world. Subject to the availability or relevance of information, for each country, an overview of disclosure provisions is provided. This is followed by details of any specific GHG measurement and reporting provisions and a brief analysis of the corporate response to demand for climate change-related information in the country concerned.

Australia

Disclosure overview

In Australia, reporting provisions relevant to climate change information are included in legislation or guidance issued/administered by the Australian Stock Exchange, the Australian Securities and Investments Commission and the Department of Climate Change and Energy Efficiency.

The Australian Corporations Act 2001 provides that:

- (a) The financial report must disclose environmental information to the extent that it affects financial performance;
- (b) The director's report must disclose significant environmental regulation that affects the company's performance.

The Australian Corporations Act 2001 (section 1013D) requires providers of financial products with an investment component to disclose the extent to which labour standards or environmental, social or ethical considerations are taken into account in investment decision-making.

The Australian Stock Exchange (ASX) listing rule 3.1 requires disclosure of information that a reasonable person would expect to affect materially the price or value of an entity's securities. The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (Second edition), principle 7 states that companies should establish a sound system of risk oversight and management. Commentary on recommendation 7.1 states that material business risks may include operations, environmental and sustainability risks.

GHG emissions disclosure

In September 2007, the Australian government passed the National Greenhouse and Energy Reporting Act, supported later by the National Greenhouse and Energy Reporting Regulations. The Act establishes a national framework for reporting GHG emissions, projects and energy consumption and production by Australian companies. The Regulations set out the method for estimating emissions, energy consumption and energy production. The rules are supplemented by provisions on greenhouse and energy audits, including audits of compliance with one or more aspects of the Act or Regulations. Affected companies were first required to report in October 2009 for emissions between 1 July 2008 and 30 June 2009.

Provisions on GHG measurement have also been introduced at state level in Australia including the states of New South Wales, Queensland, South Australia, Tasmania and Victoria. Australian state and territory governments have agreed to a standard approach to GHG and energy reporting known as the National Greenhouse and Energy Streamlining Protocol, with the objective of reducing the red tape weighing on business created by multiple and varying reporting requirements.

Corporate response

The ASX's review⁴¹ (published in August 2010) of corporate governance disclosures in annual reports for the year ending 31 December 2009 includes (paragraph 36) the results of ASX's monitoring and reporting against the categories of risk referred to in the commentary to recommendation 7.1. The review notes a significant increase in reporting on climate change policies over the reviewed periods as follows: 2007 – no reporting; 2008 – 1 per cent reporting; 2009 – 4 per cent reporting.

⁴¹ ASX Compliance (2010), *Analysis of Corporate Governance Disclosures in Annual Reports for Year Ended 31 December 2009*. Available at www.asx.com.au (accessed 19 February 2013).

Brazil

Disclosure overview

Although legislation is not in place to require climate change-related information disclosures in Brazil, voluntary non-financial reporting in Brazil is prevalent. A 2009 report by the International Finance Corporation, *Sustainable Investing in Brazil* (see www.ifc.org) found that about 60 per cent of companies in the Bovespa Index (the index of companies listed on the Bovespa, Brazil's largest stock exchange) publish sustainability reports, many of which are based on the sustainability reporting guidelines issued by the Global Reporting Initiative (GRI).

The Brazilian Institute of Corporate Governance publishes a *Code of Best Practice of Corporate Governance*, which provides that social and environmental concerns should be taken into account in defining businesses and operations of the company. Paragraph 2.40 of the Code provides that “at least once a year and with prior approval from the Board, every organization should disclose its policies and social, environmental, occupational and health safety practices”. Paragraph 6.1 of the Code provides that every organization should have a code of conduct that should also establish the social and environmental duties of the organization.

GHG emissions disclosure

The Ministry of the Environment, the Brazilian Business Council for Sustainable Development, the Getulio Vargas Foundation Centre for Sustainability Studies, jointly with the World Resources Institute, the World Business Council for Sustainable Development and other partners promote the Brazilian GHG Protocol Program for GHG emissions disclosure.

Corporate response

Twenty-seven companies participated in the first report on disclosure by Brazilian companies under the Brazilian GHG Protocol in 2009. As of 2011, over 70 Brazilian companies are participating in the voluntary programme on GHG emissions reporting.⁴²

Canada

Disclosure overview

In Canada, the main provisions relevant to climate change-related disclosure are:

- (a) National Instrument 51-102 Continuous Disclosure Obligations, which requires disclosures in management's discussion and analysis about matters, including important trends, risks, commitments and uncertainties that would be material to investor decision-making, including environmental matters;
- (b) National Instrument 58-101 Disclosure of Corporate Governance Practices also contains requirements on disclosure of risks.

On 27 October 2010, the Canadian Securities Administrators issued CSA Staff Notice 51-333 “Environmental Reporting Guidance”. The Notice is designed to help

⁴² For more information and a complete list of participating companies see www.ghgprotocol.org/programs-and-registries/brazil-program (accessed 19 February 2013).

organizations comply with existing disclosure requirements under National Instruments 51-102 and 58-101. According to a Deloitte publication, the guidance “is a clear signal to report issuers”, noting that “effective disclosure on environmental matters is a mandate, not an option”.⁴³ Information is required on:

- (a) Environmental risks and related matters;
- (b) Environmental risk oversight and management;
- (c) Forward-looking information, for example goals and targets;
- (d) Disclosure of environmental accounting matters (including liabilities and obligations).

CSA Staff Notice 51-333 contains guidance on determining materiality in relation to environmental matters, requirements regarding the oversight, governance and management of environmental risks and how to make disclosures of forward-looking information. The notice states that the Canadian Securities Administrators will continue to monitor disclosure of environmental matters as part of their ongoing continuous disclosure review programme.

The annual information form filed by companies listed on the Toronto Stock Exchange calls for disclosures about the financial and operational effects of environmental protection requirements in the current and future years, steps taken to implement environmental policies fundamental to operations, and details of any risk factors and regulatory constraints likely to affect investor decision-making.

GHG emissions disclosure

The GHG Reporting Scheme was introduced by Environment Canada (a federal agency responsible for environmental protection) in 2004 under section 46 of the Canadian Environmental Protection Act 1999, with the first reports delivered in June 2005. The requirements of the GHG Reporting Scheme have been updated periodically in the Canada Gazette and some amendments have been made by virtue of the Regulatory Framework for Air Emissions/Turning the Corner Plan, released in Canada in April 2007. The threshold for reporting was lowered from 100 to 50 kilotons of GHG in 2010.

Environment Canada publishes *Technical Guidance on Reporting Greenhouse Gas Emissions* and *Greenhouse Gas Emissions Quantification Guidance* to assist reporting entities. Provisions on GHG measurement have also been introduced at state level in Canada, including in Alberta, British Columbia, Ontario (Ontario Regulation 452/09) and Quebec. Environment Canada and the British Columbia Ministry of Environment have introduced a “One Window” electronic GHG reporting system, which will facilitate reporting under various requirements including Environment Canada’s GHG Emissions Reporting Program, the Alberta Environment for Specified Gas Reporting Regulation and the British Columbia Environmental Reporting Regulation. The One Window System is designed to reduce reporting burdens for industry.

⁴³ Deloitte (2010). Environmental Reporting Guidance: CSA Staff Notice 51-333 – What does it mean, why does it matter and where do you go from here? Available at www.deloitte.com.

Corporate response

The Ontario Securities Commission Staff Notice 51-716 (2008)⁴⁴ reviewed environmental disclosures made by 35 companies for which it is the principal regulator and generally concluded that compliance with reporting requirements was inadequate, with many companies including clichéd wording with minimal or no analysis or discussion. During the Commission's 2009 corporate sustainability reporting consultation, investors expressed concerns that material information regarding environmental matters was not being reported in securities regulatory filings, but was found in voluntary reports and that disclosures were not necessarily complete, reliable, timely or comparable.

China

Disclosure overview

Various legislative and other measures support disclosure of climate change-related information in China. The China Securities Regulatory Commission released its Administrative Measures for the Disclosure of Information by Listed Companies (January 2007) together with requirements for an environmental assessment to be included with new public securities listings.

China's State Environmental Protection Administration released Measures on Open Environmental Information (for Trial Implementation) from May 2008. Under Article 19, enterprises are encouraged by the State to disclose voluntarily various types of information, including their total annual resource consumption, any investment in environmental protection and technology, the type, volume and content of pollutants discharged by them, plans for environmental pollution accidents, and so on.

In September 2010, the Ministry of Environmental Protection issued a consultation document, the *Guide to Environmental Information Disclosure of Listed Companies*. The new proposal requires that listed companies should publish annual environmental reports. The Ministry of Environmental Protection and the China Securities Regulatory Commission launched the Green Securities Policy in 2008.

According to KPMG's China Boardroom Update of April 2009, various corporate social responsibility (CSR) guidelines have been issued by different government bodies, including:

- The China Assets Supervision and Administration Commission's CSR guidelines for state-owned enterprises in Spring 2008;
- The Ministry of Commerce guidelines on CSR compliance by foreign invested enterprises;
- The Shenzhen Stock Exchange guidance on CSR for listed companies released in 2006;
- The Shanghai Stock Exchange two documents – Notice on Strengthening Listed Companies' Assumption of Social Responsibility and Guidelines on Environmental Information Disclosure by Listed Companies, both issued in 2008.

⁴⁴ Ontario Securities Commission (2008). OSC Staff Notice 51-716 Environmental Reporting.

Banking and financial institutions have also issued guidance to promote sustainable development, including:

- China's National Pension Fund, which includes responsible investment as a core principle;
- China's Banking Association, which released CSR guidelines for financial institutions in January 2009.

GHG emissions disclosure

With various partners, the World Resources Institute and the World Business Council for Sustainable Development promote the China GHG Protocol focusing on three areas:

- (a) Developing GHG Protocol standards and tools for China, including sector-specific and cross-sector standards and tools;
- (b) Building GHG quantification, accounting and reporting capacity in China;
- (c) Assisting development of GHG management programmes in China.

Corporate response

The Carbon Disclosure Project's *Report 2010 China 100* states that, among the 100 largest Chinese companies (based on market capitalization), 71 release CSR reports, among which 29 per cent include explicit disclosures on climate change and 60 per cent provide quantitative information related to GHG emissions, ranging from energy consumption to GHG emissions reduction and carbon trading. However, only a few disclosed total CO₂ emissions, and none of those reports included information about the emissions accounting methodology used or whether the emissions data underwent third party verification.

Denmark

Disclosure overview

Denmark was the first country to introduce legislation on mandatory environmental accounting. From July 1995 the Danish Environmental Protection Act required about 1,000 Danish companies to produce so-called "green accounts" detailing raw material usage and waste production. The law has been updated and strengthened since.

In 2009, the Danish Commerce and Companies Agency published *Reporting on Corporate Social Responsibility – an Introduction for Supervisory and Executive Boards*. This publication sets out requirements under amendments to the Danish Financial Statements Act for about 1,100 of the largest Danish businesses to report their work on corporate social responsibility in their annual reports. Article 99a of the Danish Financial Statements Act, which adopted Act no 1403 of 27 December 2008, requires companies to report on environmental and intellectual capital and on CSR policies in the management's review, with effect from 1 January 2009. The Act defines corporate social responsibility as the way that businesses "voluntarily include considerations for human rights, societal, environmental and climate conditions as well as combating corruption in their business strategies and corporate activities". It is not compulsory for businesses to engage in CSR activities, but it is mandatory for companies to disclose

whether they have a CSR policy.⁴⁵ No particular standard is endorsed for compliance with requirements under the Financial Statements Act. However, businesses that have endorsed the United Nations Global Compact and publish a Communication on Progress are exempted from the requirement to report in their annual report.

GHG emissions disclosure

The European Union Emissions Trading Scheme applies to Danish companies.

Corporate response

The Danish Government⁴⁶ reports that 7 out of 10 businesses work on CSR and regard it as an important element in their business, but that only 26 per cent of businesses communicate their work on CSR. A survey of businesses' implementation of the requirement to report on CSR in 2009 annual reports was published by the Danish Commerce and Companies Agency, the Institute of State-Authorized Public Accountants in Denmark, and Copenhagen Business School. The report, entitled Corporate Social Responsibility and Reporting in Denmark, found that 97 per cent of companies comply with the requirement to varying degrees and only 9 per cent state that they do not work on CSR.

European Union

Disclosure overview

The Modernization of Accounting Directive 2003/51/EC (EUAMD) (which amends the European Union 4th and 7th Company Law Directives) requires certain companies to include a balanced and comprehensive analysis of the development and performance of their business in the director's report including both financial and, where appropriate, non-financial key performance indicators (KPIs) relevant to the business and information on environmental matters.

A 2008 report by the Federation of European Accounting Experts⁴⁷ indicates that twenty-one states have implemented the EUAMD requirements on environmental reporting into national law and/or guidance. The report highlights a variety of rules and guidance that have been introduced by member states to support EUAMD requirements including:

- (a) Guidance and KPIs for compliance with EUAMD (for example, Austria and the Netherlands);
- (b) Examples of best practice (for example, Germany);
- (c) Assurance standards/guidance (for example, Germany, Italy, the Netherlands);
- (d) Legislation (for example, France, Sweden).

The results of the European Union's public consultation on disclosure of non-financial information by companies were published in April 2011. The consultation

⁴⁵ See <http://www.csrgov.dk/> (accessed 20 February 2013).

⁴⁶ *Reporting on corporate social responsibility – an introduction for supervisory and executive boards*. Available at http://www.csrgov.dk/graphics/publikationer/CSR/Reporting_CSR_L5_UK_05.pdf (accessed 20 February 2013).

⁴⁷ Federation of European Accountants (2008), *Sustainability information in annual reports*. Available at http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/files/surveys_and_reports/fee-sustainability_information_in_annual_reports_en.pdf (accessed 20 February 2013).

broadly concluded that current legal regimes differ significantly, giving rise to lack of balance and cohesion by reporting companies. Support for integrated reporting was evident from the consultation and was suggested as a means of improving disclosure without imposing unreasonable administrative burdens on companies.

Various European Union directives directly or indirectly impact action and disclosure on climate change, including:

- (a) Directive 2004/53/EC on environmental liability, which has introduced the “polluter pays” principle for damage caused to water and land as well as to protected species and their habitat;
- (b) The Energy Services Directive;
- (c) The Transparency Directive;
- (d) The Industrial Emissions Directive, which entered into force in January 2011 and consolidates seven existing directives related to industrial installations; this Directive requires certain facilities within the industrial and energy sectors to comply with stricter emissions limits by 2016.

GHG emissions disclosure

The European Union Emissions Trading Directive 2003/87/EC, came into force in January 2005. Amendments to the Directive were agreed in April 2009 (2009/29/EC), which will come into effect after 2012.⁴⁸ The 2003 Directive is supplemented by Directive 2007/589/EC which establishes rules for the monitoring and reporting of GHG emissions under the European Union Emissions Trading Scheme (ETS) as provided for by Article 14 of the 2003 Directive.

Corporate response

The Federation of European Accountant’s 2008 report surveyed 76 European Union companies identified as being engaged in good disclosure practices. It concluded that environment was one of the most prevalent reporting subjects, but that there were large differences in the provision of non-financial information possibly attributable to differences in business culture, other legislation and local awareness of sustainability issues.

France

Disclosure overview

France’s Grenelle II (Law No. 2010-788 of 12 July 2010) has been described as a “legislative marathon”, implementing new ecological governance processes and laying the foundations for more sustainable manufacturing and consumption. Article 116 of the New Economic Regulations - Law No. 2001-420 contains the obligation for listed companies to include in their annual reports a section on social and environmental consequences of their activities. Article 83 of Grenelle II extends this by providing for the scope of the French Commercial Code (Article L.225-102-1) to be extended so that non-listed companies also have to include social and environmental data in their annual reports. Companies affected are those that employ more than 500 people and whose balance sheet exceeds certain financial limits.

⁴⁸ European Parliament (2009), Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009, amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community. See <http://ec.europa.eu/> (accessed 20 February 2013).

Article 85 of the Grenelle II law requires companies to provide customers with some specific information on the carbon footprint of certain products, packaging and transportation services. Article 85 refers to the GHG emissions pertaining to the whole product life cycle of consumer goods. The carbon cost and other environmental impacts of consumer goods must be displayed as from 1 July 2011.

Grenelle II also requires companies to have social and environmental information verified by a third party in cases where it must be supplied to shareholders. In addition, fund managers will be required to show in documents prepared for subscribers how environmental, social and governance criteria have been taken into account.

GHG emissions disclosure

Companies within scope of the Grenelle II rules will be obliged to establish a greenhouse gas balance sheet before 31 December 2012. Ademe, the French environment and energy management agency, produces Bilan Carbone, a GHG emissions assessment tool widely used in France.

Corporate response

A 2004 joint report by the Study Centre for Corporate Social Responsibility (Observatoire de la Responsabilité Sociétale des Entreprises), Enterprise for the Environment (Entreprises pour L'Environnement) and Orée on the application of the New Economic Regulations concluded that, despite certain imperfections, the law has acted as an impulse for non-financial reporting.⁴⁹

India

Disclosure overview

The Ministry of Corporate Affairs issued the Corporate Social Responsibility Voluntary Guidelines 2009. The core elements include respect for environment, and provide that “companies should take measures to check and prevent pollution; recycle, manage and reduce waste; should manage natural resources in a sustainable manner and ensure optimal use of resources like land and water; should proactively respond to the challenges of climate change by adopting cleaner production methods, promoting efficient use of energy and environment friendly technologies”. The implementation guidance states that companies “should disseminate information on CSR policy, activities and progress in a structured manner to all their stakeholders and the public at large through their website, annual reports and other communication media”.

GHG emissions disclosure

In 2008, the India GHG Inventory Programme was launched to establish a national model of emissions accounting. The Programme was established by the World Resources Institute in partnership with the Confederation of Indian Industry and the United States Environmental Protection Agency. The Programme is based on the GHG Protocol

⁴⁹ Entreprises pour L'Environnement, Oree and Observatoire de la Responsibilite Sociétale des Entreprises (2004), Assignment report submitted to the government: Critical review of how companies are applying French legislation on social and environmental reporting. See http://www.orse.org/_rapport_remis_au_gouvernement_sur_le_bilan_critique_de_la_loi_nre-52-18.html (accessed 23 January 2013).

Initiative developed by the World Resources Institute and the World Business Council on Sustainable Development.

In June 2010, the Government of India's Ministry of Environment and Forests published *India: Taking On Climate Change Post-Copenhagen Domestic Actions*. The measures announced therein include a carbon tax on coal to fund clean energy. These tax provisions may necessitate some GHG measurement and reporting rules.

Corporate response

Over a quarter of the top 200 Indian companies by market capitalization responded to the Carbon Disclosure Project's 2010 information request. The subsequent report concludes that climate change has become an important topic for the Indian corporate sector, with the majority of respondents having put in place or assigned senior-level staff to develop their climate change strategy. Sixty-eight per cent advocate policy engagement with the government, regulatory bodies and policymakers responsible for responses to climate change.

For more general information, a joint 2008 publication by the Confederation of Indian Industry Centre of Excellence for Sustainable Development and the World Wildlife Fund entitled *Indian Companies with Solutions that the World Needs – Sustainability as a Driver for Innovation and Profit* includes five in-depth case studies reflecting the way in which Indian companies are responding to economic, social, environmental and governance issues.

Japan

Disclosure overview

The Government of Japan has not issued guidance on the disclosure of climate change-related information in the annual filings of companies.⁵⁰ The Japanese Institute of Certified Public Accountants (JICPA) has published a recommendation on climate disclosure in annual filings which includes objectives of disclosure, qualitative characteristics of information, contents to be disclosed and boundary and presentation. JICPA has also issued questions and answers on the disclosure of climate change-related information as guidance to supplement the recommendation.

GHG emissions disclosure

Mandatory GHG emission reporting rules are in place under the Act on Promotion of Global Warming Countermeasures (applicable from April 2006) and the Act on Rational Use of Energy/Energy Saving Law (from 2009). Accompanying guidance is provided in the *Calculation and Reporting Manual*. A manual for calculating and reporting GHG emissions was released by the Japanese Ministry of Environment in November 2006 and the same ministry issued Environmental Reporting Guidelines in 2007.

The Japanese Voluntary Emission Trading Scheme commenced in 2005 as a voluntary carbon trading scheme designed to build know-how and experience of GHG

⁵⁰ The Financial Instruments and Exchange Act requires listed companies and the equivalent to issue annual filings. The Cabinet Office Ordinance Concerning Disclosure of Corporate Information prescribes rules on information to be included in the securities report, but there is no explicit requirement for environmental information. The Ordinance requires companies to disclose relevant sections "Issues to be addressed", "Business risk", "Analysis of financial condition and performance" and "Research and development".

emissions measurement and trading. With effect from 2009, the Scheme is to be incorporated into the Experimental Emission Trading Scheme for companies without a sector-specific voluntary action plan (domestic integrated market). Various IT systems have been introduced to support the operation of these trading schemes, including a registry, emissions management and trade-matching system. The monitoring and reporting guidelines are based on the European Union ETS and ISO 14064-1.

The Tokyo Metropolitan Government ETS is the first mandatory cap-and-trade ETS in Japan, the first phase running from 2010–2014.

Corporate response

Of the top 500 companies in Japan in terms of market capitalization, 218 responded to the Carbon Disclosure Project's 2010 information request, including 80 per cent of the top 50 companies. The Carbon Disclosure Project's 2010 report for Japan identifies particularly high recognition amongst Japanese companies of risks and opportunities associated with climate change, both domestically and overseas.

JICPA's May 2007 Management Advisory Service and Research Committee Research Report No. 33 publishes findings from their review of disclosures of 26 companies in the electric power, steel and automobile industries.⁵¹ The report concludes that there were relatively few disclosures in securities filings compared with CSR and environmental reports, which have become common among listed companies. Any disclosures were diverse in quality and quantity and appeared mainly in the research and development section of the filing, but in most cases information was limited to a few lines acknowledging global warming as a risk or issue to be addressed.

New Zealand

Disclosure overview

The New Zealand ETS was legislated through the Climate Change Response Act 2002 with effect from September 2008. In December 2009, the Climate Change Response (Moderated Emission Trading) Amendment Act 2009 was passed amending and expanding the ETS in New Zealand.

Singapore

Disclosure overview

On 28 August 2010, the Singapore Exchange issued a Policy Statement on Sustainability Reporting and proposed a guide for listed companies to use in sustainability reporting. The Policy Statement says that environmental, social and governance considerations are important for the long-term performance of companies. No single standard is recommended for reporting but the GRI's Sustainability Reporting Guidelines and the United Nations Global Compact principles are listed as recognized standards for reporting purposes. As at May 2011, sustainability reporting is voluntary; however, the Singapore Exchange has sought feedback on the adoption of mandatory reporting.

⁵¹ JICPA (2007). Disclosure in Japan of investor-oriented information concerning climate-change risk: Current circumstances and issues. Management Advisory Service and Research Committee Research Report No. 33. Available at <http://www.hp.jicpa.or.jp/english/images/0-3-33-2-20070516.pdf> (accessed 20 February 2013).

South Africa

Disclosure overview

One of the stated aims of the new Companies Act 71 of 2008 is to require directors to manage companies on behalf of shareholders but in such a manner that the interests of all stakeholders are considered. The disclosure implications of the new Act are not known at the time of writing but are representative of the trend for companies to take account of the impacts of their activities on all stakeholders.

The updated King Report (King III) was released on 1 September 2009. As of June 2010, all companies listed on the Johannesburg Stock Exchange are required to produce an annual report to integrate the management of financial and non-financial matters, including integrated sustainability reporting. Third party assurance must be obtained for disclosures. Practice notes have been issued to provide guidance into the practical application of King III.

The Draft Code for Responsible Investing by Institutional Investors in South Africa was issued in September 2010. The Code aims to encourage institutional investors and their service providers to put in place measures aimed at ensuring responsible investing, including measures to promote improved climate change-related disclosure. The public comment period ended on 31 October 2010 and a summary of the comments was published on 28 March 2011.

Sweden

Disclosure overview

With effect from 2009, Swedish state-owned companies are required by law to prepare sustainability reports according to GRI guidelines. The Swedish Ministry of Enterprise, Energy and Communications publishes guidelines for external reporting by state owned companies which contain reference to sustainability issues.

United Kingdom

Disclosure overview

The Companies Act 2006, section 417, incorporates into United Kingdom law the provisions on environmental reporting according to the European Union Accounts Modernization Directive. Listed companies (except those qualifying as small companies) are required to report in their business review (equivalent to the management commentary) information on environmental matters and their impacts to the extent necessary for an understanding of the business. Large quoted companies also have to report on environmental risks, policies and KPIs.

In 2006, the Department for Environment, Food and Rural Affairs (DEFRA) issued Reporting Guidelines for United Kingdom Businesses on Environmental Key Performance Indicators (both general and sector specific) for compliance with the business review requirements of the Companies Act.

Two consultations by the Department for Business, Innovation and Skills (BIS) might affect future climate change disclosure expectations in the United Kingdom. The first was a public consultation on narrative reporting which closed in October 2010. Following the publication of the results of the consultation, BIS said that it considers that there is a need for more thorough examination of narrative reporting with a view to streamlining the framework and achieving a significant change in disclosure practice.

Secondly, BIS conducted a consultation on corporate governance and how to encourage a long-term focus for corporate Britain, the results of which were published in March 2011.

The Financial Reporting Council published the United Kingdom Stewardship Code in July 2010 to complement the United Kingdom Corporate Governance Code⁵² for listed companies. Principle four of the seven principles comprising the code states that institutional investors should set out the circumstances in which they will actively intervene so as to protect and enhance shareholder value. “Instances when institutional investors may want to intervene include when they have concerns about the company’s strategy and performance, its governance or its approach to the risks arising from social and environmental matters.”

The United Kingdom Accounting Standards Board’s statement of best practice – Reporting Statement: Operating and Financial Review (RS 1) – recommends that companies identify their principal environmental risks in qualitative terms and the potential impact of those risks on their results.

GHG emissions disclosure

In September 2009, DEFRA, in partnership with the Department for Energy and Climate Change, published *Guidance on How to Measure and Report Your Greenhouse Gas Emissions*. This guidance was issued in compliance with section 83 of the Climate Change Act 2008 which required the Secretary of State to “publish guidance on the measurement or calculation of greenhouse gas emissions to assist the reporting by persons of such emissions from activities for which they are responsible”. The guidance is based on the Greenhouse Gas Protocol.

The Climate Change Act 2008 (section 85) requires the United Kingdom Government, not later than 6 April 2012, either to make regulations under section 416(4) of the Companies Act 2006, requiring directors’ reports to contain certain specific information about GHG emissions, or to lay a report before Parliament explaining why no such regulations have been made. DEFRA commissioned and published research on the contribution that reporting of GHG emissions makes to the United Kingdom meeting its climate change evidence. The research is designed to help inform the United Kingdom Government’s decision on whether to introduce mandatory GHG emissions reporting in the United Kingdom and how to respond to the requirements of section 85 of the Climate Change Act 2008.

On 11 May 2011 the United Kingdom Government launched a public consultation on how to promote widespread and consistent reporting of GHG emissions by companies in the United Kingdom. The consultation elicits views from the public on whether to introduce regulations requiring companies to report on their GHG emissions, as outlined in section 85 of the Climate Change Act, or whether widespread and consistent corporate reporting could be better achieved through other, non-regulatory means. The consultation paper and impact assessment may be found on DEFRA’s website.⁵³

⁵² The Corporate Governance Code replaces the Combined Code for premium listed companies for financial years starting on or after 29 June 2010.

⁵³ Available at www.defra.gov.uk/consult/2011/05/11/ghg-emissions/ (accessed 20 February 2013).

Corporate response

A review of 2006 and 2007 annual reports by the Environment Agency⁵⁴ found that 98 per cent of companies that were reviewed addressed environmental issues in some way but that information was often of a broad narrative nature and did not incorporate KPIs. Only 15 per cent of companies reported quantified data in accordance with DEFRA guidelines. A review by the Accounting Standards Board⁵⁵ of compliance with the requirements of the Companies Act 2006 found that 66 per cent of disclosures on principal risks fell short of expectations, as did 56 per cent of disclosures on trends and factors and 34 per cent of disclosures on corporate social responsibility.

United States

Disclosure overview

The SEC Regulation S-K Items 101 (Description of Business), 103 (Legal Proceedings) and 303 (Managements Discussion and Analysis) require disclosures on the material effect of compliance with environmental laws and pending legal proceedings. Large investor groups and pension funds petitioned the SEC to issue an interpretive release clarifying that material climate-related information must be included in corporate disclosures under existing law. In response, in early 2010, the SEC issued guidance⁵⁶ to public companies regarding the Commission's existing disclosure requirements as they apply to climate-change matters. The guidance went into effect from 8 February 2010.

GHG emissions disclosure

Following a public comment period from April to June 2009, the final Greenhouse Gas Mandatory Reporting Rule was signed by the United States Government on 22 September 2009 and published in the federal register. Under the rule, suppliers of fossil fuels or industrial greenhouse gases, manufacturers of vehicles and engines, and facilities that emit 25,000 metric tons or more per year of GHGs are required to submit annual reports of their GHG emissions to the Environmental Protection Agency. The Mandatory Reporting Rule was made under the Clean Air Act section 307(d) and amends the Code of Federal Regulations (especially 40 CFR Part 98). The purpose of the final GHG Mandatory Reporting Rule is "to shape future climate change policy", and:

- (a) Better understand relative emissions of specific industries, and of individual facilities within those industries;
- (b) Better understand factors that influence GHG emission rates and actions facilities could take to reduce emissions;

Provisions on GHG emissions reporting have also been introduced in many different states of the country.⁵⁷

⁵⁴ Environment Agency (2007). Environmental Disclosure: The Second Major Review of Environmental Reporting in the Annual Report & Accounts of the FTSE All-Share.

⁵⁵ Accounts Standards Board (2009). A Review of Narrative Reporting by UK Listed Companies in 2008/2009. Available at <http://www.frc.org.uk/Our-Work/Publications/ASB/Full-results-of-a-Review-of-Narrative-Reporting-by/Full-results-of-a-Review-of-Narrative-Reporting-by.aspx> (accessed 20 February 2013).

⁵⁶ see www.sec.gov/rules/interp/2010/33-9106.pdf (accessed 20 February 2013).

⁵⁷ For a comprehensive list, see www.pewclimate.org/what_s_being_done/in_the_states/state_legislation.cfm.

Corporate response

A February 2011 report by Ceres reviewed SEC filings for the 2009 financial year and found “an array of climate-change reporting examples ... too many companies fail to address the issue at all”.⁵⁸ The Ceres report refers to an analysis by ISS Corporate Services of the 2009 SEC filings by the 100 largest United States companies. The research found that 51 made reference to climate change in their 2009 10-K filings, 22 discussed climate change opportunities, and 24 addressed physical risks to their assets from climate change.

B. Cross-cutting issues: shared and different characteristics of greenhouse gases measurement and reporting rules

There are a number of issues that cut across climate change-related disclosure provisions in different jurisdictions including how to determine materiality and what organizational boundaries to use for disclosure. One of the main cross-cutting issues involves the measurement, monitoring and reporting of GHG emissions and these issues are explored here. Quantitative measures of GHG emissions provide direct information for the assessment of an organization’s climate change related impacts. However, differences between schemes in different countries can make it difficult to compare results. The main types of differences between schemes include:

(a) Scope, boundaries and coverage

The thresholds and other criteria used for determining whether reporting entities are within the scope of the disclosure scheme range from 3,000 metric tons of carbon dioxide equivalent annual emissions in Japan, to 25,000 metric tons in the United States and 50,000 metric tons in Canada. The European Union ETS sets the threshold for participation by reference to the megawatts of heat excess produced by installations. The Australian National Greenhouse and Energy Reporting Scheme thresholds are phased in over three years and are based on GHG emissions in CO₂ equivalent or energy production or consumption levels, depending also on whether the reporting entity is a controlling corporation in a group of companies.

Generally, once an organization is within the scope of the relevant provisions, those provisions apply to GHG emissions from sources within the jurisdiction concerned, although the United Kingdom guidelines issued by DEFRA encourage voluntary disclosure of GHG emissions from subsidiaries outside the United Kingdom.

(b) Measurement methods

Most schemes allow for a variety of approaches to the preparation of GHG emissions results, including calculation methods based on emission factors, direct measurement methods (such as continuous monitoring equipment) or a combination of calculation and direct measurement methods. Some schemes require particular approaches to be taken by certain industries or facilities. Generally it can be stated for these schemes:

- (i) They require or allow either a calculation-based (by applying a fuel, country, site-specific or default emission factor and/or other coefficient to activity

⁵⁸ Ceres (2011). Disclosing Climate Risks and Opportunities in SEC Filings. Available at www.ceres.org (accessed 20 February 2013).

- data) or a direct-measurement (using continuous emissions technology) approach to the calculation of GHG emissions results;
- (ii) They specify the approach to be used by reference to reporting entity or GHG source type;
- (iii) Where a calculation-based approach is required or encouraged, the regulator or standard setter might also specify rules on the collection of activity data;
- (iv) Where direct measurement is required or encouraged, the regulator or standard setter might also specify rules on the frequency and conditions under which machinery must be recalibrated;
- (v) Generally, GHG emissions results are expressed in metric tons of CO₂ equivalent or a unit that is convertible to metric tons of CO₂ equivalent.

(c) Emission factors

An emission factor is a conversion factor used to relate the quantity of a pollutant released to the atmosphere with an activity associated with the release of that pollutant. Using emission factors, particularly default factors, is generally regarded as cheaper and easier than measuring emissions through direct monitoring. However, various studies, including the United States Environmental Protection Agency's consultation documents on the GHG Mandatory Reporting Rule observe that "default factors mask a high degree of source-specific variability and so can be substantially inaccurate for individual sources and can produce estimates tainted by considerable uncertainty".⁵⁹ Similarly, Environmental Research Management's study for the European Commission identified inconsistency of emission factors as the main criticism of the GHG Protocol. Variation in emission factor values and underlying assumptions is therefore often cited as one of the reasons for lack of consistency in the preparation of GHG emissions results.

(d) Quality assurance and verification of results

Like GHG reporting schemes themselves, assurance and verification practices are under development. There is variation between greenhouse gas reporting schemes in relation to the quality assurance, verification and control provisions they specify. Some of the mandatory schemes, for example the United States Mandatory Reporting Rule, rely on self-certification of data, others rely on selected audits to check quality but few, apart from the European Union ETS, require third party verification of data.

Various voluntary standards exist for conducting verification and assurance activities on GHG results including:

- (i) AccountAbility's AA 1000 assurance standard;
- (ii) International Standard on Assurance Engagements 3000;
- (iii) The International Organization for Standardization's ISO 14064-3:2006.

On 11 January 2011 the International Auditing and Assurance Standards Board (IAASB) issued for consultation a proposed new International Standard on Assurance Engagements on Greenhouse Gas Statements (ISAE 3410).

⁵⁹ United States Environmental Protection Agency (2009), *General Monitoring Approach, the Need for Detailed Reporting and other General Rationale Comments*. Available at <http://www.epa.gov/ghgreporting/documents/pdf/2009/Volume3-GeneralMonitoringApproach-FINAL.pdf> (accessed 20 February 2013).

(e) Disclosure procedures

Increasingly, national schemes require annual disclosures to be made through online or electronic reporting mechanisms. The electronic reporting tool used in the United States is known as e-GGRT (electronic GHG reporting tool) and the Australian equivalent is known as OSCAR (the online system for comprehensive activity reporting). The European Commission publishes electronic templates for the preparation of monitoring reports under the European Union ETS and is in the process of developing an XML scheme for harmonized electronic reporting within the European Union. Reporting years and deadlines vary between the schemes.

There is a broadly common infrastructure for preparing GHG emissions results. For example, where calculation methods are required or allowed, the applicable formulae and coefficients are generally consistent. Improved specificity and prescription, together with accepted verification/assurance practices, would go some way towards minimizing such differences, as would greater linking of existing schemes.

Some regulators are working towards linking and harmonizing arrangements at federal or regional levels. For example, the One Window System in Canada seeks to provide a common reporting platform for Canadian state and federal GHG emissions reporting schemes. Similarly, the United States Environmental Protection Agency is conducting an exercise to streamline state schemes, for example the Californian Air Resources Board legislation, with the Federal Mandatory Reporting Rule. Furthermore, the Australian state and territory governments have agreed to a standard national approach to GHG reporting known as the National Greenhouse Gas and Energy Reporting Streamlining Protocol.

Conclusions

The information in this chapter has provided a non-exhaustive overview of the profusion of activity on climate change-related and sustainability disclosure around the world. The findings regarding the scope and scale of activity further corroborate previous research, such as Environmental Research Management's 2010 review for the European Commission Directorate-General Environment, which identified a total of 30 "major" schemes just focused on GHG emissions reporting, and also the GRI's 2010 "Carrots and Sticks" report (*Carrots and Sticks: Promoting Transparency and Sustainability*). The latter revealed the following:

- (a) In 30 countries, a total of 142 country provisions with some form of sustainability-related reporting requirement or guidance;
- (b) About two thirds of those provisions can be classified as mandatory;
- (c) A total of 16 provisions provide for some form of reporting requirement at the global and regional level;
- (d) Fourteen assurance standards are in place to support reporting under these standards and laws.

This review shows that provisions relevant to climate change-related disclosure can take a variety of forms and serve a variety of objectives, including provisions on:

- (a) Disclosure of risk;
- (b) GHG emissions measurement;
- (c) Investor duties in relation to environmental, social and governance considerations;
- (d) Governance of potential climate impacts.

Taxes

Although not covered in detail in this chapter, carbon taxes are already in place, or are under consideration, in a number of countries. In the United Kingdom for example, the Climate Change Levy is a tax on business energy use, which applies to 54 sectors. South Africa's National Treasury has proposed a carbon tax; the public consultation ended on 28 February 2011. On the basis that effective taxation can be served by robust measurement of GHG emissions, the associated rules are relevant in assessing the overall landscape of climate change-related disclosure.

Greenhouse gases emissions trading schemes

A 2010 report by the International Energy Agency notes that ETSs are already operating or planned around the world with mandatory schemes in the European Union, Norway, Switzerland, New Zealand, Alberta (Canada), New South Wales (Australia), the United States (Regional Greenhouse Gas Initiative), Tokyo and the United Kingdom (Carbon Reduction Commitment Scheme). The Western Climate Initiative links trading arrangements in United States states and Canadian provinces. Voluntary arrangements are in place or have been proposed in Australia, the Republic of Korea, Japan, Brazil and China.

The variety of disclosure provisions around the world reflects the ongoing debate about the relative effectiveness of voluntary versus mandatory approaches, principles versus rules, hard law versus soft law and flexible, decentralized regimes versus multilateral binding arrangements. Some of the provisions rely on “apply or explain” or “comply or explain” approaches. However, as noted by a European Commission paper on transparency and disclosure, “the debate is no longer centred on the issues of mandatory requirements versus voluntary initiatives...the key focus has moved on...to how the variety of approaches that have been adopted can be harmonized”.⁶⁰

Regulatory and voluntary developments at state, national and global level are already requiring or providing for climate change-related disclosures to be made. Some of the infrastructure is already in place or is developing fast to ensure that essential information reaches policymakers and markets. The availability of high-quality standards, the common features they share, the influence of established financial reporting practices and the influence of investors all provide a solid foundation for climate change-related disclosure to develop as a discipline and achieve greater standardization and harmony over time.

Comparisons are sometimes made between the current state of national/regional climate disclosure requirements and the network of local GAAPs applied for the purposes of preparing financial statements prior to the IASB's project to converge national approaches and develop IFRS. Prior to the convergence projects, national GAAPs were designed to serve similar objectives and contained similar information content requirements in the same way that current climate reporting approaches do. However, inconsistencies between national approaches made it difficult for investors and others to interpret and use financial information. By supporting the development of international standards for financial reporting, the IFRS convergence projects were designed to make investment and financial reporting more efficient. Links between

⁶⁰ Source: European Commission Multistakeholder Forum (2010), notes from Transparency, Disclosure and Reporting parallel session.

economic and climate change-related stability have led to calls⁶¹ for environmental regulators and international accounting standard setters to develop universally applicable climate change reporting standards following the financial reporting model with its established standard-setting process and with which business and markets are already familiar.

Promoting consistency between national approaches on climate change-related reporting will require increased cooperation at an international level. In this regard, ISAR should continue to serve as a forum for consensus building.

During the discussions at the twenty-eighth session of ISAR, the following issues were addressed:

- The overview of recent research in this area and updates from leading organizations in the field were discussed, which demonstrated that while many national regulations and international guidelines existed to promote climate change-related disclosure, there was a lack of consistency between approaches;
- The importance of integrated reporting, particularly the effort to get financial and non-financial data to interact to produce new information about company performance;
- Climate change-related disclosure could benefit from being integrated within existing corporate reports, to facilitate analysis of the relationship between financial and environmental performance;
- The role of stock exchanges in promoting sustainability reporting was highlighted together with need for nationally based reporting indicating the performance of subsidiaries of transnational corporations;
- Outreach to universities was stressed by several delegates as an important means of educating the next generation of financial analysts and accountants on environmental and integrated reporting;
- For corporate reporting on this subject to be consistent and comparable around the world, greater international cooperation is needed to promote a harmonized approach.

⁶¹ For example, ACCA's position paper on the United Nations Climate Change Conference in Copenhagen in 2009.

Chapter IV

Corporate governance disclosure: selected practices⁶²

Introduction

The ISAR has been working in the area of corporate governance since 1989 (ISAR, 1989, Conclusions on disclosure requirements concerning the annual report of the board of directors, E/C.10/AC.3/1989/6). Since the twenty-first session of ISAR in 2004, the Group of Experts has welcomed a series of annual reviews and individual country case studies presented at subsequent ISAR sessions. These annual reviews examined corporate governance disclosure practices around the world, with a special focus on emerging markets. The studies were facilitated by the development of UNCTAD's ISAR benchmark of good practices in corporate governance disclosure. This benchmark consists of over fifty individual disclosure items and is based on the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* (UNCTAD/ITE/TEB/2006/3). That publication was the outcome of ISAR deliberations, particularly those of the twenty-second session. At the twenty-seventh session, the Group of Experts requested that UNCTAD continue to facilitate the production of such studies in partnership with local institutions and with a focus on providing practical information to policymakers, investors and other stakeholders.

This chapter contains two corporate governance studies that are a product of UNCTAD technical cooperation with local institutions. The first study examines corporate governance disclosure practices in the Russian Federation, and the second examines practices in Trinidad and Tobago. Both studies contain a review of recent developments related to institutional and regulatory arrangements affecting corporate governance disclosure. Studies are based on the UNCTAD publication mentioned in the preceding paragraph. They conclude with a statistical analysis of actual practices in each country. The studies provide practical information to policymakers and other stakeholders about the current state of corporate governance disclosure in their countries, and areas that may warrant further capacity building.

A. The Russian Federation

This first case study of corporate governance disclosure in the Russian Federation⁶³ utilizes the ISAR benchmark and the general methodology designed by UNCTAD and employed in previous corporate governance country case studies and annual reviews.⁶⁴

The objectives of the study are to:

⁶² This chapter is based on related papers provided to the twenty-eighth session of ISAR and discussions that followed.

⁶³ The case study was produced under the overall direction of Mr. Igor Belikov, Director of the Russian Institute of Directors (RID), based on data and analysis collected by the RID. The RID wishes to thank the UNCTAD secretariat for their assistance in producing this document, which included editorial comments, methodological guidance, and statistical analysis.

⁶⁴ See for example the 2009 *Review of the Implementation Status of Corporate Governance Disclosures: Case Study Pakistan* (TD/B/C.II/ISAR/CRP.5), available at www.unctad.org/isar.

- Provide a brief overview of key developments in the Russian Federation related to corporate governance disclosure;
- Present and analyse the results of the review of corporate disclosure practices among the country's leading enterprises.

The overview of recent developments is provided in section 1, which also examines the statutory framework in the Russian Federation related to corporate governance and rules and regulations affecting corporate practices. Section 2 presents and analyses the results of the review, looking in detail at disclosure rates for each item in the ISAR benchmark.

The findings of this study show that the average Russian enterprise discloses more than two thirds of the items in the ISAR benchmark. Twenty-two of the items in the ISAR benchmark were disclosed by 90 per cent or more of the enterprises in the study, with 11 of the items disclosed by all of the companies. A number of items in the ISAR benchmark were also subject to low rates of disclosure, with seven items disclosed by less than 20 per cent of the companies in the study. The absolute number of disclosure items found for each company ranged from 23 to 46.

The study concludes that while the sample has relatively high rates of disclosure for some topics, with most companies meeting most of the disclosure requirements of Russian law, many companies do not meet the disclosure recommendations embodied in the Russian Corporate Governance Code. Policy options discussed include incorporating into regulations a format for reporting compliance with the Code. Other options include strengthening the capacity building and training activities targeted at directors to raise awareness about disclosure obligations and build the technical capacities necessary for producing high quality corporate governance disclosure.

1. Overview of developments in corporate governance disclosure

This section provides a brief overview of the current legal and regulatory framework for corporate governance in Russia, particularly for information disclosure, as well as a brief description of reforms aimed at improving corporate governance and disclosure practices in Russian companies.

The history of legal regulation of corporate relations in Russia dates back to reforms associated with the transition to new economic realities in the early 1990s. Privatization was accompanied by extremely large increases in the number of shareholders and expectations that many owners would appear as a continuous important driver of economic development and rapid emergence of an effective securities market. By the second half of the 1990s, assets were concentrated in the largest closely-held companies; this concentration had been attained by methods that were not always legal. The 1995 Federal Law On Joint-Stock Companies was viewed as a very progressive piece of legislation. Over the past 15 years, the Russian Government has been making efforts at improving the regulatory framework for corporate governance.

(a) Overview of the legal and regulatory framework

The main corporate governance requirements are set in the federal laws and regulations that are issued by the securities market regulator – prior to 2004 this was the Federal Commission for the Securities Market (FCSM), subsequently renamed as the Federal Service for the Financial Markets (FSFM). These include, in particular:

- (i) The Federal Law On Joint-Stock Companies (the “JSC Law”) of 26 December 1995 N 208-FZ (as amended on 28 December 2010) is one of the fundamental laws in the Russian Federation which regulates the activities and legal status of joint-stock companies and associated legal relations;
- (ii) The Federal Law On Securities Markets of 22 April 1996 N 39-FZ (as amended on 7 February 2011) is a comprehensive legal act which regulates the securities market in general and its segments;
- (iii) The Federal Law On Prevention of Unlawful Use of Insider Information and Market Manipulation and on Amendments to Certain Legislative Acts of the Russian Federation of 27 July 2010 N 224-FZ is the first comprehensive piece of legislation that regulates the use of insider information and market manipulation (primarily the capital market);
- (iv) Some provisions related to corporate governance are included in the Labour Code of the Russian Federation of 30 December 2001 N 197-FZ, Federal Law of 26 October 2002 On Bankruptcy N 127-FZ, and in several other pieces of legislation;
- (v) Regulatory acts issued by the financial market regulator. These include:
 - a. Regulation on Additional Requirements to Procedures for Calling, Preparing and Conducting the General Meeting of Shareholders (approved by the FCSM Resolution of 31 May 2002 N 17/ps);
 - b. Regulation on Disclosure of Information by Issuers of Securities (approved by the FFMS Order of 19 October 2006 N 06-117/pz-n (as amended on 21 January 2011));
 - c. Standards of Securities Issue and Registration of Securities Prospectus (approved by the FFMS Order of 25 January 2007 N 07-4/pz-n (as amended on 20 July 2010));
 - d. Regulation on Organization of Trade on the Securities Market (approved by the FFMS Order of 28 December 2010 N 10-78/pz-n);
- (vi) The Corporate Governance Code drafted by the FCSM (Resolution of 4 April 2002 N 421/r) is a set of rules that are recommended for application by the participants of the securities market and targeted at the protection of investor rights and improvement of other aspects of corporate governance;
- (vii) The Listing Rules of Russian stock exchanges are rules that regulate the admission of securities to trading on the regulated market.

(b) Corporate Governance Code

The basis of corporate governance in the Russian companies was the JSC Law adopted in 1995. Since 1995, a large set of amendments to the Law was adopted, aimed at better protection of minority shareholder rights. The Criminal Code established company managers’ liability for non-disclosure, power abuse and corrupt business practices. The FCSM of Russia adopted a regulation on information disclosure by the issuers of securities, and a regulation on organization of trade on the securities market; this latter regulation tightened requirements for issuers who want their shares to be listed or to enter the regulated securities market.

At the same time, the existing regulatory framework did not address many issues related to corporate governance. The Corporate Governance Code was a tool designed to expand and improve the framework. The Code was drafted and recommended (upon approval of the Government) by the financial market regulator (FCSM resolution of 4 April 2002). It is based on best international practices and includes recommendations on the main components of a company’s governance practices. In particular, it recommends

that independent directors should hold at least 25 per cent of seats in the boardroom, includes a definition of an independent director, and contains recommendations concerning the establishment of board committees and their composition. Some provisions of the Code are included in the listing rules of the Russian stock exchanges the Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System (RTS).

The Corporate Governance Code includes recommendations on the following main components of the corporate governance process:

- (i) General principles of corporate conduct;
- (ii) Annual general meeting (of shareholders);
- (iii) Board of directors;
- (iv) Executive bodies;
- (v) Corporate secretary;
- (vi) Major corporate actions;
- (vii) Information disclosure;
- (viii) Supervision of financial and business operations;
- (ix) Dividend payments;
- (x) Resolution of corporate conflicts.

On 30 April 2003, the FCSM issued Resolution No. 03-849/r recommending the format in accordance with which Russian companies were recommended to disclose information about their compliance or non-compliance with the Code in their annual reports. The format contains 79 points, covering all important recommendations fixed in the Code. In accordance with the resolution, companies should disclose compliance with each of these 79 points or provide explanations of non-compliance. However, the resolution is in the form of a non-binding methodological guidance. The subsequent FCSM Regulation on Disclosure of Information by Issuers of Securities (No. 06-117/pz-n, 19 October 2006) included the obligation of companies to disclose their compliance with the Code but neither referred to the format of such disclosure outlined in Resolution No. 03-849/r nor provided any other format of such disclosure. The stock exchange listing rules included the requirement for companies to disclose their compliance with the Code but did not refer to the format of such disclosure. As the result, companies can disclose information in any form they choose.

Some companies disclose compliance/non-compliance with the Code in accordance with the rather substantial format recommended by the Resolution No. 03-849/r. However, many do not. These latter tend to disclose compliance with the Code in a very unsubstantial way, with some limiting their reporting on Code compliance to a simple sentence: “we comply with the Code”. This does not correspond to the internationally accepted principle of “comply or explain”, wherein voluntary codes are coupled with mandatory, detailed reporting on compliance and non-compliance. As UNCTAD noted in its 2010 review of corporate governance (UNCTAD, 2010), the essence of comply or explain rules is that companies can choose what elements of a voluntary code they comply with, but they must explain what they do.⁶⁵

(c) Procedures for annual general meetings

The JSC Law contains very detailed procedural requirements for preparing and conducting the annual general meeting (AGM) of shareholders. In particular, the law

⁶⁵ For further discussion of models of disclosure and the relationship between comply or explain rules and mandatory reporting rules see the *2010 Review of the Implementation Status of Corporate Governance Disclosures: An Inventory of Disclosure Requirements in 22 Frontier Markets* (TD/B/C.II/ISAR/CRP.9), in particular sections III.B and III.C.

describes issues that fall within exclusive authority of the AGM, decision-making procedures, extraordinary general meetings and general meetings held by absentee voting.

Legislative regulation of general meetings is further developed in several subordinate pieces of legislation, particularly in the Regulation on Additional Requirements to Procedures for Calling, Preparing and Conducting the General Meeting of Shareholders (FCSM Resolution of 31 May 2002 N 17/ps). Among other things, the regulation includes detailed requirements for submitting agenda proposals and making a list of shareholders who are entitled to participate in the AGM, and determines additional information and materials to be made available to shareholders before the AGM; the Regulation also governs the process of conducting the AGM and preparing the resulting documents.

The Corporate Governance Code also contains recommendations on how to prepare and conduct general meetings of shareholders. It details disclosure issues including when to inform shareholders and the scope of information to be disseminated to them.

(d) Information disclosure

The rules that ensure timely and reliable disclosure of all material matters regarding the company activities, its financial situation, performance, ownership structure and governance, are contained in the Law on the Securities Market and apply to the companies that register their prospectuses. In other companies, this information is made available to the shareholders before the AGM or upon their request.

The Federal Law on the Securities Market requires companies to disclose information in a form of a quarterly report, consolidated financial statements, and statements of material facts. Information must be disclosed on the corporate website and through the media. The law also stipulates that the content, procedure and time frames for information disclosure are to be described in regulations issued by the federal executive body responsible for the securities market.

The Regulation on the Disclosure of Information by Issuers of Securities includes the following sets of provisions on disclosure:

- (i) General provisions;
- (ii) Information to be disclosed in the process of securities issuance;
- (iii) Requirements to the preparation and disclosure of quarterly reports and statements of material facts (including reorganization of the issuer, its subsidiaries and affiliates; acquisition of assets entailing a one-time increase/decrease in the value of the company's assets by more than 10 per cent; decisions of general shareholders' meetings; interest that has been accrued and/or paid on the issuer's securities, and the like);
- (iv) Information to be disclosed in the course of a company's business;
- (v) Details of the disclosure process in particular cases.

The Regulation also includes requirements concerning the language in which information is to be disclosed, sources of information, and other requirements to the disclosure procedure.

Information which is mandatory for disclosure in the process of a joint-stock company's operations applies only to open joint-stock companies and to such closed joint-stock companies that made (or are making) public placement of bonds or other securities. It includes a wide range of items: annual report, annual financial statements, charter and other internal documents, information about affiliates, and information which might have a material effect on the value of the company's securities, including important board decisions, termination of office of the single-person and/or collective executive bodies, and the like.

The regulation has a separate section which focuses on the details of information disclosure by foreign issuers, placement and/or trading of securities in the Russian Federation, disclosure by issuers of mortgage-backed bonds and Russian depositary receipts.

In October 2010, amendments were adopted to the Federal Law On the Securities Market with a view to improving transparency on this market. One of the main amendments extends the list of information items about material facts. In addition, rules for the disclosure of capital structure changed substantially: companies are now required to disclose not only the registered owners but also those persons who control, directly or indirectly, at least 5, 10, 15, 20, 25, 30, 50, 75 or 95 per cent of voting shares. Information should also be disclosed about acquisition by a company or its affiliates of their own shares or foreign securities certifying the rights in respect of such shares.

Given the importance of prospectus information for investors, this law requires the board to confirm the accuracy of information disclosed in the prospectus. It also describes the directors' liability for false or inaccurate information.

(e) Listing rules and information disclosure of listed companies

In the Russian Federation, the procedure and rules for listing securities are governed by the Regulation on Organization of Trade on the Securities Market (approved by the Order of 28 December 2010 No. 10-78/pz-n). The main Russian stock exchanges (MICEX and RTS) draft their listing rules in accordance with this regulation. Consequently, listing rules of the Russian exchanges set higher standards for some aspects of corporate governance than the legislative requirements.

In particular, if a company's shares are to be included in the top quotation lists (A1 and A2), listing rules require it to have at least three board members who meet criteria that are consistent with the criteria of independence in the international best practices of corporate governance. In order to be eligible for lower-level quotation lists, a company must have at least one such member on its board. All quotation lists require members of the governing bodies (managing board and board of directors) to disclose their stakes and operations with the issuer's securities. Eligibility for A1 and A2 lists requires a company to have an internal document (approved by the board of directors) that regulates the disclosure of information by this issuer. Furthermore, such a company must have an audit committee and personnel and remuneration committee in the board. Listing rules also provide for stricter requirements for availability of information about internal control structures and audit systems of listed companies.

(f) Financial accounting and audit

Federal law on auditing describes cases where annual audit of a company's accounting and financial reporting is mandatory. In particular, audit is mandatory for open joint-stock companies. The law requires audit to be conducted by a certified independent external auditor. The Federal JSC Law states that the external auditor must be approved by the annual general meeting of shareholders, and its fees are set by the board of directors.

Today, pursuant to the Regulation on the Organization of Trade on the Securities Market, a company listed on the A1 or A2 lists must have audited annual financial statements in accordance with IFRS and/or US GAAP. The company must also make a commitment to maintain these statements and disclose them and the relevant audit report in Russian.

The Federal Law On Consolidated Accounting Statements (dated 27 July 2010, No. 208) requires such statements to be made by listed companies, banks and insurance companies in accordance with IFRS. Annual consolidated financial statements must be sent by the company to its shareholders. This law requires companies to begin making IFRS statements for the year following the year in which IFRS were accepted for application in the Russian Federation. The Regulation on the Acceptance of IFRS and Their Clarification for Application in the Russian Federation was adopted in 2011 (Regulation No. 107 of the Russian Government, dated 25 February 2011). Companies that have listed securities or bonds and make consolidated statements under other accepted international rules must move to IFRS starting with statements for 2015.

(g) Board of directors and independent directors

In accordance with the applicable regulatory framework, the board of directors must play the key role in the corporate governance system of Russian companies. Pursuant to the JSC Law, candidates for the board of directors are nominated by shareholders only, and all directors must be elected by cumulative voting. Executive board members can hold no more than a quarter of the total seats in the board, and the person who acts as the single-person executive body (president, general director) may not serve as chair of the board. The law does not contain requirements on the presence of independent directors in the board; this is required only in the Corporate Governance Code. As was noted above, listing rules require that a few board members (from one to three) must meet certain criteria that are viewed as independence criteria in the international best practices of corporate governance.

A programme is currently underway to implement the initiatives proposed by the Russian President and Government: independent directors are to be elected to the boardrooms of companies where controlling stakes are held by the State. Government Resolution No. 738 dated 31 October 2010 introduced additional independence criteria for the persons nominated by the Government to the boards of such companies. In particular, such persons must not:

- (i) Hold positions in the State civil service of the Russian Federation or be an employee of the Central Bank of the Russian Federation;
- (ii) Be board members (members of the supervisory board) in the company to which they are nominated;

- (iii) Be officers or employees of another joint-stock company in which any of the officers of the company to which the person is nominated is a member of the board's nomination and remuneration committee;
- (iv) Be independent directors in more than three joint-stock companies at a time.

(h) Prohibition of insider trading

Insider trading was first prohibited by the Federal Law On the Securities Market. This law, however, does not contain a clear definition of the term insider, nor does it require prompt disclosure of information about such transactions (it must be disclosed only in the quarterly statements). The legislation was strengthened in 2010 when the Law on Prevention of Unlawful Use of Insider Information and Market Manipulation and on Amendments to Several Legislative Acts of the Russian Federation was passed. This 2010 law establishes a legal mechanism for the suppression of unfair practices on capital markets. It introduces definitions of insider information and “price manipulation on the financial market”; it sets rules concerning the disclosure of insider information, determines the range of insiders, prohibits the use and transfer of such information and recommendations based on it. These prohibitions apply to all persons who possess such information by virtue of being shareholders, or by virtue of the positions they hold/have held or agreements they have made, and to civil servants and Bank of Russia’ officers who possess information that can have an impact on financial market prices. The effectiveness of this law has yet to be tested because some of its articles came into force one year after its official publication (2011), and a few other articles will become effective three years after its publication (2013).

(i) Liability

Liability of a company's board members and members of other governance bodies is governed by the Civil Code of the Russian Federation, the Labour Code of the Russian Federation, the JSC Law and the Federal Law On the Securities Market.

In addition, the 2009 Law on Making Amendments to the Russian Code of Administrative Offences⁶⁶ has strengthened execution of corporate governance-related legislation. In particular, it set administrative liability for violation of shareholder rights when preparing and conducting a general meeting, violation of procedures and time frames for safekeeping of documents, and substantially tightened sanctions for untimely disclosure of material information. The above-mentioned law on insider information established civil, administrative and criminal liability for unlawful use of insider information and market manipulation.

The Russian Government has drafted a bill which is primarily aimed at the comprehensive improvement of rules pertaining to the liability of a company's board members and executives. The bill follows the establishment of similar laws in other countries. The underlying idea is that special fiduciary relations exist between members of the governing body (the board) and the company. The nature of such fiduciary relations is the basis for very specific duties which members of the governing bodies have to the company and its shareholders, including a “duty of care” and a “duty of loyalty”.

⁶⁶ Federal Law No. 9-FZ, dated 9 February 2009, On Making Amendments to the Code of Administrative Offences of the Russian Federation with Respect to Strengthening of Administrative Liability for Violations of the Russian Legislation on Joint-Stock Companies, Limited Liability Companies, Securities Markets and Investment Funds, and to the Federal Law on the Securities Market with Respect to Clarifying the Definition and Details of Price Manipulation in the Securities Market.

In accordance with this concept, the draft law sets the criteria of imprudent and unfair behaviour. The bill aims to establish a framework by which to decide whether and to what extent the company directors and executives properly discharge their duties to the company and its shareholders.

(j) Assessment of disclosure by Russian companies

Until recently, evaluation of information disclosure practices was part of the GAMMA score⁶⁷ assigned by the international rating agency Standard and Poor's. However, in June 2011 Standard and Poor's announced its decision not to assign GAMMA scores anymore. Another assessment project is the National Corporate Governance Rating assigned by the consortium of the Russian Institute of Directors (RID) and the Expert RA rating agency.

In addition, since 2002, Standard and Poor's Governance Service has published an annual transparency and disclosure study which covers 90 Russian companies. According to these reports, the transparency level of the companies studied has been rising over the past years, albeit at a modest rate.

Since 2003, disclosure practices of Russian companies have also been assessed in the annual survey of corporate governance practices by the RID. It covers the 150 largest and most dynamic Russian companies and assesses the following components of the governance practices:

- (i) Implementation of shareholder rights;
- (ii) Governance and control bodies;
- (iii) Disclosure;
- (iv) Corporate social responsibility.

It should be noted that the disclosure component of the RID studies has demonstrated the highest level of development in corporate governance practices relative to other components.

2. Status of implementation of good practices in corporate governance disclosure

(a) Background and methodology

The purpose of this section is to evaluate the level of implementation of good practices in corporate governance disclosure in the Russian Federation. The reader should note that, as in UNCTAD's previous annual reviews and country case studies on this subject, this study is not a measure of the quality of the disclosure of individual items, rather it is a measure of the existence of the selected disclosure items. In some cases, the experts at the RID have highlighted some example companies that they recognize as cases of best practice.

The data for this study was gathered by the RID. The study examines the disclosure practices of a sample of 72 large Russian enterprises (see section (b), below). The disclosure made by these companies was compared with the ISAR benchmark of 51 disclosure items (annex I). This benchmark is based on the recommendations of ISAR

⁶⁷ A GAMMA (governance, accountability, management metrics and analysis) score reflects Standard and Poor's opinion of the relative strength of a company's corporate governance practices. GAMMA is designed for equity investors in emerging markets and is focused on non-financial risk assessment, and in particular, assessment of corporate governance risk.

found in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure*. The 51 disclosure items cover the following five broad categories:

- (i) Financial transparency;
- (ii) Ownership structure and exercise of control rights;
- (iii) Board and management structure and process;
- (iv) Auditing;
- (v) Corporate responsibility and compliance.

The sample used in this study was developed by the RID to reflect a significant cross-section of large listed Russian companies from a range of industries (figure IV.1). The sample includes all 30 members of the MICEX stock index⁶⁸ as well as other large enterprises that are trading on MICEX and make a significant contribution to the country's economy (table IV.1).

MICEX was chosen for this study because it is the leading Russian stock exchange, controlling approximately 98 per cent of the Russian stock exchange market. MICEX trades about 700 Russian issuers daily. Capitalization of MICEX-listed companies amounted to Rub 28 trillion (about \$1 trillion) at year-end 2010.

RID experts proceeded from an assumption that the coverage of only 30 constituents of the MICEX Index would not have reflected the current objective situation in the corporate governance disclosures in Russia. Consequently, they decided to review the practices of 72 companies that are traded on MICEX. These companies are also included in the annual study of corporate governance practices in the Russian companies which RID has been conducting since 2003.

⁶⁸ Price market cap-based composite stock exchange index which includes 30 of the most liquid shares of the largest Russian issuers that operate in the main sectors of the economy and are traded at MICEX.

Figure IV.1. Diverse sample of Russian companies: overview of Russian Institute of Directors' sample by industrial sector

(Number of companies; $\Sigma = 72$)

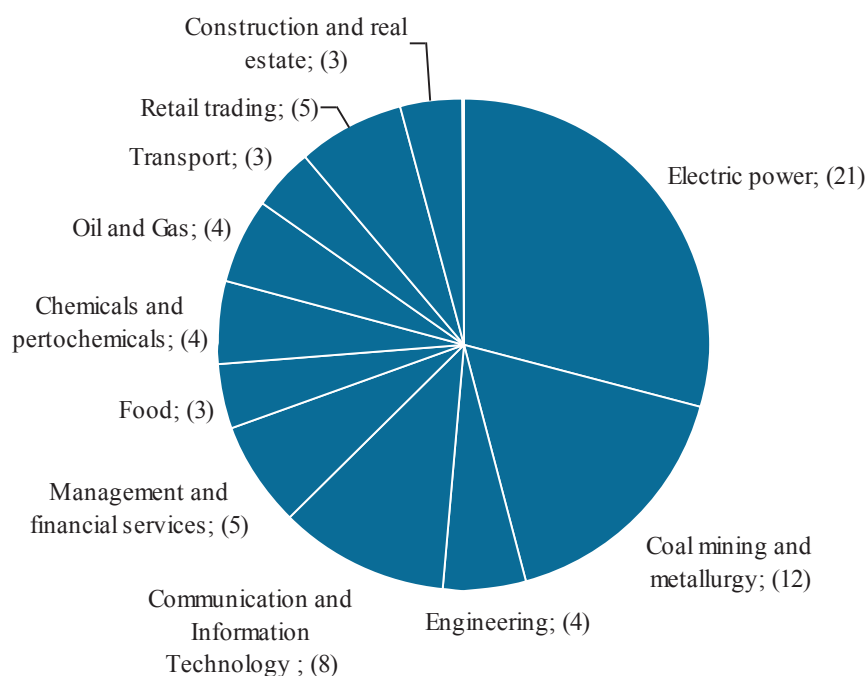


Table IV.1. Economically significant sample of Russian companies: financial overview of the Russian Institute of Directors' sample of 72 Russian companies

(Millions of dollars, 2010 data)

<i>Description</i>	<i>Average</i>	<i>Maximum</i>	<i>Minimum</i>
Sales ^a	6 366	104 956	26
Assets ^a	14 046	284 121	333
Market capitalization ^b	8 287	76 160	170

^a Using 2010 weight average exchange rate, 1 dollar equals 30.3692 Russian roubles.

^b Using 31 December 2010 exchange rate, 1 dollar equals 30.48 Russian roubles

The study was carried out by reviewing the annual reports and other publicly available company disclosures, including quarterly reports, charters and other internal documents, and other publicly available information disclosed on company websites. The data in this report are based primarily on the information available from 2010 reports.

(b) Main findings of the study: overview of all disclosure items

Table IV.2 displays the results of the study within each of the five broad categories discussed in section (a) 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 IV.2. Main findings of the inventory of disclosure practices in the Russian Federation

<i>Disclosure items by category</i>	<i>Percentage of enterprises disclosing this item</i>
Financial transparency	
Financial and operating results	94
Company objectives	94
Nature, type and elements of related-party transactions	93
Critical accounting estimates	92
Impact of alternative accounting decisions	92
Board's responsibilities regarding financial communications	88
Rules and procedures governing extraordinary transactions	85
Decision-making process for approving related-party transactions	67
Ownership structure and exercise of control rights	
Ownership structure	100
Changes in shareholdings	100
Control rights	100
Control and corresponding equity stake	100
Process for holding annual general meetings	100
Availability and accessibility of meeting agenda	93
Control structure	81
Rules and procedures governing the acquisition of corporate control in capital markets	33
Anti-takeover measures	6
Board and management structure and process	

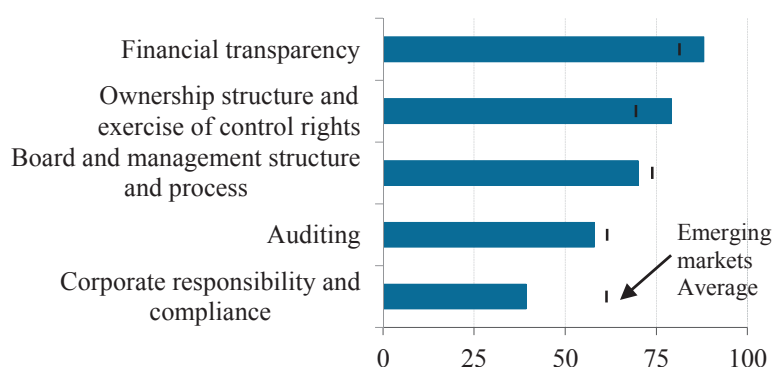
<i>Disclosure items by category</i>	<i>Percentage of enterprises disclosing this item</i>
Composition and function of governance structures	100
Composition of the board of directors	100
Role and functions of the board of directors	100
Qualifications and biographical information on board members	100
Duration of directors' contracts	100
Checks and balances mechanisms	99
Types and number of outside board and management positions	96
Independence of the board of directors	94
Material interests of senior executives and board members	88
Availability of advisorship facility for board members or board committees	74
Existence of procedures for addressing conflicts of interest among board members	69
Determination and composition of directors' remuneration	65
Risk management objectives, system and activities	57
Governance structures, such as committees and other mechanisms to prevent conflicts of interest	51
Existence of succession plan for senior executives and board members	31
Performance evaluation process for board members	22
Professional development and training activities for board members	14
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	0
Auditing	
Process for appointment of external auditors	100
Scope of work and responsibilities for internal auditors	96
Internal control systems	86
Process for interaction with internal auditors	85
Process for interaction with external auditors	81
Duration of current external auditors	47
External auditors' involvement in non-audit work and fees paid to auditors	21

<i>Disclosure items by category</i>	<i>Percentage of enterprises disclosing this item</i>
Rotation of external auditors	6
Board confidence in the independence and integrity of external auditors	1
Corporate responsibility and compliance	
Policy and performance in connection with environmental and social responsibility	90
Mechanisms protecting the rights of other stakeholders	71
Impact of environmental and social responsibility policies on sustainable development	44
A code of ethics for company employees	31
A code of ethics for the board and waivers to the ethics code	22
Policy on "whistle-blower" protection	17
Existence of employee-elected director(s) on the board	0

General overview

Eleven of the items in the ISAR benchmark were disclosed by all of the companies in the study, and 22 of the items were disclosed by at least 90 per cent of the companies in the study. Fifteen items were disclosed by less than half the companies in the study. The highest average rate of disclosure among the Russian companies covered is in the category of “financial transparency” (88 per cent) and the second highest is in the area “ownership structure and exercise of control rights” (79 per cent). The disclosure rate for both categories exceeds the average for other emerging markets (figure IV.2 below). The three remaining categories had relatively lower rates of disclosure compared with other emerging markets, with the lowest rate being for the category “corporate responsibility and compliance” (39 per cent).

Figure IV.2. Overview of disclosure of Russian companies covered by category and average rate of disclosure for all items in each category; dark vertical bar indicates emerging markets average^a
(Percentage)



Source: UNCTAD (2011), *Corporate Governance Disclosure in Emerging Markets*.

^a Average disclosure practices by category, 188 enterprises from 25 emerging markets.

Compared to other emerging markets, the order of categories in terms of rates of disclosure is nearly the same. The single exception is the category of “ownership structure and exercise of control rights” which among Russian companies is subject to a relatively higher rate of disclosure than the category “board and management structure and process”. This could reflect a prioritization of the subject of ownership structure in the Russian Federation.

These two categories also contain some of the most disclosed items. As noted above, 11 items were disclosed by 100 per cent of the companies in the study. Of these 11, 10 came from the categories of “ownership structure and exercise of control rights” and “board and management structure and process” (with the eleventh coming from the category of auditing) (table IV.3).

Among the bottom ten least disclosed items, these are fairly evenly spilt between several different categories. Two items were not disclosed by any of the companies in the study (table IV.3).

Table IV.3. Most prevalent and least prevalent disclosure items
(Percentage of companies that disclose this item)

<i>Ten most prevalent disclosure items among 72 Russian enterprises</i>	<i>Percentage of companies</i>	<i>Ten least prevalent disclosure items among 72 Russian enterprises</i>	<i>Percentage of companies</i>
Ownership structure	100	Performance evaluation process for board members	22
Changes in shareholdings	100	A code of ethics for the board and waivers to the ethics code	22
Control rights	100	External auditors' involvement in non-audit work and fees paid to auditors	21
Control and corresponding equity stake	100	Policy on whistle-blower protection	17
Process for holding annual general meetings	100	Professional development and training activities for board members	14
Composition and function of governance structures	100	Anti-takeover measures	6
Composition of the board of directors	100	Rotation of external auditors	6
Role and functions of the board of directors	100	Board confidence in the independence and integrity of external auditors	1
Qualifications and biographical information on board members	100	Compensation policy for senior executives departing the firm as a result of a merger or acquisition	0
Duration of directors' contracts	100	Existence of employee-elected director(s) on the board	0

(c) Financial transparency

As noted above, the “financial transparency” component demonstrates the highest average rate of disclosure (88 per cent). Figure IV.3 shows the disclosure level for each item within this category. Despite the high average rate of disclosure, it is noteworthy that none of the items in this category were subject to disclosure rates of 100 per cent; this is unusual as the item “financial and operating results” is typically the subject of universal disclosure.⁶⁹

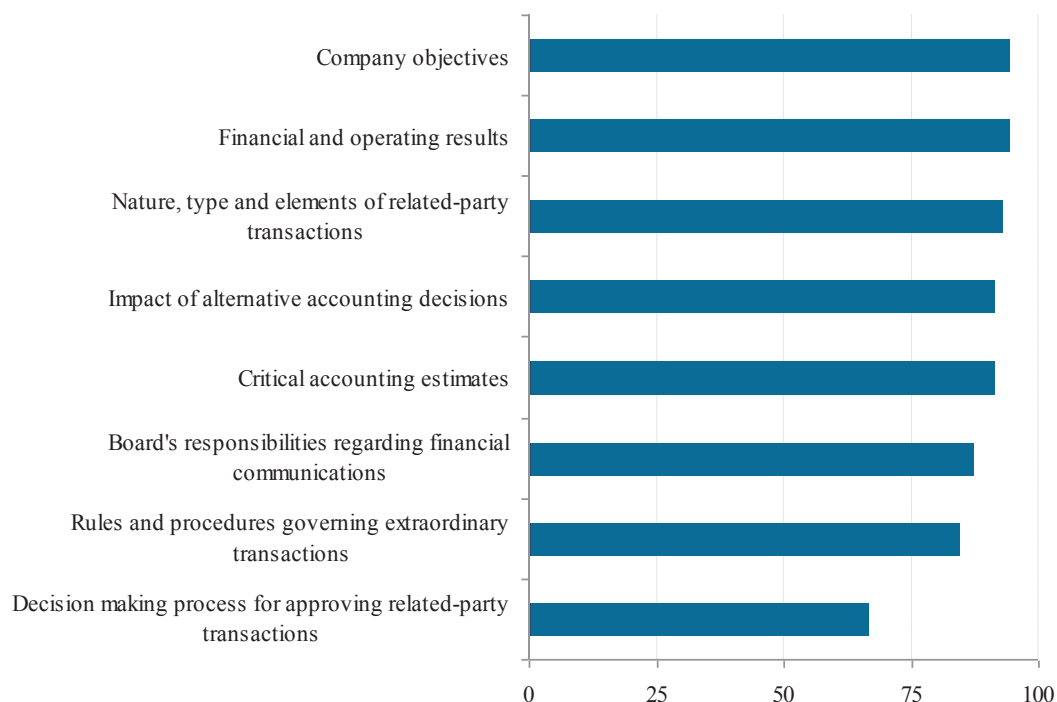
A high rate of disclosure was reported for “rules and procedures governing extraordinary transactions” (85 per cent). Although related issues and procedures are described in relatively good detail in the JSC Law and there is a large special chapter in the Corporate Governance Code, companies often include the respective norms in their charters and in special sections of the Corporate Governance Code that are posted on corporate websites.

The item with the lowest level of disclosure in this category (67 per cent) was “decision making process for approving related-party transactions”. The Russian JSC Law includes a chapter on related-party transactions, with detailed rules about the process of such transactions. Companies often simply make references to the applicable articles of this law, without providing disclosure of how the company complies with these articles, or what company specific process has been put in place. Some of the companies in the study did apply best practice and provided detailed procedures.

⁶⁹ See for example UNCTAD's 2009 (TD/B/C.II/ISAR/CRP.6) and 2008 (TD/B/C.II/ISAR/CRP.1) corporate governance reviews.

According to the RID, the practice of the company Severstal could be given as an example of proper disclosure of this item. Severstal’s corporate website posts an internal document “Regulation on control over related-party transactions” which outlines a detailed procedure of such transactions.

Figure IV.3. Financial transparency
(Percentage of companies that disclose each item)



Information about the critical accounting estimates and alternative (amended) accounting principles is mandatory for inclusion in the companies’ IAS/US GAAP financial statements. As for “board’s responsibilities regarding financial communications”, the respective duties are vested with the board but also with the board’s audit committee. The reason is that one of the audit committee’s objectives is to provide additional assurance of the quality and reliability of financial information which is presented to the board.

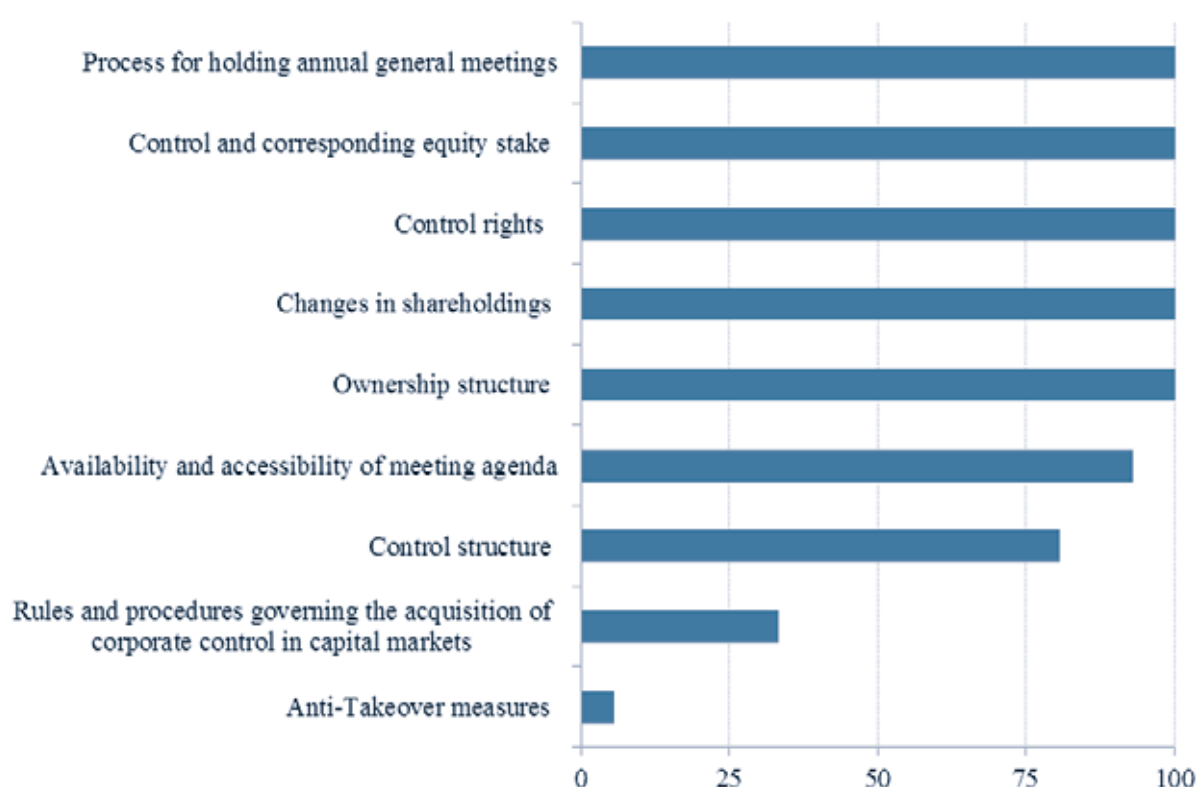
(d) Ownership structure and exercise of control rights

As noted above, this category has one of the highest average rates of disclosure and has five items that are disclosed by 100 per cent of the companies in the study (figure IV.4). Russian companies must disclose information about the structure of their capital, its changes, the rights assigned by shares and mechanisms for acquiring control which is not proportional to a stake (“golden share”) in their quarterly reports that are filed with the regulator and posted on the corporate website. It should be noted, however, that companies very rarely translate their quarterly reports into English, thus making access to the relevant information difficult for foreign investors. At the same time, this information

(albeit fragmentary) could be found in such other sources as annual reports, corporate websites and charters.

It should also be noted that Russian legislation does not require companies to disclose their ultimate beneficiary owners. This may be why many Russian companies do not name their beneficial owners. As a result, shareholders may not have a clear picture of who controls a company. The disclosure level for the item “control structure” is lower than for “ownership structure” because the controlling shareholders that are reported in the ownership structure are not necessarily a company’s ultimate owners. Only 33 per cent of companies disclose information about “rules and procedures governing the acquisition of corporate control in capital markets”. This may be because the JSC Law contains detailed rules on this issue, and companies see no need to describe the respective procedures in their internal documents and reports.

Figure IV.4. Ownership structure and exercise of control rights
(Percentage of companies that disclose each item)



The item “anti-takeover measures” had the lowest disclosure level within this category. As has been noted above, JSC Law has a special chapter about acquisition of 30 per cent or more of the placed common stock. Furthermore, the Russian Corporate Governance Code contains recommendations with respect to takeovers. The practice of disclosing this information has not traditionally been prevalent among Russian companies. An understanding of preventive anti-takeover measures which a company employs, however, can be very important for investors and other stakeholders.

An important element of context is that the free float (that is, the percentage of the company traded on the capital market) of almost all listed Russian companies is less than 30 per cent, and often less than 25 per cent. This is why hostile takeover through acquisition of shares on the open market is not possible. Thus the issue of hostile takeover in the Russian Federation is the subject of very little attention.

According to the RID, the company Rostelecom could be given as an example of good practice with respect to the least-disclosed items in this component. The company publishes information which pertains to limitations on the acquisition of its shares, limitations on the foreign owners' share in its authorized capital, norms and procedures related to the acquisition of more than 30 per cent of its voting shares, and methods for the protection of minorities' interests when 30 per cent or more of its shares are acquired.

(e) Board and management structure and process

Disclosure of items in this, the largest category, is rather varied. Five items are disclosed by 100 per cent of the companies, while one item was not disclosed by any company. Disclosure rates range from 14–96 per cent for other items (figure IV.5).

The disclosure level for “duration of directors’ contracts” is 100 per cent because the JSC Law requires the board to be elected for the period until the next annual meeting, that is, for one year. This duration is usually stated in the companies’ charters and internal documents.

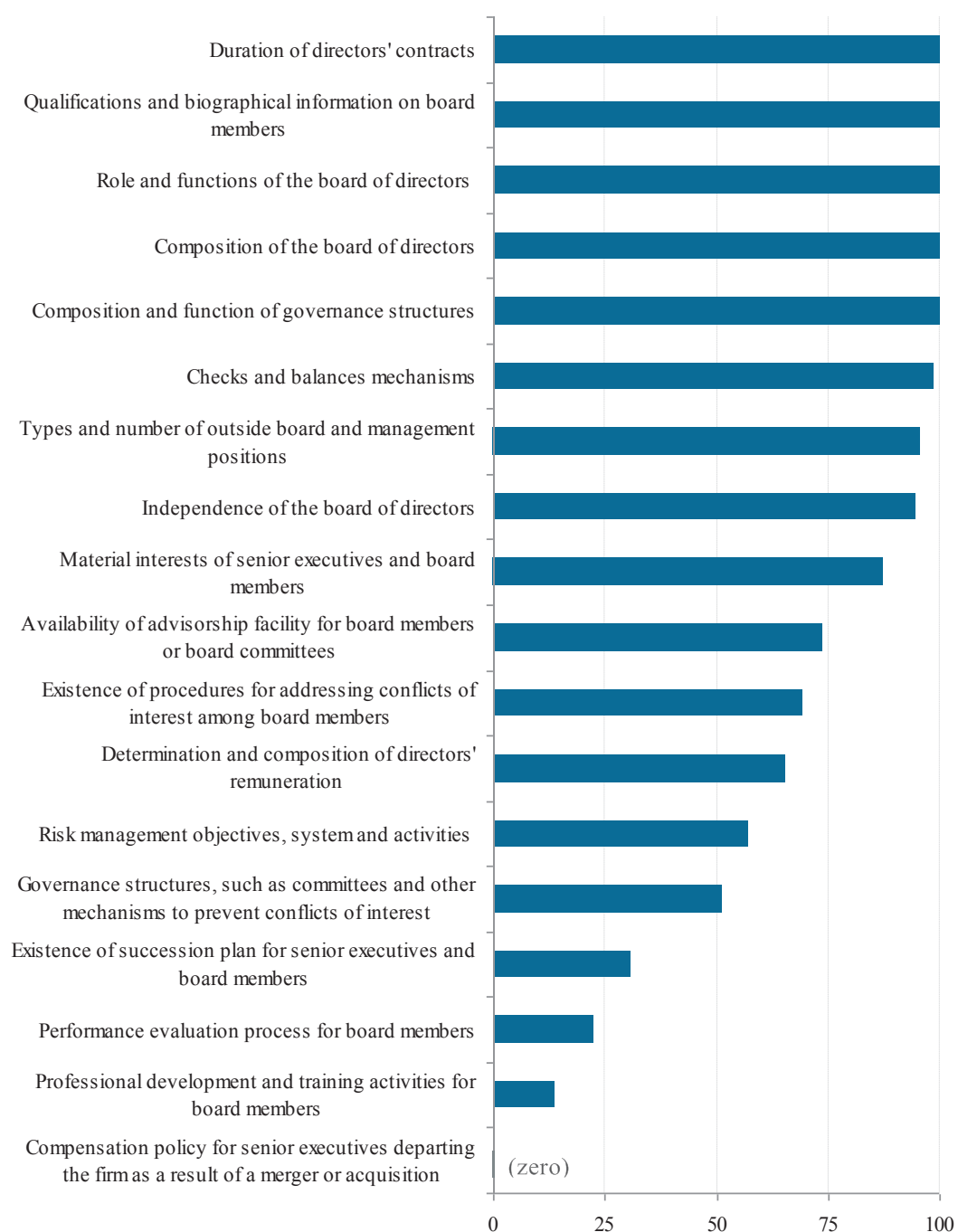
No information is disclosed about “compensation policy for senior executives departing the firm as a result of a merger or acquisition”. Commonly known as golden parachutes, such compensation policies have been used in Russia rather frequently, but information about them is completely absent in the public domain. Russian laws do not require the disclosure of this information. The Russian Corporate Governance Code does not contain recommendations to this effect either. The companies usually disclose the total amount of executive remuneration in their annual reports. As was noted in section (d), the traditional takeover mechanism does not play a marked role in the Russian economy.

Sixty-five per cent of companies disclose the method of calculating director remuneration and its composition. Many companies post regulations on board remuneration on their websites and include this information in annual reports as a mandatory section. Thus, stakeholders can learn whether director remuneration depends on the company’s performance. While disclosing board remuneration, Russian companies usually give the total amount only. Very few companies disclose individual remuneration paid to each member of the board.

JSC Law states that members of the company’s collective executive body (managing board) cannot hold more than a quarter of seats in the boardroom, and the chair of the board cannot act as the single-person executive body (that is, separation of chairman and chief executive officer (CEO)). Furthermore, the Corporate Governance Code recommends that companies have independent directors on their boards. Companies typically disclose relevant provisions in their charters, internal documents and reports; as a result, the disclosure rate for “mechanisms of checks and balances” is one of the highest (99 per cent).

Russian companies demonstrate rather good disclosure of whether their boards include independent directors (94 per cent). Internal documents also state what independence criteria are used (that is, those required by listing rules, the Corporate Governance Code or stronger criteria that are imposed by listing rules from foreign stock exchanges).

Figure IV.5. Board and management structure and process
(Percentage of companies that disclose each item)



More than a half of the companies in this study disclose information about the procedures used for settling the board members' conflicts of interest. In particular, these procedures require the board members to refrain from taking actions that might bring their interests and interests of their affiliates (on the one hand) in conflict with the interests of the company and its affiliates (on the other hand). If such a conflict exists or might arise, the board members must report it to the authorized officer of the company (usually to the corporate secretary). Information about risk management systems is disclosed by 65 per cent of the companies. The companies' main risks are usually described in their annual reports but the appropriate section does not always include information about the risk management system (goals, methods and actions).

Two of the least disclosed items in this category are "performance evaluation process for board members" and "professional development and training activities for board members" (22 per cent and 14 per cent, respectively). While the practices behind these disclosure items are not widely practiced in Russian companies, an increasing number of companies apply them every year. These practices are useful both in terms of improving the boardroom performance and in terms of better informing investors about the boardroom's work.

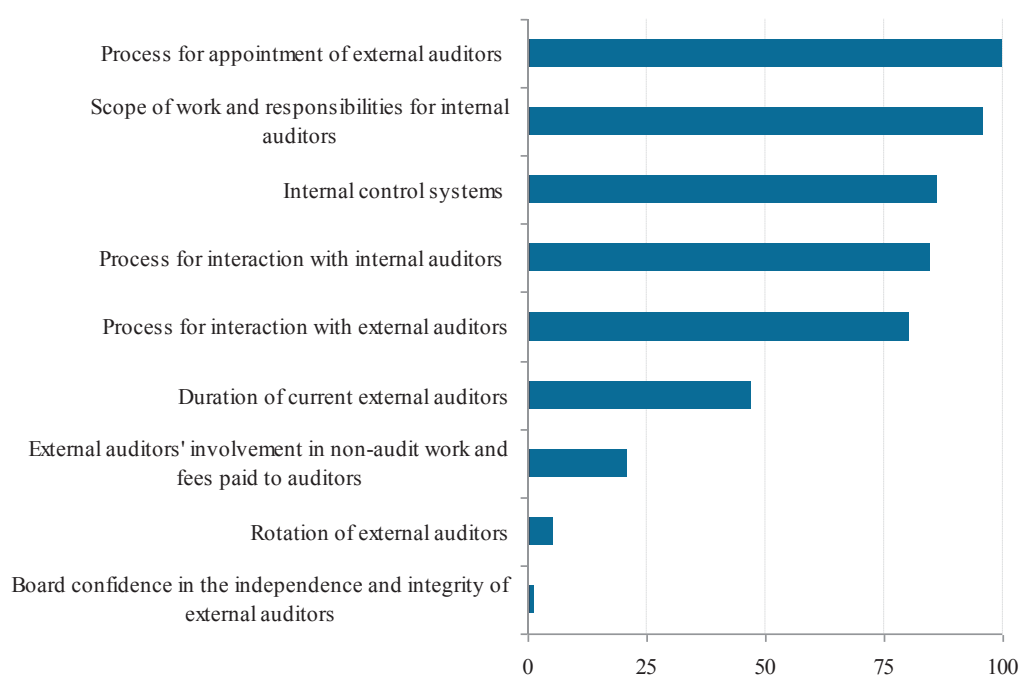
According to the RID, the company AFK Sistema could be an example of good practices related to the above-mentioned items. Its annual report describes the orientation process for the new board members and the procedures of annual performance evaluation of the board.

(f) Auditing

Disclosure rates for the items in the category of "auditing" are extremely varied, ranging from 100 per cent for the highest item to just 1 per cent for the lowest (figure IV.6). The item "process for appointment of external auditors" was reported by all companies in the study. Russian companies disclose this information in their quarterly reports and it is also frequently available in annual reports and corporate websites.

The items "internal control systems" and "scope of work and responsibilities for internal auditors", also have relatively high levels of disclosure (86 per cent and 96 per cent, respectively). It should be noted that listing rules of the Russian stock exchange require the issuer's board to approve a document that would describe the procedures of internal control over its financial and business operations by a separate structural unit. This unit must report any identified weaknesses to the audit committee. Corporate websites publish relevant documents that often describe the scope of work and responsibilities of internal auditors. Relevant information is also often available in the annual reports. However, some companies do not go beyond indirect disclosure: they report compliance with the Corporate Governance Code in their annual report by stating that they have an appropriate document and the internal audit unit.

Figure IV.6. Auditing
(Percentage of companies that disclose each item)



The items “duration of current external auditors” and “rotation of external auditors” are closely related. The former indicates how long the current auditor has been providing services to the reporting company, and the latter indicates the maximum length of time that an external auditor can work with the reporting company before it changes to another firm.

Forty-seven per cent of companies provided information on the duration of the current external auditors. Disclosure for this item is influenced by the corporate governance context in the Russian Federation, where a company’s external auditor is elected annually at the AGM, as required by Russian legislation. As a result, the term of contract with the external auditor is well known (one year).

Note that the annual election of auditors applies only to those firms that audit annual financial statements under Russian Accounting Standards (RAS). There is no requirement for the AGM to approve the firm that will audit financial statements under IFRS. Therefore, the term of contract with such an external auditor can be longer than one year, and the companies should disclose this information (particularly if their financial statements based on RAS and IFRS are audited by different firms). This is especially important for investors because IFRS-based statements are more detailed than RAS-based statements. Thus, the relatively low level of disclosure of this item could result from a lack of disclosure concerning contracts with external auditors that audit IFRS-based financial statements.

Standards of audit approved by the Russian government require the rotation of external auditors once every seven years. As this is a standard requirement that applies to all companies, companies may assume that this is general knowledge and therefore does not require reporting (which might explain why only 6 per cent of companies in this study

reported this item). Nevertheless, it could be useful information for international investors not familiar with the standard rotation rule.

Concerning the item “external auditors’ involvement in non-audit work and fees paid to auditors”, it should be noted that Russian companies are required to report the auditor’s fee for the audit of financial statements, but companies very rarely say whether an external auditor has performed any non-audit services, and the fee for such services.

According to the RID, the company Lukoil could be given as an example of good practices in this category, including the least disclosed items. Its corporate governance report includes details of its internal control and internal audit systems, the process of appointing the company’s internal auditor, the rotation policy, and non-audit services provided by the external auditor.

(g) Corporate responsibility and compliance

Despite being the category with the lowest average rate of disclosure (39 per cent) two items in this category are subject to high disclosure (90 per cent and 71 per cent) (figure IV.7). Disclosure rates for items in this category ranged from 17 per cent to 44 per cent in four items and there was no disclosure for one item (“existence of employee-elected director(s) on the board”). It should be noted that in the Russian Federation, applicable legislation does not require companies to make such disclosures. Voluntary publication of this information in the Russian Federation has only begun to emerge in the last decade.

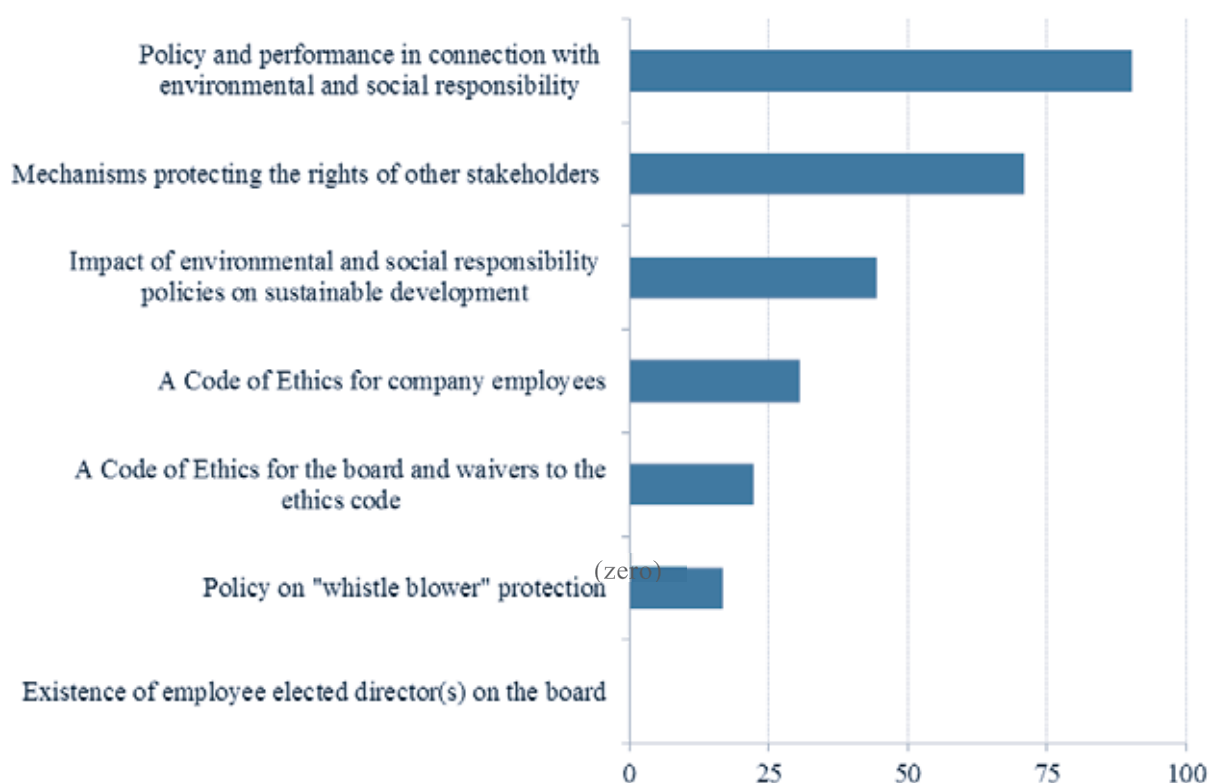
The highest disclosure level for this component was reported for “policy and performance in connection with environmental and social responsibility”. As a rule, companies disclose relevant information in their annual reports, social statements and in special pages of corporate websites. Recommendations to include this information in the annual report are given in the Corporate Governance Code.

The disclosure level is only 44 per cent for “impact of environmental and social responsibility policies on sustainable development.” Many companies do not go beyond describing the progress in the reporting year and do not make comparisons with the previous years.

The disclosure level was 71 per cent for “mechanisms protecting the rights of other stakeholders”. Relevant information is usually published in annual reports and on corporate websites. The latter also post documents that regulate the company’s communication with customers, counterparties, government bodies and the public. The practice of such disclosures has been extending.

The practice of adopting codes of ethics for the board members and for employees has not been prevalent in Russia. If companies have such codes, they usually publish them on their websites. It is much more common for companies to adopt codes of business ethics that apply to all employees including executives; sometimes they also apply to the board members. As a result, the disclosure levels for “code of ethics for the board” and “code of ethics for company employees” were 22 per cent and 31 per cent, respectively.

Figure IV.7. Corporate responsibility and compliance
(Percentage of companies that disclose each item)



The low rate of disclosure for the item “policy on whistle-blower protection” reflects the generally undeveloped practice of adopting codes of business ethics and their insufficiently clear contents. According to the RID, the company MTS could be given as an example of good practices for this item. The company has a code of business conduct and ethics which applies to the boardroom, executives and employees. The code prohibits any disciplinary actions against any employee who reports any violations that are known or suspected by him/her.

(h) Comparison with local laws, codes and best practices

The data collected in this study can be considered in the context of requirements and recommendations in the Russian Federation regarding corporate governance disclosure. According to the latest RID review available at the time of writing, 21 items in the ISAR benchmark are required by Russian laws and regulations (table IV.4). Of these 21 items, 16 are disclosed by 90 per cent or more of the sample companies. Only two items fall below 80 per cent. This indicates a relatively high rate of compliance among Russian enterprises with the disclosure laws and regulations of the Russian Federation.

Table IV.4. Disclosure of required items

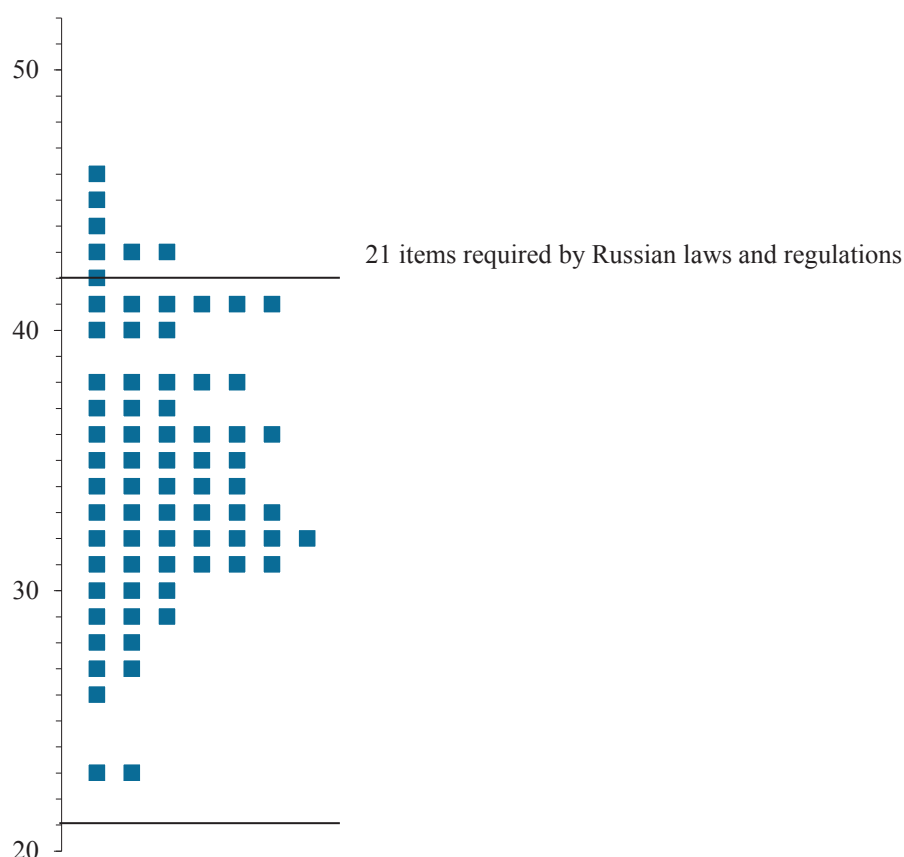
<i>Twenty-one items from the ISAR benchmark required by Russian laws and regulations</i>	<i>Percentage of enterprises disclosing this item</i>
Ownership structure	100
Changes in shareholdings	100
Control rights	100
Control and corresponding equity stake	100
Process for holding annual general meetings	100
Composition of the board of directors	100
Role and functions of the board of directors	100
Qualifications and biographical information on board members	100
Process for appointment of external auditors	100
Composition and function of governance structures	100
Types and number of outside board and management positions	96
Scope of work and responsibilities for internal auditors	96
Financial and operating results	94
Company objectives	94
Nature, type and elements of related-party transactions	93
Availability and accessibility of meeting agenda	93
Material interests of senior executives and board members	88
Internal control systems	86
Process for interaction with internal auditors	85
Determination and composition of directors' remuneration	65
Risk management objectives, system and activities	57

As noted in section 1.(b) above, there is no mandatory format in Russian laws or regulations for the disclosure of compliance or non-compliance with the Code of Corporate Governance. Companies are currently left to themselves to decide what to disclose. As the data indicates (figure IV.8), while most companies disclose most of the items explicitly required by law, very few companies disclose detailed information about their compliance or non-compliance with specific portions of the Code. Based on UNCTAD's analysis, 42 items in the ISAR benchmark would be the subject of disclosure if a company were providing detailed information about compliance or non-compliance with the Code.⁷⁰ Two thirds of the enterprises in this study reported within a range of 30 to 39 disclosure items, less than the 42 items covered in the Code.

⁷⁰ Based on data collected for the UNCTAD 2009 *Corporate Governance Review* (TD/B/C.II/ISAR/CRP.8). In that report, itemized disclosure of subjects covered in the Corporate Governance Code was interpreted as a "required" rule in the Russian Federation.

Figure IV.8. Reporting by enterprise

(Total number of disclosure items reported by each company; each square represents one company)

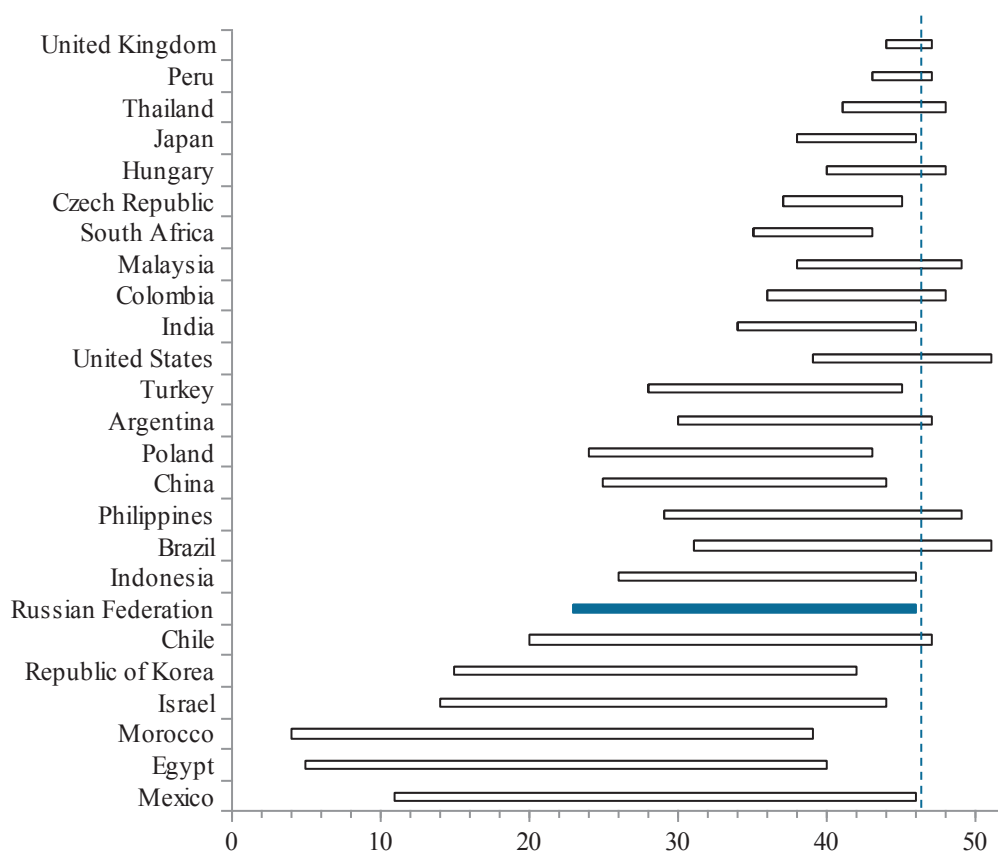


The total number of disclosure items for each company also indicates a significant variability between local best-practice companies and other companies (figure IV.9). Compared to other emerging markets, Russian enterprises have a relatively broad range of practices, with best-practice companies disclosing more than 40 items, and other companies less than 30. This wide variability may indicate an evolving market where companies are at different stages in their development of corporate governance disclosure. Alternatively, variable disclosure rates may be explained by different levels of exposure to international investors, or by foreign listing requirements.

Best-practice companies in the Russian Federation have disclosure rates that are on a par with many best-practice companies from around the world. This means that some Russian companies can look to their better reporting peers for lessons in improving their corporate governance disclosure practices. One area of future work could be to highlight examples of the best disclosure practices by certain Russian companies, particularly with respect to those items which are the subject of low levels of disclosure by other Russian companies more generally. Such examples could be a useful learning tool for Russian companies, providing both recognition of current best practice as well as guidance examples for companies aspiring to improved transparency.

Figure IV.9. Range analysis of companies with most and least disclosure items^a

(Total number of disclosure items reported by each company; start of bar indicates company with least number of disclosure items, end of bar indicates company with most disclosure items)



Conclusions

The purpose of this case study is to evaluate the level of implementation of corporate governance disclosure among leading enterprises in the Russian Federation. The reader should again note that, as in UNCTAD's previous reviews on this subject, this study is not intended as a measure of the quality of the disclosure of individual items, rather it is a measure of the existence of the selected disclosure items. The study has examined the disclosure practices of a sample of 72 companies selected by the RID as representative of large listed companies in Russia. The disclosures made by these companies were compared with the ISAR benchmark of corporate governance disclosure, which includes 51 disclosure items across five broad categories.

This study finds relatively variable rates of corporate governance disclosure among the enterprises in the study, with the average enterprise disclosing two thirds (31) of the items in the ISAR benchmark. Twenty-two of the items in the ISAR benchmark were disclosed by 90 per cent or more of the enterprises in the study, and 11 of the items in the ISAR benchmark were disclosed by all of the companies. A number of recommended items in the ISAR benchmark were subject to low rates of disclosure, with

seven items disclosed by less than 20 per cent of the companies in the study. The absolute number of disclosure items found for each company ranged from 23 to 46.

The data in this study shows that Russian companies have fairly high levels of compliance with disclosure items that are required by law or regulation. Russian companies, however, are currently left to themselves to determine what to disclose regarding compliance with the Code, and on this subject, most companies report very little of substance. The overall level of disclosure could be increased by establishing a mandatory format for disclosing information about compliance or non-compliance with the Corporate Governance Code. The format recommended in the FCSM resolution 03-849/r of 30 April 2003, for example, (or an updated version of the same) could be firmly established as a regulatory or legal requirement.

The new version of the Corporate Governance Code, which is currently being drafted in Russia, might also help to improve disclosure. Specific matters that could be addressed include board evaluation, skills development of the board members, impact of social and environmental policies on a company's sustainable development, and existence and use of codes of business ethics. More explicit legislative provisions that would require companies to explain their non-compliance with the Code would inform investors better about corporate governance practices.

Corporate governance ratings are another tool that could usefully boost overall corporate governance and disclosure practices. Ratings provide qualitative as well as quantitative assessments of the governance practices in companies. This tool would help to guide directors and investors alike in their efforts to measure and improve current practices.

Policies aimed at promoting responsible investment and active ownership by investors could help to promote the advancement of corporate governance practices and disclosure. Investors must play an active role as market participants and communicate with the companies in which they invest, especially as regards disclosure practices.

There is an ongoing need for creating awareness among both directors and investors about the obligations and benefits of corporate governance disclosure and the need to strengthen disclosure in certain areas. This could be part of ongoing training programmes focused on company directors.

B. Trinidad and Tobago

Section B of this chapter presents the findings of a case study on corporate governance disclosure in Trinidad and Tobago. The data indicate that the average enterprise from the Trinidad and Tobago sample discloses less than half of the items in the ISAR benchmark. While 12 of the items in the ISAR benchmark were disclosed by more than two thirds of the enterprises in the study, 37 items were disclosed by less than half. The absolute number of disclosure items found for each company ranged from 3 to 45.

The study concludes that while the sample has relatively high rates of disclosure for a few topics (especially those required by local rules), with most companies exceeding the relatively few disclosure requirements of Trinidad and Tobago rules, the overall level of disclosure remains low compared to other emerging markets. Policy options discussed include strengthening disclosure rules to cover more subjects, and providing capacity

building and training activities targeted at directors to raise awareness about international best practices in corporate governance disclosure.

1. Overview of developments in corporate governance disclosure

(a) Overview of the statutory framework related to corporate governance disclosure

All the companies in Trinidad and Tobago must comply with the Companies Act (chapter 81:01, No. 35 of 1995) (Laws of Trinidad and Tobago, 1995a). This law is modelled on the Canadian Companies Law. Section 155 of the Act mandates companies to disclose to shareholders comparative financial statements, reports of the auditor if any, and any other information relating to the financial position of the company or operating results required by the articles of the company, its by-laws, or any unanimous shareholder agreement. Companies are also mandated to disclose any material interests by directors as defined in section 93(6). Corporate governance disclosure mandated by this Act is found in section 113(1) and relates to the notice of meetings that must be given to shareholders, directors and auditors. Companies are also required to disclose in their annual returns filed in the companies registry any changes in the types of shares issued, the shareholding, the execution of mortgages and bills of sale that bind the company's assets and any other encumbrances to these assets.

The Trinidad and Tobago Stock Exchange (TTSE) adopted disclosure rules in April 2010 that specify the following with regard to public disclosure:

- (i) Rule 600(4) – publish, in a newspaper, quarterly financial results signed by two or more directors and state if they are audited or not;
- (ii) Rule 600(7) – publish in a daily newspaper if there is a delay in the issuing of quarterly results;
- (iii) Rule 601(2) specifies the standards by which financials need to be prepared, and that the following items need to be included (TTSE, 2011, p. 38):
 - a. “Shareholdings of directors and senior officers, connected persons and the shareholding of ten (10) largest blocks of shares”;
 - b. “A management discussion and analysis prepared by the company after the end of its financial year”;
 - c. “All audited annual financial statements shall be approved by the company’s board of directors and signed by two or more of the company”;
 - d. “The company shall simultaneously publish the annual audited financial statement in at least one of the leading daily newspapers”.
- (iv) Rule 603 on communication and information specifies that:
 - a. “Every listed company shall notify the Stock Exchange, no later than five days following the board meeting at which the decision was taken, of all dividend payments, profit announcements, rights or bonus issues, acquisition or sale of assets, significant changes in share ownership or control and any other information necessary to enable share/stockholders to appraise the position of the company.”
 - b. “The information regarding the listed company shall be communicated to the general public within five working days of the board meeting via one of the leading daily newspapers.”

In practice the TTSE publishes most of the disclosure information it receives from its listed companies on its website and in a summary form in the newspapers. Through this practice, the public is also informed of disclosures through rule 604 of “all trades done by directors, senior officers and connected persons, within five business days of the transaction”.

The financial institutions listed on the stock exchange are also regulated by the Financial Institutions Act (chapter 79:09, No. 26 of 2008) (Laws of Trinidad and Tobago, 2008). Section 37 specifies that the companies must submit to the inspector an annual report which includes financial statements, internal control structures and processes signed by management, and a statement signed on behalf of directors that they are satisfied that the risk management system and internal controls are satisfactory for managing the risks faced. Part IV of the Act specifies a number of requirements and duties for management and directors, and that additional reports must be submitted to the regulator (the Central Bank). It does not, however, specify what the licensee must disclose about its corporate governance process to the public.

Among the companies listed on the TTSE are also some that include insurance in their portfolio, and therefore they are also regulated by the Insurance Act (chapter 84:01, No. 6 of 1980) (Laws of Trinidad and Tobago, 1980). The Insurance Act does not specify precisely what these companies need to disclose to the public.

For companies falling under the Financial Institutions Act and the Insurance Act, the Central Bank of Trinidad and Tobago (CBTT) Corporate Governance Guidelines also apply (CBTT, 2007, p. 4). The CBTT defines corporate governance as (CBTT, 2007, p. 3):

...the framework by which the board and senior management of organizations are held accountable for the operations of the institutions they oversee. This framework encompasses the mechanisms, structures and processes that enable the board of directors to set the objectives and strategies of the institution, monitor and evaluate its performance, and take corrective action promptly. Good corporate governance therefore, requires that the relationships among management, the board, shareholders, regulators and other stakeholders are transparent, fair and well balanced.

Within the context of this study it is noteworthy that the framework is not said to include the processes and mechanisms of informing shareholders, investors, and other stakeholders.

In section 7.2.12 of the Central Bank Guidelines (CBTT, 2007:8) it is explicitly mentioned that the board should ensure that any deviations from the prescribed governance guidelines are reported to management. In section 7.4 it is mentioned that:

...the board also has a duty to ensure transparency by promptly communicating with shareholders any developments that may impact shareholder value such as: financial condition of the company, significant material information; certain proposals for which directors should obtain their approval, such as stock options for directors and changes in voting rights for classes of shares; all shareholders' agreements that would influence the investment decisions.

Note that this does not include a reporting obligation on corporate governance practices unless decided upon by shareholders and considered to affect investment decisions. Section 16, among other points, addresses the need for the board to maintain open communication on material issues pertaining to the institution. No mention is made of the reporting or disclosure relationship between the board and shareholders, investors, or other stakeholders.

For three companies in the sample, the *State Enterprises Performance Monitoring Manual* (Ministry of Finance (MOF), 2011a) and the Freedom of Information Act (No. 26 of 1999) also apply as the companies are at least partially owned by the Government of Trinidad and Tobago, because, under the definition of the Freedom of Information Act

(Laws of Trinidad and Tobago, 1999a) they are statutory authorities.⁷¹ The Act does not prescribe what information should be disclosed proactively. Part IV of the Act defines what falls under the exempt category and should not be disclosed even if requested. Section 11(2) of the Act states that:

Nothing in this Act shall prevent a public authority from:

(a) Giving access to documents or information;

(b) Amending documents, other than as required by the Act where it has the discretion to do so.

Therefore, if directors of state enterprises decide that they would like to disclose more information about their corporate governance practices than legally required and they do not fall under the exempt category, the information can be put out in the public domain.⁷²

The *State Enterprises Performance Monitoring Manual* requires enterprises to submit an administrative report on their performance to their respective line minister, who in turn lays it in each House of Parliament, and thereby to the public in compliance with section 66D of the Constitution of Trinidad and Tobago as amended by Act 29 of 1999 (MOF, 2011a, p. 30; Laws of Trinidad and Tobago, 1999b). The guidance provided to the state companies in the Manual about what the Parliament will want to focus their examination/review on in “their preliminary investigations” includes “mission, policy or philosophy and the strategic plan”, “organizational structure” and “financial operations” among other, more operational items (see MOF, 2011a, p. 124).

There is no corporate governance code for Trinidad and Tobago. The only country in the English-speaking Caribbean that has one is Jamaica (developed under the leadership of the Private Sector Organization of Jamaica (PSOJ) and also adopted by the Jamaica Stock Exchange).⁷³ According to Syntegra, companies in Trinidad and Tobago that are seeking to increase their corporate governance practices most frequently draw on one or more of the following: the United Kingdom Corporate Governance Code (FRC, 2010), the Organization for Economic Cooperation and Development (OECD) *Principles of Corporate Governance* (OECD, 2004), the Jamaica Corporate Governance Code (PSOJ, 2006), the Central Bank Corporate Governance Guidelines (CBTT, 2007), the *State Enterprises Performance Monitoring Manual* (MOF, 2011a), the proposed Insurance Bill (CBTT, 2011a),⁷⁴ the Financial Institutions Act (Act 26 of 2008), or the Credit Union Policy Proposal Document (CBTT, 2009).

(b) The Trinidad and Tobago context

The total population of Trinidad and Tobago is estimated for 2010 to have been 1.32 million and the gross domestic product (GDP) at current market prices approximately \$20 billion (CBTT, 2011b, p. 77). The most distinguishing structural element of the Trinidad and Tobago economy is the large part played by the energy sector. The energy

⁷¹ The state enterprise sector employs approximately 17,000 people; it contributes approximately \$2.03 billion to gross domestic product, and its asset value is “well beyond \$15.6 billion” (MOF, 2011b, p. 1–2).

⁷² In 2003 the Government of Trinidad and Tobago applied for exemption from the Freedom of Information Act for one of the three state owned companies and was granted the exemption by presidential order (Laws of Trinidad and Tobago, 2003).

⁷³ In 2009 a second edition of the Jamaica Corporate Governance Code was issued and the Jamaica Stock Exchange was part of the Committee that approved it (Sandra Glasgow, CEO of PSOJ, personal communication, 2011). As a result of PSOJ’s advocacy the Jamaica Stock Exchange also adopted rule 414 on Corporate Governance Guidelines and Disclosure in 2010 (Jamaica Stock Exchange, 2010, p. 41–42)

⁷⁴ Section 102(b) of the proposed Insurance Bill provides that the Central Bank may “require the board of directors of the insurer or financial holding company to convene a special meeting of shareholders to report on the failure of the insurer or financial holding company to implement measures required to be taken by the Central Bank”.

sector's share of GDP in 2010 was 37.7 per cent (down from 49.1 per cent in 2008 and employing 3.3 per cent of the workforce). Exploration and production contributed 20.3 per cent to the energy sector's share of GDP (CBTT, 2011b, p. 9). Foreign direct investment was \$397 million, down from \$2,100 million in 2008 (CBTT, 2011b, p. 112).

The Chairman of the SEC of Trinidad and Tobago noted that since the global financial crisis in 2008, the following was evident (SEC, 2011a, p. 3):

- (i) "There is a distinct lack of business confidence – as indicated by the continued decline in business lending";
- (ii) "There exists an uncertain international outlook";
- (iii) "There is an inadequate investor base, particularly for the equity market – it appears that the domestic investor isn't sufficiently knowledgeable about the stock market and its benefits".

According to the World Bank's report *Doing Business 2011*, "research suggests a positive relationship between sound corporate governance systems and firms' performance as measured by valuation, operating performance or stock returns" (World Bank, 2010, p. 52).⁷⁵ According to the Global Competitiveness Index published in 2011 by the World Economic Forum (WEF, 2011), Trinidad and Tobago ranked eighty-fourth out of 139 nations in the study. This rank represents an increase of eight positions from the 2008–2009 period, when 134 nations participated in the study.

From the perspective of corporate governance disclosure, the Global Competitiveness Index's first pillar "institutions" is particularly relevant. Within the first pillar, sub-indicators "strength of auditing and reporting standards" with a score of 39 of 139, "efficacy of corporate boards" with a score of 41 of 139, "strength of investor protection" with a score of 20 out of 139, are highlighted as ranks of "notable competitive advantage" (WEF, 2011, p. 327). Since the Index utilizes the "extent of disclosure index" from the *Doing Business 2011* report, Trinidad and Tobago's competitiveness ranking could be increased if public disclosures of related-party transactions were increased (World Bank, 2010, p. 120-122).⁷⁶

One of the most dramatic corporate failures in Trinidad and Tobago associated with the global financial crisis of 2008–2010 was the collapse of the CL Financial Group (also known as Clico).⁷⁷ This event is particularly relevant in the context of this study for two reasons: first, because the lessons from and insights into the corporate governance practices that were prevalent in the CL Financial Group are emerging, and, second, because it illustrates well the vulnerability of small open economies such as that of Trinidad and Tobago. In the feature address to the Institute of Chartered Accountants of Trinidad and Tobago and the Caribbean Association for Audit Committee Members at their fifth Annual General Meeting and Conference, the Minister of Finance, the Honourable Mr. Winston Dookeran said "the Clico fiasco has affected the GDP of Trinidad and Tobago to the extent of over 10 per cent according to a recent study and I

⁷⁵ Specific references by the World Bank 2010 study include: for cross-country comparisons see Klapper and Love (2004), Durnev and Han Kim (2005), Bauer et al (2004) and Baker et al (2007); for a study showing that companies with strong or improved corporate governance structures outperformed those with poor or deteriorating governance practices by about 19 per cent over a 2-year period, see Grandmont et al (2004); for a study showing that more research is needed to fully understand which corporate governance provisions are important for different types of firms and environments, see Love (2010).

⁷⁶ The World Bank's 2010 study examined public disclosure more narrowly than this study, but the findings are consistent (see <http://www.doingbusiness.org/data/exploreeconomies/trinidad-and-tobago/protecting-investors/>, accessed 29 January 2013).

⁷⁷ See also the public enquiry into this collapse that commenced in 2011: the Commission of Enquiry into the failure of CL Financial Ltd. and the Hindu Credit Union Society Cooperative Ltd. Available at <http://www.clfhcuenquiry.org/> (accessed 29 January 2013).

believe it may be more. And with respect to the Caribbean over 17 per cent” (MOF, 2011c, p. 6).

(c) Possible trends in relation to corporate governance disclosure

There have been regional attempts in the period between 1999 and 2005 that also involved the Organization of Eastern Caribbean States, the Eastern Caribbean Central Bank, the Eastern Caribbean Securities Exchange and the PSOJ, but only the work of the PSOJ resulted in a code being adopted (see also the previous section 1.(a) and CARICOM, 2005, p. 337 and 345). It seems that at present a regional effort of regulation harmonization that will affect corporate governance is under way through the work done by the Caribbean Group of Securities Regulators (SEC, 2010a, p. 5).

Speeches by the Chair of the Trinidad and Tobago SEC provide indication that the general thrust of developments is towards more active, deeper, and wider regulation, monitoring and inspection (SEC, 2010a, b, and c). The proposed Securities Bill 2010/11 in part V requires companies to file annual reports, including comparative financial statements, but does not refer to a particular reporting standard (although the SEC has referred to the use of IFRS (SEC, 2010b, p. 6)).

The proposed Insurance Bill (CBTT, 2011a) does not include any additional public disclosure requirements about corporate governance practices, though it does make suggestions that will enhance corporate governance beyond the many additional regulatory reporting requirements. Among the proposed additions are an expanded set of requirements to fulfil the condition of “independent director” (more stringent conditions than those of CBTT, 2007). In section 107 the Bill also proposes a rotation of audit partners every five years.

The trend towards much tighter financial regulation is focused on much wider and deeper financial inspections as well as reporting requirements, but measures do not mandate increased corporate governance disclosure to investors or other members of the public.

2. Status of implementation of good practices in corporate governance disclosure

(a) Background and methodology

The purpose of this Syntegra study is to evaluate the level of implementation of good practices in corporate governance disclosure in Trinidad and Tobago. The reader should note that, as in UNCTAD’s previous annual reviews and country case studies on this subject, this study is not a measure of the quality of the disclosure of individual items, but rather a measure of the existence of the selected disclosure items. The study examines the disclosure practices of a sample of 31 enterprises. The disclosure made by these companies was compared with the ISAR benchmark of 51 disclosure items (annex I). This benchmark is based on the recommendations of ISAR found in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure*. As previously described for the similar study of Russian enterprises (see section A.1.(a) of this chapter), the 51 disclosure items cover the following five broad categories:

- (i) Financial transparency;
- (ii) Ownership structure and exercise of control rights;
- (iii) Board and management structure and process;
- (iv) Auditing;

(v) Corporate responsibility and compliance.

The 51 indicators were tested against the actual reporting practices of 31 leading enterprises from Trinidad and Tobago. The sample used in the study is based on the TTSE Composite Index, which is largely made up of finance and manufacturing companies (figure IV.10). The sample includes all 31 members of the Composite Index and therefore comprises all that trade ordinary shares of the TTSE's "first tier" (the second tier is the junior market).

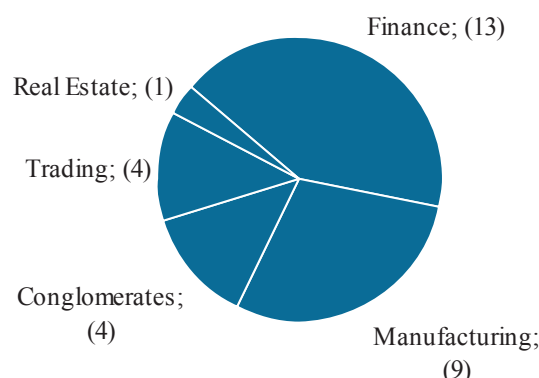
Among the 31 listed companies there are ten that cross list on other exchanges. The market capitalization of the Composite Index was \$14.2 billion of which \$4.3 billion, or about 30 per cent, derive from cross-listed companies according to the situation in September 2011 (information from the TTSE website, 16 September 2011).⁷⁸ This value represents approximately 60 per cent of GDP (using 2011 market capitalization data and 2010 GDP at market price figures).

Over the thirty year history of the TTSE, the year with the highest market capitalization was 2004 where the figure stood at \$16.8 billion, and that was the equivalent of 129 per cent of GDP at that time. The number of listed companies trading in ordinary shares decreased from 34 to 32 in 2010, and the total number of transactions had fallen to approximately a quarter of the 2004 figure (from 34,946 to 8,469). The event that triggered this decline was a regulatory intervention that mandated institutional insurance investors to diversify their capital investments. In 2010 the market capitalization was \$12.2 billion, or 73 per cent of the 2004 figure. Innovations have been introduced every year since 2004 on the TTSE in an effort to increase its attractiveness and activity. At present it is estimated that only about 10 per cent of the population of Trinidad and Tobago are actively investing on the TTSE and the majority of trading is still dominated by institutional investors.

In August 2011, the value of all securities in issue (not only the ordinary shares traded, which are all part of the sample for this study) stood at approximately \$36.9 billion, which represented 182 per cent of GDP (SEC, 2011b, p. 1). This value was three times the size of the value of deposits held by commercial banks. The capital market is therefore much larger than the commercial banking sector (SEC, 2011b, p. 1).

⁷⁸ Weekly values and index summary for the period Monday 12 September to Friday 16 September 2011, available at <http://www.stockex.co.tt> (accessed 30 January 2013).

Figure IV.10. Companies listed in Trinidad and Tobago: overview of sample by industrial sector
(Number of companies out of 31 listed on the Composite Index)



This study was carried out by reviewing the annual reports and other publicly available company disclosures. The specific sources of data included annual reports, by-laws, articles of incorporation and any other information disclosed and accessible to investors and the public pertaining to corporate governance. For companies for which there was no information available on their website (or that do not have websites), data disclosed on the TTSE website (www.ttse.org.tt) were used. In addition, all companies in the sample were provided in writing with the preliminary findings for their company and invited to provide comments and corrections. About 22 per cent of companies responded – most indicating an interest in the subject matter and wanting further clarification as well as offering some information not found in the initial review (by, for example, sharing their annual report in hard copy). All the data used refers to the 2010 reporting period and other information available in 2011 on the company websites.

In view of the great difference between what companies are required to report to regulators and what they disclose to the public (interested investors within Trinidad and Tobago and further afield) it is important to keep that distinction in mind. Regulators are provided with more information about the governance processes and conditions of the companies, but this cannot be assumed to be available to the public. The TTSE discloses most of the disclosures they receive from companies through its website and in the daily newspapers of Trinidad and Tobago. Whenever there were no other sources of disclosure findings, findings from the TTSE were used (thereby including findings that have become public through the TTSE's own disclosure policies). The second important note with regard to public disclosure findings relates to the ease with which an interested investor is able to obtain that information. This represents somewhat of a grey area and in all cases where companies responded to specific requests for information their disclosures were included.

(b) Main findings of the study: overview of all disclosure items

Table IV.5 displays the results of the study within each of the five broad categories discussed in section (a) 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 IV.5. Main findings of the inventory of disclosure practices in Trinidad and Tobago

<i>Disclosure items by category</i>	<i>Percentage of enterprises disclosing this item</i>
Financial transparency	
Financial and operating results	100
Critical accounting estimates	97
Impact of alternative accounting decisions	97
Nature, type and elements of related-party transactions	94
Company objectives	87
Board's responsibilities regarding financial communications	52
Decision-making process for approving related-party transactions	23
Rules and procedures governing extraordinary transactions	13
Ownership structure and exercise of control rights	
Ownership structure	81
Availability and accessibility of meeting agenda	81
Changes in shareholdings	29
Control structure	26
Control rights	26
Process for holding annual general meetings	26
Control and corresponding equity stake	23
Rules and procedures governing the acquisition of corporate control in capital markets	10
Anti-takeover measures	3

<i>Disclosure items by category</i>	<i>Percentage of enterprises disclosing this item</i>
Board and management structure and process	
Composition of the board of directors	90
Material interests of senior executives and board members	87
Checks and balances mechanisms	81
Risk management objectives, system and activities	74
Governance structures, such as committees and other mechanisms, to prevent conflicts of interest	68
Qualifications and biographical information on board members	52
Composition and function of governance structures	42
Duration of directors' contracts	39
Types and number of outside board and management positions	35
Role and functions of the board of directors	32
Existence of succession plan for senior executives and board members	29
Independence of the board of directors	23
Existence of procedures for addressing conflicts of interest among board members	23
Determination and composition of directors' remuneration	23
Availability of advisorship facility for board members or board committees	16
Performance evaluation process for board members	16
Professional development and training activities for board members	13
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	3
Auditing	
Internal control systems	48
Process for appointment of external auditors	45
Process for interaction with internal auditors	35
Scope of work and responsibilities for internal auditors	35
Process for interaction with external auditors	23
Duration of current external auditors	19

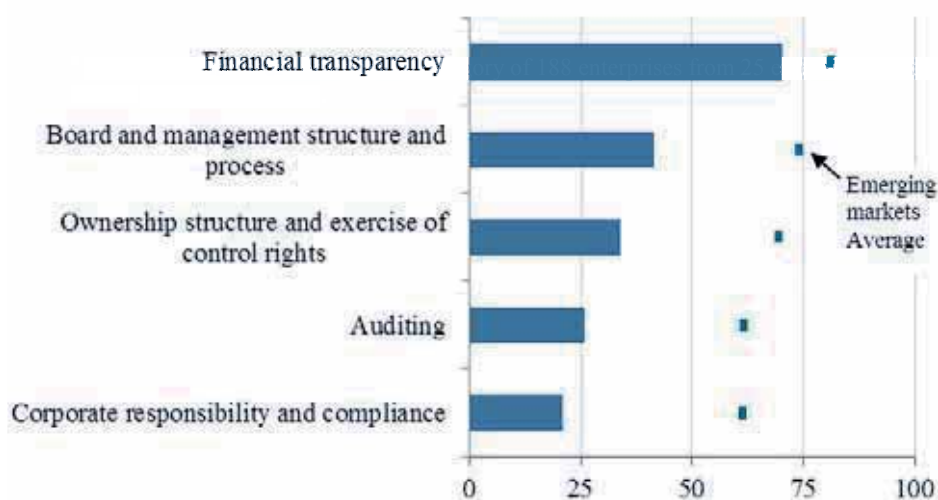
<i>Disclosure items by category</i>	<i>Percentage of enterprises disclosing this item</i>
Board confidence in the independence and integrity of external auditors	19
Rotation of external auditors	3
External auditors' involvement in non-audit work and fees paid to auditors	3
Corporate responsibility and compliance	
Policy and performance in connection with environmental and social responsibility	32
Impact of environmental and social responsibility policies on sustainable development	29
Mechanisms protecting the rights of other stakeholders	26
A code of ethics for company employees	23
A code of ethics for the board and waivers to the ethics code	19
Policy on whistle-blower protection	16
Existence of employee-elected director(s) on the board	0

General overview

The Trinidad and Tobago sample has the same disclosure pattern by category as the average emerging market (that is, the order of categories from most disclosed to least disclosed) (figure IV.11). The average level of disclosure in Trinidad and Tobago, however, is in all but one dimension (financial transparency) about half or less than half of the emerging markets average.

Figure IV.11. Overview of disclosure by category for Trinidad and Tobago enterprises; average rate of disclosure for all items in each category^a

(Percentage; dark vertical bar indicates emerging markets average)



Of the five legally required public disclosure items, four are present among the top 10 most prevalent disclosure items in the sample (table IV.6). The 10 least prevalent disclosure items may be so low because there is no agreed standard for these issues and they are not required by law or regulation.

Among the 10 least prevalent disclosure items, two are related to each other: “duration of current external auditors” and “rotation of external auditors”. It is very common that an agenda item in the annual general meeting of shareholders is “appointment of auditors”. This indicates that they are appointed on a yearly basis, but that does not disclose for how many years they have been reappointed, nor if there is a policy with regard to rotation (of firms or partners).⁷⁹

⁷⁹ See commentary in section B.1.(c) of this chapter on the proposed Insurance Bill and auditor rotation.

Table IV.6. Most prevalent and least prevalent disclosure items
(Percentage of companies disclosing this item)

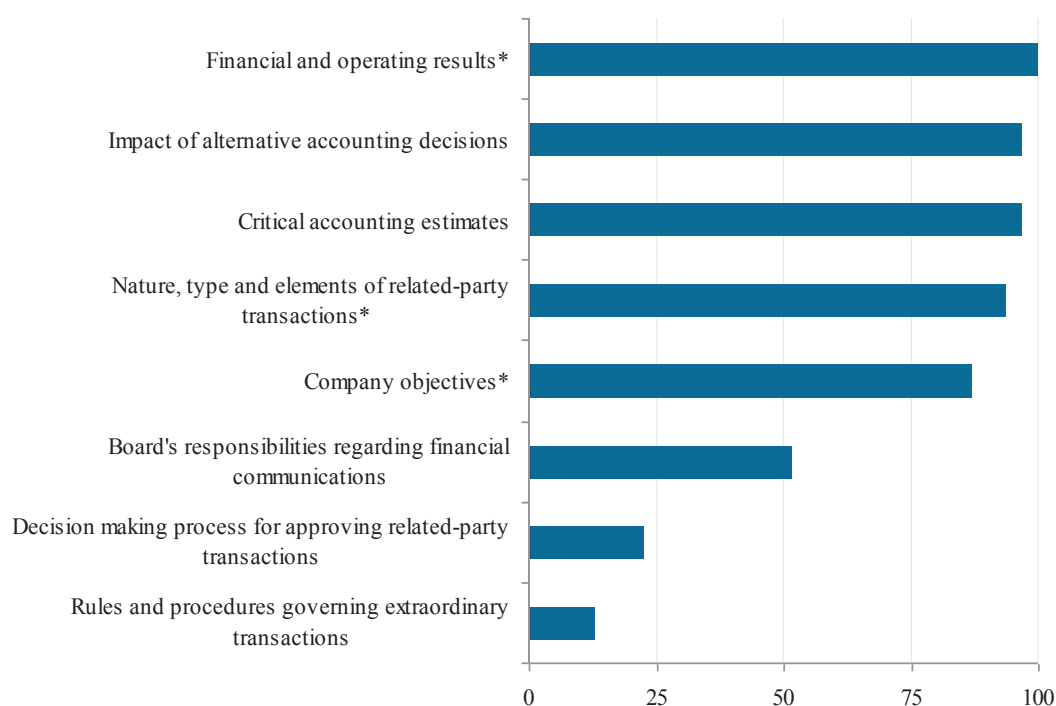
<i>Top 10 most prevalent disclosure items among 31 Trinidad and Tobago enterprises</i>	<i>Percentage of companies</i>	<i>Bottom 10 least prevalent disclosure items required among 72 Trinidad and Tobago enterprises</i>	<i>Percentage of companies</i>
Financial and operating results*	100	Performance evaluation process for board members	16
Critical accounting estimates	97	Policy on whistle-blower protection	16
Impact of alternative accounting decisions	97	Rules and procedures governing extraordinary transactions	13
Nature, type and elements of related-party transactions*	94	Professional development and training activities for board members	13
Composition of the board of directors	90	Rules and procedures governing the acquisition of corporate control in capital markets	10
Company objectives*	87	Anti-takeover measures	3
Material interests of senior executives and board members*	87	Compensation policy for senior executives departing the firm as a result of a merger or acquisition	3
Ownership structure	81	Rotation of external auditors	3
Availability and accessibility of meeting agendas*	81	External auditors' involvement in non-audit work and fees paid to auditors	3
Checks and balances mechanisms	81	Existence of employee-elected director(s) on the board	0

* Legally required items in Trinidad and Tobago.

(c) Financial transparency

As indicated in section B.1.(a), disclosure of some financial dimensions is required by law. Three of the legally required items are found in this category of disclosure items (figure IV.12).

Figure IV.12. Financial transparency
(Percentage of companies disclosing each item)



* Legally required items in Trinidad and Tobago.

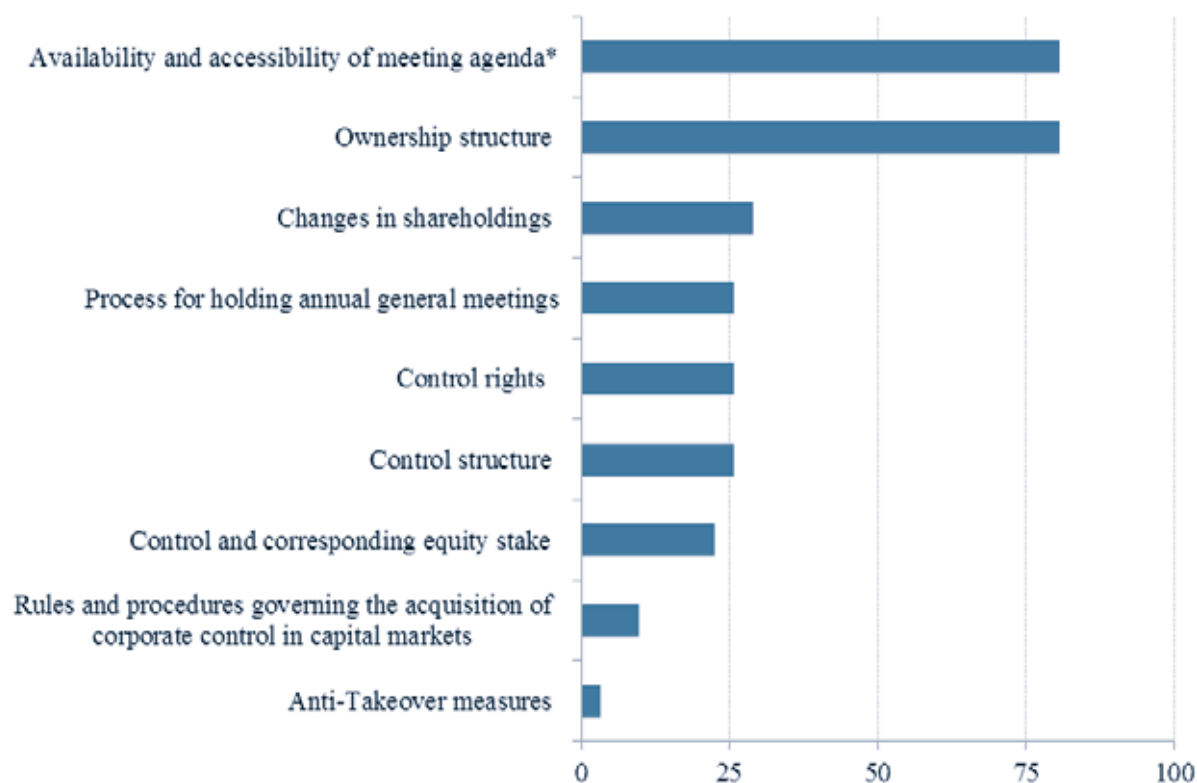
The primary reason why the second to fifth most prevalent items in this category are not all disclosed by all firms is that there were some companies for which nothing other than their financial and operating results statement could be found. Once there was a management discussion and notes to the accounts the other four items could be identified as well. The board's responsibilities regarding financial communication is not often explicitly stated. The two least-identified disclosure items are typically only found in by-laws or articles of incorporation, which were rarely disclosed directly by the firms in the sample.⁸⁰ It is noteworthy, however, that companies often register their by-laws in the Companies Registry, which makes them thus indirectly available to the public.

(d) Ownership structure and exercise of control rights

The disclosure items that form part of the ownership structure and the exercise of control rights fall into two distinct subgroups: two items are very frequently found to be disclosed (meeting agendas are frequently made available as part of the annual report or published widely separately, while the ownership structure is usually found in the annual reports); however, the details on the policies guiding the exercise of control rights are far less frequently found to be disclosed (figure IV.13).

⁸⁰ See also the discussion of Global Competitiveness Index ranking (WEF, 2011) and *Doing Business 2011* (World Bank, 2010) in section B.1.(b) above.

Figure IV.13. Ownership structure and exercise of control rights
(Percentage of companies disclosing each item)



* Legally required items in Trinidad and Tobago.

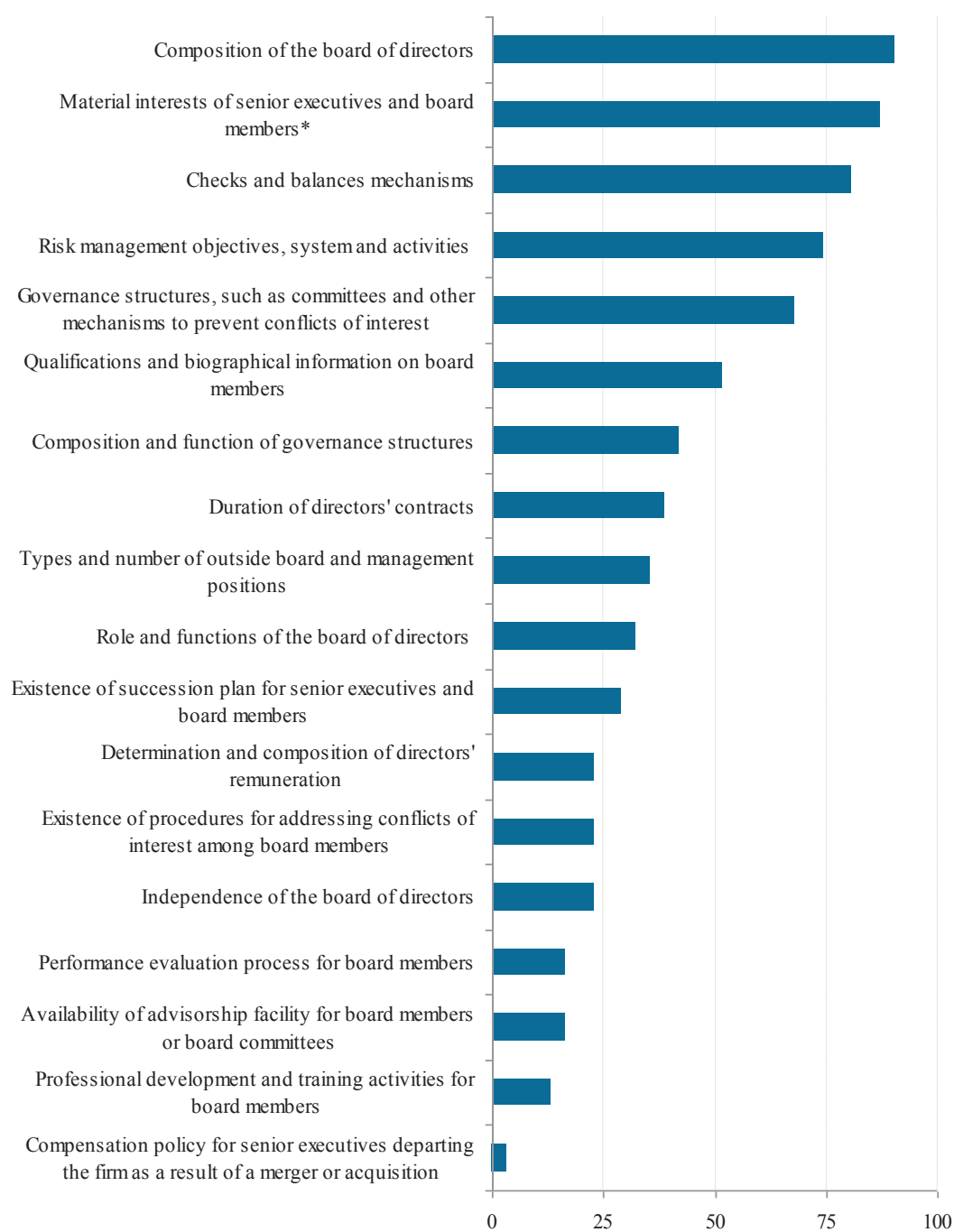
The underlying processes for holding annual general meetings, including proxy voting rules or other procedural items, are usually not contained in the annual reports and while probably available in the articles of incorporation they have not been found to be disclosed frequently. It is possibly assumed that most companies have a one-share-one-vote system in operation with regard to their ordinary shares, but the actual system was rarely disclosed explicitly. Additionally, while changes in shareholding can be found on the TTSE website (and the disclosure through the TTSE specifically makes mention when directors buy or sell shares), it is rare to find explicit disclosure relating to what changes are critical to the control rights and ownership structure.

The two items most infrequently disclosed are the rules and procedures governing the acquisition of corporate control in capital markets and any anti-takeover measures the company may have in place. A disclosure with respect to the former category of corporate governance measure would explicitly state whether or not the company has any of the evocatively named measures in place such as “poison pills” (the right to purchase discounted stock for everyone but the acquirer) or the “Pac-Man defense” (the enterprise under threat attempts to acquire the would-be buyer), to name but two forms that may be employed.

(e) Board and management structure and process

Within the category of board and management structure and process, the findings suggest some structure elements are commonly reported while those relating to internal working processes and policies of the board are less frequently disclosed (figure IV.14).

Figure IV.14. Board and management structure and process
(Percentage of companies disclosing each item)



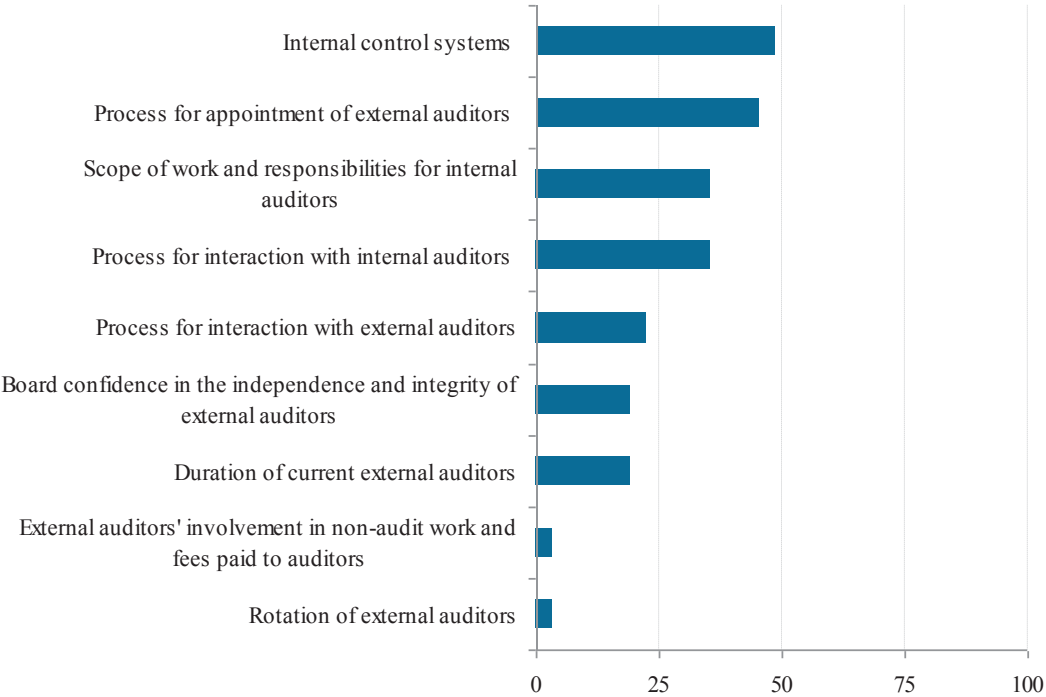
* Legally required items in Trinidad and Tobago.

The separation of roles between chair and CEO was common and this was counted as disclosure of the existence of checks and balances. Disclosure evidence for further board structures, such as the existence of committees, was also found. In some reports, committee(s) were mentioned without any description of their composition, role or working policies. Therefore, the disclosure item “composition and function of governance structures” was found to be present less often. Many of the other disclosure items were present only for those few companies that disclosed their board charters or their own explicit corporate governance guidelines.

(f) Auditing

Findings with respect to disclosure of auditing related processes were relatively low (figure IV.15).

Figure IV.15. Auditing
(Percentage of companies disclosing each item)



While all companies have disclosed audited accounts, the majority of them have not disclosed the underlying processes relating to auditing. Any explicit mention or illustration of internal audit or control systems that would provide a reassurance regarding the reliability of financial reporting was considered as disclosed under “internal control systems”. In this regard, if a company only mentioned in the discussion that they employed tight cost-control measures, then that was not counted as a disclosure under this heading.

As it relates to the process for appointing external auditors, all the companies that disclosed their annual meeting agenda included an agenda item of “appointment of auditors”, but few disclosed the actual process of coming to that proposal (for example, recommendation by audit committee, then authorization by the board of directors, and finally appointment by the shareholders’ meeting). If no explicit mention was made of any parts of the process other than it being placed on the annual meeting agenda, this was considered as not disclosed.

Similarly, (as noted above) the fact that auditors were proposed to be appointed/reappointed yearly at the annual general meeting did not count as having disclosed the “duration of current external auditors”, as it does not tell an interested investor for how long the same firm has been working as the external auditors for the company.

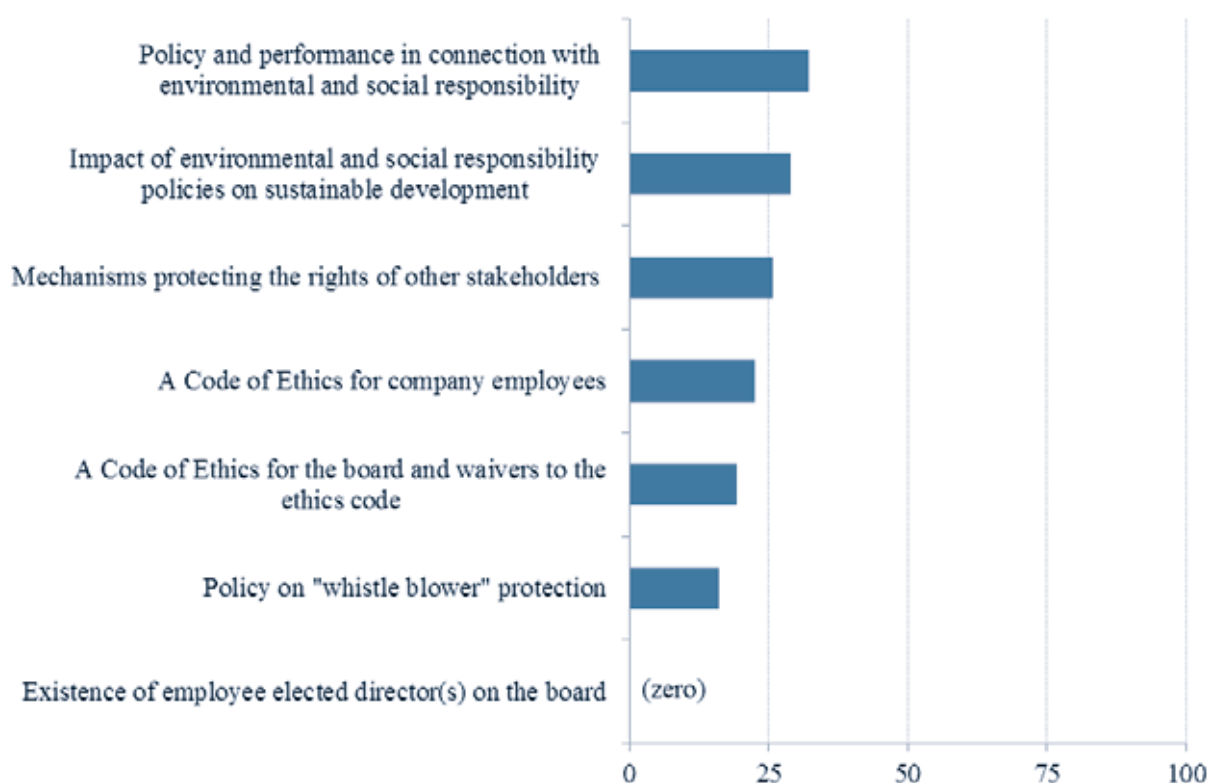
(g) Corporate responsibility and compliance

The shareholders of a company authorize the directors to direct the management of the company. This is the effect of Section 60(b) of the Companies Act chapter 81:01 (Laws of Trinidad and Tobago, 1995a). The directors are thereby entrusted with the role of stewards and Section 99(1) of the Act chapter 81:01 specifies that they, as well as all officers of the company, have the duty to always act in the company’s best interest. In section 99(2) the Act explicitly states that in determining what is in the company’s best interest, “a director shall have regard to the interests of the company’s employees in general as well as to the interests of its shareholders”. Corporate responsibility, therefore, must take into account financial and social dimensions.

Other laws of Trinidad and Tobago also impose legal requirements with regard to environmental dimensions. However, corporate responsibility goes beyond the mandatory compliance with the law, and it also includes acting in accordance with the values and commitments that the directors have made voluntarily and ensuring that the relations with all of the firm’s sources of value (employees, suppliers, other stakeholders, natural resources, capital) are in a condition that will enable optimal performance.

Figure IV.16 illustrates the frequency with which policies, processes and results relating to corporate responsibility and compliance have been found to be disclosed.

Figure IV.16. Corporate responsibility and compliance
(Percentage of companies disclosing each item)



Examples by companies of corporate goodwill and philanthropy without an indication of what the underlying corporate policy is were not counted as disclosed in relation to the disclosure item “policy and performance in connection with environmental and social responsibility”.

While there is no universally agreed measure “impact on sustainable development”, and there are a number of different frameworks put forward, for example by the GRI (GRI, 2006) or the ISO standard ISO2600:2010, reporting on this item was counted when it linked corporate responsibility to social goals, business objectives, or financial outcomes in qualitative or quantitative ways. However, such links were disclosed very infrequently, as were the processes through which social responsibility commitments were enabled such as a code of ethics (or code of conduct), or a whistle-blower protection which would protect employees against potential retribution resulting from reporting misconduct. Effective corporate responsibility programmes require three main elements:

- (a) An explicit statement to what a company is committed to;
- (b) The systems, processes, skills, individual intention and corporate culture to be able to act on the commitments;
- (c) Processes and systems for ensuring compliance and accountability.

The disclosure item “mechanisms protecting the rights of other stakeholders” addresses point (c) above.⁸¹

The underlying intention of the disclosure item “existence of employee-elected director(s) on the board” is to find out if the board has made a decision about how

⁸¹ See also Mitchell and Stern Switzer (2009) and the Society for Corporate Compliance and Ethics (2010).

employees (defined for this purpose as employed by the company for a core reason other than board-level governance and not an executive director) can formally participate in corporate governance. In some countries, such as Germany, there is explicit provision for employees to be represented on the supervisory board. In Trinidad and Tobago there is no legal provision for an equivalent arrangement. However, there might be other mechanisms that could be employed, though no disclosures in this regard were found.

(h) Compliance with local laws, regulations and recommendations

The data collected in this study can be considered in the context of requirements in Trinidad and Tobago regarding corporate governance disclosure. According to UNCTAD's 2010 report, which included disclosure requirements in Trinidad and Tobago, five items in the ISAR benchmark are required for listed enterprises (Table IV.7). Of these five items, one is disclosed by all companies and four are disclosed by more than 80 per cent of the sample companies.

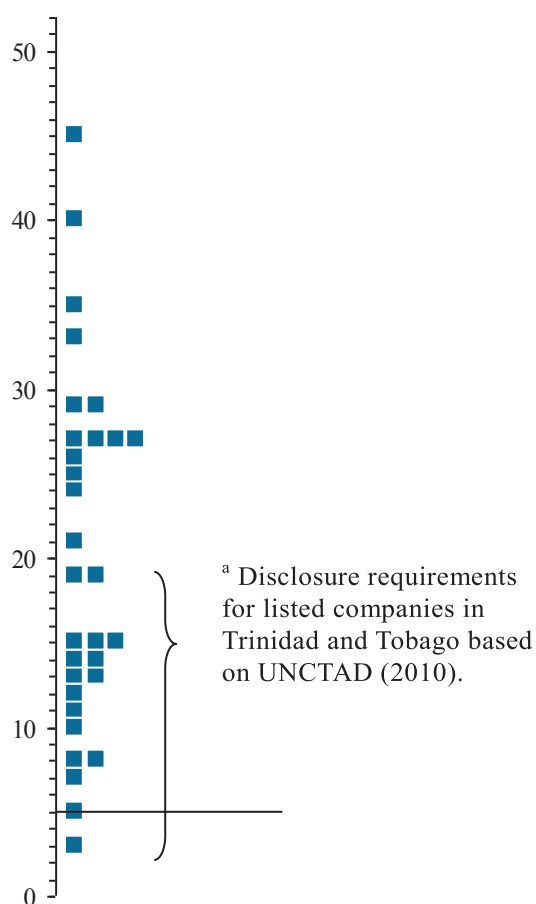
Table IV.7. Disclosure of required items: relatively high compliance

<i>Five items from the ISAR benchmark required by Trinidad and Tobago laws and regulations</i>	<i>Percentage of enterprises disclosing this item</i>
Financial and operating results	100
Nature, type and elements of related-party transactions	94
Company objectives	87
Material interests of senior executives and board members	87
Availability and accessibility of meeting agenda	81

Source: UNCTAD and Syntegra.

The findings presented in this study have so far focused on the disclosure rates of individual items in the ISAR benchmark among the enterprises. Figure IV.17 focuses not on individual disclosure items, but on the total number of disclosure items reported by each enterprise in the study. What the figure shows is that 56 per cent of the enterprises in the study reported less than 19 indicators, and all but one company disclosed five or more items (as would be required by local law and regulations).

Figure IV.17. Reporting by enterprise: total number of disclosure items reported by each company^a
(Each square represents one company)

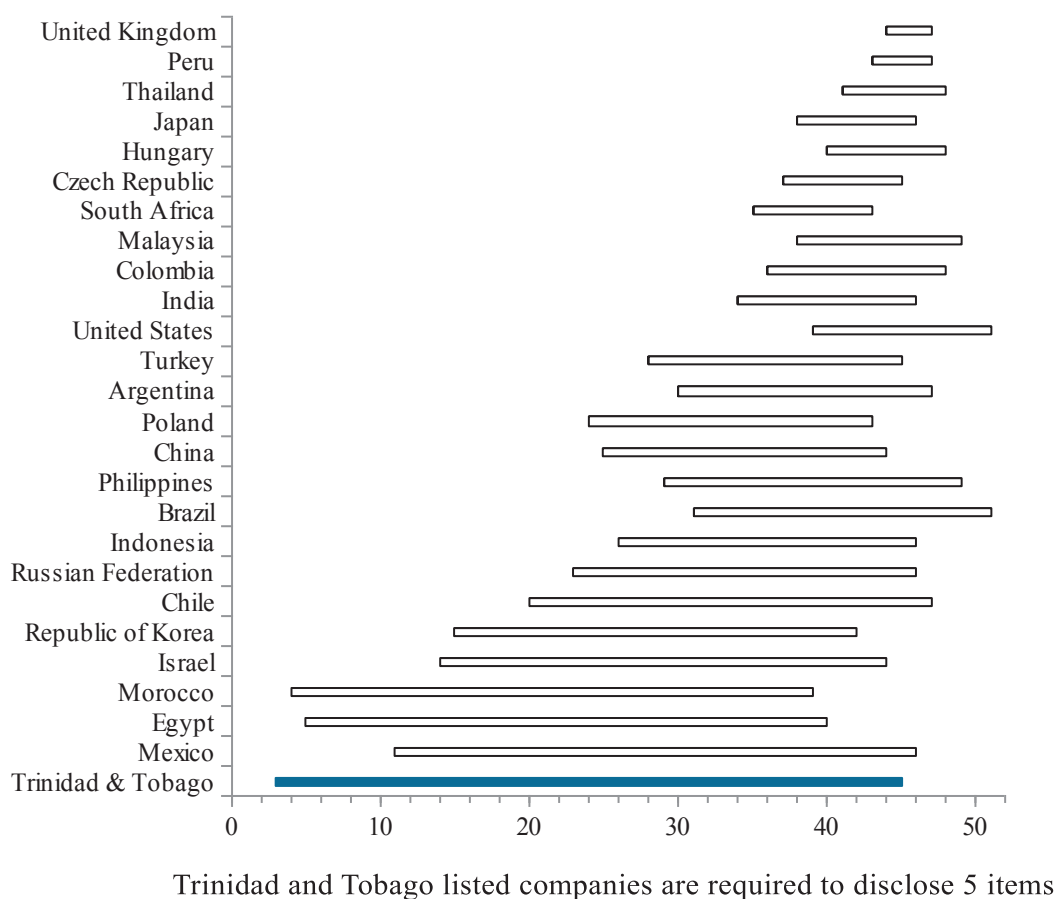


Source: TD/B/C.II/ISAR/CRP.9

The total number of disclosure items for each company also indicates a significant variability between elements that companies are reporting. Compared to other emerging markets, Trinidad and Tobago enterprises have a relatively broad range of practices, with some companies disclosing more than 40 items, and other companies less than five (figure IV.18).

Figure IV.18. Reporting by enterprise by country: range analysis indicating most and least disclosure items^a

(Total number of disclosure items reported by each company; start of bar indicates company with least number of disclosure items, end of bar indicates company with most disclosure items)



The wide variability of disclosure findings across companies may indicate an evolving market where companies are at different stages in their development of corporate governance disclosure. Alternatively, variable disclosure rates may be explained by different levels of exposure to international investors, or by foreign listing requirements.

Conclusions

The purpose of this case study was to evaluate the level of implementation of corporate governance disclosure among leading enterprises in Trinidad and Tobago. As in previous country studies on this subject, this study is not intended as a measure of the quality of the disclosure of individual items, rather it is a measure of the existence of the selected disclosure items. The study examined the disclosure practices of the 31 companies of the TTSE Composite Index, which is generally representative of the listed companies in Trinidad and Tobago. The disclosures made by these companies were compared with the ISAR benchmark of corporate governance disclosure, which includes 51 disclosure items across five broad categories.

This study finds highly variable rates of corporate governance disclosure among the enterprises examined, with the average enterprise disclosing less than half (20) of the items in the ISAR benchmark. Twelve of the items in the ISAR benchmark were disclosed by more than two thirds of the enterprises in the study. However, 37 items were disclosed by less than half of the companies. The absolute number of disclosure items found for each company ranged from 3 to 45.

The data in this study suggests that while nearly all companies examined are disclosing most of the items required by law in Trinidad and Tobago, the overall disclosure rate is low compared to enterprises in other emerging markets. UNCTAD's previous research in this area has shown a strong correlation between requirements and disclosure, with mandatory disclosure items much more likely to be reported by companies. This is also reflected in this report where items required by the rules of Trinidad and Tobago are reported by more than 80 per cent of companies. However, the relatively low number of mandatory disclosure items in Trinidad and Tobago probably plays a strong role in the comparatively low disclosure rates seen among the sample studied. One option for increasing disclosure, therefore, would be to include more disclosure-related requirements within stock exchange listing rules or relevant corporate regulation.

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Annex I. List of disclosure items in the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting benchmark⁸²

<i>Financial transparency</i>	
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
<i>Ownership structure and exercise of control rights</i>	
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
<i>Board and management structure and process</i>	
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
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

⁸² Current ISAR benchmark; last revised in 2010.

<i>Auditing</i>	
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
<i>Corporate responsibility and compliance</i>	
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

Source: UNCTAD.

Annex II. List of companies included in the Russian Federation study

1. AVTOVAZ
2. Acron
3. Aeroflot
4. Bank Saint-Petersburg
5. Bank Vozrozhdenie
6. Bank VTB
7. CenterTelecom
8. Chelyabinsk Tube-Rolling Plant (ChelPipe)
9. Chelyabinsk Zinc Plant
10. Cherkizovo Group
11. DIXY Group
12. Far East Telecommunications Company
13. Far Eastern Shipping Company
14. Federal Grid Company of Unified Energy System
15. GazpromneftekhimSalavat (former Salavatnefteorgsintez)
16. Hals-Development (former Sistema-Hals)
17. Holding IDGC
18. Interregional Distribution Grid Company of the Centre
19. Interregional Distribution Grid Company of the Northern Caucasus
20. Interregional Distribution Grid Company of Siberia
21. Interregional Distribution Grid Company of the South
22. Interregional Distribution Grid Company of the Urals
23. Inter RAO UES
24. Interregional Distribution Grid Company of Volga
25. Irkutskenergo
26. Joint Stock Financial Corporation SYSTEMA
27. JVSMPO-AVISMA Corporation"
28. KAMAZ
29. Lenerego
30. LSR Group
31. Lukoil
32. M.Video

33. Magnit
34. Magnitogorsk Iron and Steel Works (MMK)
35. Mechel
36. Mosenergo
37. MTS
38. Nizhnekamskneftekhim
39. NLMK
40. Norilsk Nickel
41. North-West Telecom
42. Novatek
43. Novorossiysk Commercial Sea Port
44. OGK-1 (The First Wholesale Power Market Generating Company)
45. OGK-2
46. OGK-4
47. OGK-5
48. Pharmacy Chain 36.6
49. PIK Group
50. Polymetal
51. Polyus Gold
52. RAO Energy System of East
53. Raspadskaya
54. Razlulay Group
55. Rosneft
56. Rostelecom
57. RusHydro
58. Sberbank
59. Severstal
60. Sollers
61. Southern Telecommunications Company
62. Synergy Group
63. Tatneft
64. Territorial Generating Company-1 (TGC-1)
65. TGC-13
66. The Seventh Continent
67. TMK

- 68. United Aircraft Corporation
- 69. Uralkali
- 70. Uralsvyazinform
- 71. VolgaTelecom
- 72. Yakutskenergo

Annex III. List of companies included in the Trinidad and Tobago study

1. Agostini's Ltd.
2. Angostura Holdings Ltd.
3. Ansa Mcal Ltd.
4. Ansa Merchant Bank Ltd.
5. Barbados Shipping and Trading Co. Ltd.
6. Bcb Holdings Ltd.
7. Berger Paints Trinidad Ltd.
8. Capital and Credit Financial Group Ltd.
9. First Caribbean International Bank Ltd.
10. Flavorite Food Ltd.
11. Guardian Holdings Ltd.
12. Grace Kennedy (T&T) Ltd.
13. Guardian Media Ltd.
14. Jamaica Money Market Brokers Ltd.
15. Neal and Massy Holdings Ltd.
16. National Commercial Bank Jamaica Ltd.
17. National Enterprises Ltd.
18. National Flour Mills Ltd.
19. One Caribbean Media Ltd.
20. Point Lisas Industrial Port Development Corporation Ltd.
21. Prestige Holdings Ltd.
22. Republic Bank Ltd.
23. Readymix (West Indies) Ltd.
24. Sagicor Financial Corporation
25. Scotia Investments Jamaica Ltd.
26. Scotiabank Trinidad and Tobago Ltd.
27. Supreme Ventures Ltd.
28. Trinidad Cement Ltd.
29. Unilever Caribbean Ltd.
30. Williams LJB
31. The West Indian Tobacco Company Ltd.

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