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Agenda item 7

**DRAFT REPORT OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS  
ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING  
AT ITS FOURTEENTH SESSION**

Held at the Palais des Nations, Geneva,  
from 1 to 5 July 1996

**Rapporteur: Mr. Syarifuddin (Indonesia)**

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**Note for Delegations**

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements of individual delegations - to be submitted in English or French - should be communicated by Wednesday, 10 July 1996 at the latest to:

The UNCTAD Editorial Section  
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## Chapter II

### **ACCOUNTING FOR GOVERNMENT CONCESSIONS**

(Agenda item 4)

1. For its consideration of this item, the Intergovernmental Working Group had before it the following documentation:

"Accounting and reporting for government concessions" (TD/B/ITNC/AC.1/8).

2. A representative of the UNCTAD secretariat introduced the item, noting that a related subject, "Accounting for government grants", had been considered at the twelfth session of the Group in 1994.

3. The representative of Morocco said that, in some situations, the transferor might also grant monopolistic rights as part of a concession agreement. Since a grantee's costs in respect of services rendered or to be rendered affected charges to consumers, a concession holder had special fiduciary responsibilities to justify the reported costs so that regulators could adequately protect consumers.

4. The representative of Germany made the point that although, from an economic standpoint, certain concessions might grant the use of assets for a period equalling or exceeding their useful life, as in the situation that occurred for so-called financial leases, the laws of a country might not allow the recording of assets by an entity that did not have legal title to those assets.

5. The representative of Brazil felt that the document before the Group was an important paper because very little accounting guidance had been published in the area in question and most countries in the process of privatization had to deal with many of the transactions concerned.

6. Several delegations expressed the belief that tax benefits and import and export concessions granted by a Government should not be disclosed in general-purpose financial statements and that the topic should be more appropriately addressed in a study on tax reporting. A few other delegations supported the recommendation that the disclosures be made for transparency purposes.

Conclusions of the Working Group on agenda item 4

7. The Group concluded that UNCTAD should publish the report (TD/B/ITNC/AC.1/8), with the appropriate amendments, and send it to IASC for its consideration and response.

### Chapter III

#### OTHER BUSINESS

(Agenda item 5)

**(a) Oral report on national surveys on reasons for non-compliance with international standards of accounting and reporting and recommendations, based on the surveys, to remedy deficiencies**

8. A representative of the UNCTAD secretariat gave an oral report on compliance of national accounting standards with international accounting standards, based on document TD/B/ITNC/AC.1(XIV)/CRP.1.

9. The Chairperson commented on the distinction made in the document between credit-tax countries and equity market countries and the differences this caused in their accounting standards. He thought that the participation of the private sector in standard-setting in the equity market countries was preferable to the situation that prevailed in the credit-tax countries, where rule-making was in the hands of Governments. He wondered if the Group could assist Governments in moving to more self-regulation and amending legislation to bring it into line with international accounting standards (IASs). He hoped that, in the future, TNCs wishing to seek listings on foreign security exchanges would not need to prepare multiple sets of financial statements but one set based on international accounting standards. Harmonized standards were also needed for non-global players such as small and medium-sized businesses.

10. Furthermore, he suggested that, since ISAR was the only body where experts worked in the interests of government, it could present the views of Governments to IASC for the development of international accounting standards. The representative of the IASC thought that there was merit to this suggestion. Both the EU and IOSCO had had observer status on the IASC Board. He also informed the Group that the IASC was moving rapidly towards producing a core set of standards acceptable to IOSCO by early 1998. The IASC was also considering ways to help with the interpretation of its standards and in the future would be open to questions on their meaning and application. The IASC remained as interested as ever in developing countries and had undertaken a project on accounting for agriculture with funds from the World Bank.

11. A number of representatives, including those of Brazil, Chile, China, the Republic of Korea, Poland, Thailand and Turkey, made comments and corrections

to the information contained in the secretariat's document, which would be taken into account when the paper was published as part of International Accounting and Reporting Issues: 1996 Review (forthcoming). Rapid progress in the development of capital markets in developing countries and the move of economies in transition to market economies made the precise classification of countries difficult. Thus, the situation in some countries had changed since early 1995 when the survey had been undertaken. Many countries felt that even though their accounting standards did not comply completely with international standards, sufficient progress had been made in this area and they would be better described as being "in partial compliance". The representative of Zaire said that while his country was aware of IASs, it was difficult to apply them. There were problems with interpretation and also with the regulatory system which embedded accounting rules in law and made them difficult to change in line with IASs. The representative of Hungary concurred that where accounting rules were legislated, the process involved was a very long one. His country had successfully implemented the EU directives and now companies were complying with IASs voluntarily. The representative of Chile stated that his country still followed accounting developments in the developed equity market countries rather than IASs. The representative of Sudan said that in Sudan the work of ISAR and the IASC was modified by local laws. A number of delegations felt that the use of ISAs by enterprises would attract foreign direct investment and credit financing.

12. The representative of Nigeria said that the paper could be a useful tool in analysing the status of accounting within the African region. The representative of ICFTU stated that the report showed the obstacles to compliance and what steps needed to be taken. She added that banks were requiring the use of IASs even for non-global companies. She supported the idea of fuller participation of the IASC in ISAR sessions, as did a number of other delegations.

13. The representative of Morocco suggested that it must be asked whether IASs were too sophisticated and costly for small and medium-sized enterprises to apply. Such enterprises might need simplified systems. This view was also expressed by the Chairperson and the representatives of Denmark and the European Community. The European Community had adopted a new accounting strategy under which it would avoid drafting new legislation and encourage the use of IASs for consolidated accounts. It had examined the conformity of IASs with EU directives and there were no major conflicts. However, for individual company accounts, there was a long way to go to arrive at a common language. Nevertheless, the costs and benefits of having one uniform system must be taken into account.

14. The observer from the Canadian Institute of Chartered Accountants questioned this viewpoint, since different rules for large and small companies would make a true and fair view difficult. Of course, small companies should not have to provide the detail that large companies did, but this was a decision to be made at the national level. Inevitably small companies got larger, and it would be impractical if the accounting rules changed when they achieved a certain critical size.

Conclusions of the Working Group on agenda item 5(a)

[To be completed]

**(b) Oral report on transfer pricing methods and current practices**

15. A representative of the UNCTAD secretariat gave an oral report on transfer pricing methods and current practices based on document TD/B/ITNC/AC.1(XIV)/CRP 2.

16. The representatives of ICFTU, Morocco, Nigeria and Brazil discussed the need for greater disclosure. The representatives of Japan, Switzerland and the United Kingdom took the view that the costs and benefits of increased disclosure should be carefully balanced.

Conclusions of the Working Group on agenda item 5(b)

17. It was decided that the text of document TD/B/ITNC/AC.1(XIV)/CRP.2 should be revised to make it descriptive rather than prescriptive in respect of the methods used to determine transfer prices. In order to provide developing countries with more understanding of these methods, they should be described in greater detail. The section on government regulations for the control of transfer pricing could be deleted. The comments of the various delegations regarding the type and extent of disclosure in financial statements would also be incorporated into the new version.

**(c) Oral report on accounting developments at the global level**

18. Delegations were invited to submit comments and corrections on document TD/B/ITNC/AC.1(XIV)/CRP.3 in writing to the UNCTAD secretariat.

**(d) Oral report on the proposed subgroups on global qualification standards for accountants (including accounting technicians) and on a professional accreditation system based on global qualification standards**

19. A representative of the UNCTAD secretariat made an oral presentation on developments in the World Trade Organization and its Working Party on Professional Services and how they related to the work of the Intergovernmental Working Group. During the course of 1995, the Working Party had taken up the question of reducing barriers to trade in accountancy services. Since it was now clear that there would be no duplication of work between UNCTAD and WTO, UNCTAD would convene a steering committee to start work on the development of a global qualification. This work now had a double significance, since the development of a benchmark for professional qualifications would both strengthen the profession in developing countries and allow those countries to take advantage of any reductions in the barriers to trade in accountancy services. This was in line with the outcome of UNCTAD IX, where UNCTAD had been urged to extend appropriate technical assistance to developing countries to strengthen their service sectors and help them reap the maximum possible benefits from liberalization of trade in services.

20. The representative of the World Trade Organization confirmed that there was no duplication in the work of the Working Party and UNCTAD.

Conclusions of the Working Group on agenda item 5(d)

21. The Working Group noted that it was now clear that there would be no duplication between UNCTAD and WTO and that work would proceed on the development of a global qualification, as requested by the Group at its eleventh session and subsequently approved by its parent bodies.

**(e) Oral report on follow-up activities relating to topics considered at the Group's thirteenth session**

22. A representative of the UNCTAD secretariat made an oral presentation on the outcome of the workshop on environmental accounting which had been convened in December 1995 to discuss what further contribution UNCTAD could make to this field. Activities had been identified in four areas: financial accounting, management accounting, environmental reports and the relation between environmental performance indicators and financial ratios. Such work was in line with the commitment entered into at UNCTAD IX to promote sustainable development. UNCTAD would carry out this project in close cooperation with the World Bank, UNEP and a number of national professional institutes.

Conclusions of the Working Group on agenda item 5(e)

23. The Group noted that this issue would be included in its agenda for its fifteenth session.