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LIST OF MINIMUM ITEMS FOR GENERAL PURPOSE REPORTING IN FINANCIAL STATEMENTS OF A TRANSNATIONAL CORPORATION

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(2) United Nations: International Standards of Accounting and Reporting: Report of the Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (New York, E/C.10/1982/8/Rev.1, Sales no. E.84.II.A.2, 1984) pp. 16-55.

LIST OF MINIMUM ITEMS FOR GENERAL PURPOSE REPORTING IN FINANCIAL STATEMENTS OF A TRANSNATIONAL CORPORATION

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LIST OF MINIMUM ITEMS AS PROPOSED BY

THE GROUP OF EXPERTS (1977)

S E C T I O N   A

E N T E R P R I S E   A S   A   W H O L E

I. BALANCE-SHEET

Long-term assets

- Property, plant and equipment
  - Gross
  - Accumulated depreciation
- Other long-term assets
  - Investments
    - Group companies not consolidated
    - Associated companies
    - Other investments (and indicate market value)
- Long-term receivables
  - Group companies not consolidated
  - Associated companies
  - Other long-term receivables
- Purchased goodwill
- Patents, trade marks and similar intangibles
- Deferred charges (describe)

Current assets

- Cash
- Marketable securities (and indicate market value)
- Receivables
  - Accounts and notes - Trade
  - Directors & officers of the group
  - Other
- Inventories (not in excess of net realized value)
- Prepaid expenses

Total Assets

Long-term liabilities

- Loans and debentures

Current liabilities

- Loans and overdrafts
- Current portions of long-term liabilities and provisions
- Payables
  - Accounts and notes - Trade
  - Directors & officers of the group
  - Taxes on income
  - Dividends payable
  - Other accounts payable and accrued expenses

Other liabilities & provisions

- Deferred Taxes
- Deferred income
- Provisions for pensions
- Other provisions (describe), such as:
  - Warranties
  - Estimated losses on firm sales or purchase contracts

Minority interests

- in group companies consolidated

Shareholders' equity

- Capital shares
  - Describe each class
  - Movements during the period
- Other equity accounts
  - Capital paid-in in excess of par
  - Revaluation surplus
  - Reserves
  - Retained earnings
  - Movements during the period (describe)

Total Liabilities

Balance-sheet footnotes

(Disclose amounts unless a description only is called for)

Where property, plant and equipment is material in relation to total assets, disclose an appropriate breakdown.

Where inventories are a material item of working capital, disclose a breakdown appropriate to activities, such as: raw material, work in process, finished goods, spare parts and supplies.

Indicate assets restricted or pledged and liabilities secured.

As to loans and debentures, summarize the total by currencies, interest rates and maturities.

Description of pension plans and service and severance benefits and arrangements for funding. Indicate the amount of rights earned but not provided for. Disclose amounts receivables from or payable to pension funds of the company.

Lease and other long-term commitments quantified (describe).

Contingent assets and liabilities (indicate nature and quantify if possible).

Contracts for future capital expenditures quantified (omit amounts which can be financed with current working capital).

Material events that have occurred after the balance-sheet date (quantify if possible)

While reporting under "Receivables" or under"Payables", on "Accounts and Notes - Trade", disclose separately, if material, amounts receivable from and payable to group companies not consolidated and associated companies

Comment - Footnote information may be disclosed in the face of the balance-sheet.

II. PROFIT AND LOSS STATEMENT

- Sales 1/
- Gross profit 2/
- Interest and investment income
- Equity in income (profit and loss) of associated companies.
- Depreciation
- Amortization of intangibles 3/
- Interest expense
- Taxes on income
- Unusual charges and credits (describe)
- Minority interest in income of group companies consolidated

- **Net income (or loss)**

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Profit and loss statement footnotes

(Disclose amounts)

Transactions with group companies not consolidated should be disclosed either on the face of the profit and loss statement in separate lines adjacent to similar revenue or expense items resulting from transactions with parties outside the group, or parenthetically, or in footnotes appropriately referenced.

Depending on the relative significance of such transactions, disclosure or the total revenue and a description of the principal items therein, may suffice.

Depending on the relative significance of transactions with associated companies, similar disclosures should be made but separately.

Wages and salaries, including fringe and other benefits (voluntary and obligatory) or disclose such benefits separately

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1/ Report sales net of sales taxes or similar taxes, or disclose amount of such taxes separately if included.

2/ The gross profit should be presented so as to show sales for the period and:

(a) Cost of sales , or

(b) The production for the period and costs related thereto subdivided as to their nature.

3/ May be combined with "Depreciation" if adequately described and related to producing facilities.

Pension, service and severance benefits (not to be included in wages and salaries)

Research and development (total of amount amortized and amount expensed directly during the period)

Leasing expense for the period

Foreign exchange gain or loss

Comment - Footnote information may be disclosed in the face of the profit and loss statement.

III. STATEMENT OF SOURCES AND USES OF FUNDS

(Not applicable to banks)

The following is an example of items and is not all inclusive.

- Net income
- Minority interest in net income of group companies consolidated
- Provision for depreciation
- Change in balance of deferred income taxes
- Change in balance of estimated warranty expense beyond one year
- Amortization of goodwill and organization of start-up expenses deferred
- Exchange gains and losses on long-term debt
- Undistributed earnings of associated companies
- Working capital provided by operations (a subtotal)
- Proceeds from sale of property, plant and equipment
- Proceeds from sale of other long-term assets
- Proceeds from sale of a company or a group of assets
- Outlays for purchase of property, plant and equipment
- Outlays for purchase of other long-term assets
- Outlays for purchase of a company or a group of assets
- Dividends in cash and dividends in other assets, including dividends by group companies consolidated to minority interests.
- Issue, redemption and repayment of long-term debt, reclassification of short-term portion of long-term debt, & conversion of long-term debt to common or ordinary shares
- Issue of shares for cash or other assets and redemption or purchase of shares for cash or other assets
- Conversion of preferred shares to common or ordinary shares

Notes

The statement may account for either the change between periods in working capital, or cash and temporary cash investments provided the change in each working capital item is shown.

The statement may begin with net income (before unusual items), or omit non-cash items by beginning with revenue.

As a subtotal the statement should show the funds provided from or used in operations and disclose unusual items separately

The statement should disclose all financing and investing activities.

This statement is required whenever a balance-sheet and statement of profit and loss are presented.

The amount of funds provided by grants from Governments as a subsidy should be disclosed separately.

when a company or a group of assets is purchased or sold, a footnote should disclose the amounts of the principal assets and liabilities involved in the lump sum reported in the statement or a footnote to the balance-sheet should include such disclosures.

IV. DISCLOSURE OF ACCOUNTING POLICIES

The notes to the financial statements should disclose all significant accounting policies which have been used, including over-all evaluation policies (e.g., historical cost, application of a general purchasing power index, replacement value or any other basis).

Description of consolidation policy for:
- Inclusion and exclusion of group companies in consolidation
- Carrying associated companies
- Elimination of intra-group profits
- Translating accounts in a foreign currency

Description of the basis of accounting for :
- Transactions between group companies and
- Transactions between group companies and associated companies

Criteria for the selection of geographical areas or countries reported separately

Criteria for segmentation by lines of business reported separately.

V. FINANCIAL INFORMATION CONCERNING MEMBERS OF A GROUP AND ASSOCIATED COMPANIES

Disclosure of identity of parent company if its name is not included in the name of the group.

List of other individual companies within the group. Where voluminous, list principal companies and indicate where complete list is publicly available. Also indicate:
- Percentage owned
- geographical area or country of operations.

Justify exclusion of any such company from consolidation

Account for an excluded group company by the equity method or carry at cost or less with disclosure of the equity in net assets and net income in the footnotes.

List of associated companies. Where voluminous, list principal companies and indicate where complete list is publicly available. Also indicate:
- Percentage owned,
- Geographical area or country of operations

Account for such companies by the equity method or justify carrying them at cost or less with disclosure of the equity in net assets and net income in the footnotes.

VI. SEGMENTATION OF FINANCIAL INFORMATION

A. Segmentation by geographical area

Preference is expressed for segmenting assets according to the location of the assets and not necessarily the location of the records, and attributing revenue to the geographical area of the last significant value-added by operations.

Segment and disclose geographically:
- Sales to unaffiliated customers
- Transfers to other geographical areas (eliminated in consolidation)
- Operating results, such as profit before general corporate expenses, interest expense, taxes on income and unusual items
- Does not prohibit segmenting net income as well

To the extent identifiable with a geographical area, disclose:
- Total assets or net assets or total assets and total liabilities, and at least:
  - Property, plant and equipment, gross
  - Accumulated depreciation
  - Other long-term assets
- New investment in property, plant and equipment
- Describe principal activities in each geographical area or country
- Disclose the basis of accounting for transfers between areas or countries
- Disclose exposure to exceptional risks of operating in other countries

Note: Amounts disclosed should aggregate to the total of the item shown in the consolidated financial statements or reconciling amounts should be given.

B. Segmentation by line of business

Segment and disclose by line of business:
- Sales to unaffiliated customers
- Transfers to other lines of business (eliminated in consolidation)
- Operating results, such as profit before general corporate expenses, interest expense, taxes on income and unusual items
- Does not prohibit segmenting net income as well

To the extent identifiable with a line of business, disclose:
- Total assets or net assets or total assets and total liabilities, and at least:
  - Property, plant and equipment, gross

    - Accumulated depreciation
    - Other long-term assets
- New investment in property, plant and equipment
- Describe principal activities in each line of business
- Disclose the basis of accounting for transfers between lines of business

<u>Note:</u> Amounts disclosed should aggregate to the total of the item shown in the consolidated financial statements or reconciling amounts should be given.

VII. NON-FINANCIAL INFORMATION

1. Labour and employment

(a) Description of general corporate labour relations policy if any, such as trade union recognition, complaints and dispute settlement mechanism and procedure

(b) Number of employees as at year end
- (i) Total
- (ii) Breakdown by geographical area
- (iii) Breakdown by line of business, if feasible

2. Production

(a) Physical output by principal lines of business in accordance with normal industrial practice

(b) Description of significant new products and processes

3. Investment programme

(a) Description of announced new capital expenditure

(b) Description of main projects, including their cost, estimated additions to capacity, estimated direct effect on employment in the enterprise

(c) Description of announced mergers and takeovers, including their cost and estimated direct effect on employment

4. Organizational structure

(a) Description of management structure, e.g., degree of centralization for decision-making

(b) Names of members of the board of directors and, where applicable, the supervisory board of the parent company and description of their affiliations with companies outside the group1/

(c) Number of owners or shareholders and, where known, the names of the principal owners or shareholders

5. Environmental measures

Description of types of major or special environmental measures carried out, together with cost data, where available

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1/ Reference may be made to the report of the ultimate parent

SECTION B

INDIVIDUAL MEMBER COMPANY

of a group of companies comprising a transnational corporation including the parent company

Note:

It is not intended that the parent company should issue financial statements of each individual member company in its language and currency. The list which follows is intended for application by the individual member company in the issuance of its own general purpose annual report.

An individual company may be a transnational corporation, in which case the standards in this list are applicable to it.

I. BALANCE-SHEET

Long-term assets

Property, plant and equipment
- Gross
- Accumulated depreciation

Other long-term assets
- Investments
  - Group companies
  - Associated companies
  - Other investments (and indicate market value)
- Long-term receivables
  - Group companies
  - Associated companies
  - Other long-term receivables
- Patents, trade marks and similar intangibles
- Deferred charges (describe)

Current assets

- Cash
- Marketable securities (and indicate market value)
- Receivables
  - Accounts and notes - Trade
  - Directors & officers of the group
  - Other
- Inventories (not in excess of net realized value)
- Prepaid expenses

Total Assets

Long-term liabilities

- Intercompany loans
- Other loans & debentures

Current liabilities

- Loans and overdrafts
- Current portions of long-term liabilities and provisions
- Payables
  - Accounts and notes - Trade
  - Directors & officers of the group
  - Taxes on income
  - Dividends payable
  - Other accounts payable and accrued expenses

Other liabilities & provisions

- Deferred Taxes
- Deferred income
- Provisions for pensions
- Other provisions (describe), such as:
  - Warranties
  - Estimated losses on firm sales or purchase contracts

Shareholders' equity

- Capital shares
  - Describe each class
  - Movements during the period
- Other equity accounts
  - Capital paid-in in excess of par
  - Revaluation surplus
  - Reserves
  - Retained earnings
  - Movements during the period (describe)

Total Liabilities

Balance-sheet footnotes

(Disclose amounts unless a description only is called for)

Where property, plant and equipment is material in relation to total assets, disclose an appropriate breakdown.

Where inventories are a material item of working capital, disclose a breakdown appropriate to activities, such as: raw material, work in process, finished goods, spare parts and supplies.

Indicate assets restricted or pledged and liabilities secured.

Indicate by currency accounts receivable or payable in a foreign currency unless hedged.

As to loans and debentures, summarize the total by currencies, interest rates and maturities.

Description of pension plans and service and severance benefits and arrangements for funding. Indicate the amount of rights earned but not provided for. Disclose amounts receivables from or payable to pension funds of the company.

Lease and other long-term commitments quantified (describe).

Contingent assets and liabilities (indicate nature and quantify if possible).

Contracts for future capital expenditures quantified (omit amounts which can be financed with current working capital).

Material events that have occurred after the balance-sheet date (quantify if possible)

Comment - Footnote information may be disclosed in the face of the balance-sheet.

II. PROFIT AND LOSS STATEMENT

- Sales 1/
- Gross profit 2/
- Interest and investment income
- Equity in income (profit and loss) of associated companies.
- Depreciation
- Amortization of intangibles 3/
- Interest expense
- Taxes on income
- Unusual charges and credits (describe)

- Net income (or loss)

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Profit and loss statement footnotes

(Disclose amounts)

Transactions with group companies should be disclosed either on the face of the profit and loss statement in separate lines adjacent to similar revenue or expense items resulting from transactions with parties outside the group, or parenthetically, or in footnotes appropriately referenced.

Depending on the relative significance of such transactions, give a description of the transactions (summarized when appropriate) for the period reported on, including amounts, if any, and such other information as deemed necessary to an understanding of the effects on the financial statements.

Depending on the relative significance of transactions with its associated companies, an individual company should make similar disclosures separately.

Wages and salaries, including fringe and other benefits (voluntary and obligatory) or disclose such benefits separately

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1/ Report sales net of sales taxes or similar taxes, or disclose the amount of such taxes separately if included. Disclose the amount of export sales separately.

2/ The gross profit should be presented so as to show sales for the period and:

(a) Cost of sales , or

(b) The production for the period and costs related thereto subdivided as to their nature.

3/ May be combined with "Depreciation" if adequately described and related to producing facilities.

Pension, service and severance benefits (not to be included in wages and salaries)

Research and development (total of amount amortized and amount expensed directly during the period)

Leasing expense for the period

Foreign exchange gain or loss

Comment - Footnote information may be disclosed in the face of the profit and loss statement.

III. STATEMENT OF SOURCES AND USES OF FUNDS

(Not applicable to banks)

The following is an example of items and is not all inclusive.

- Net income
- Provision for depreciation
- Change in balance of deferred income taxes
- Change in balance of estimated warranty expense beyond one year
- Amortization of goodwill and organization of start-up expenses deferred
- Exchange gains and losses on long-term debt
- Undistributed earnings of associated companies
- Working capital provided by operations (a subtotal)
- Proceeds from sale of property, plant and equipment
- Proceeds from sale of other long-term assets
- Proceeds from sale of a company or a group of assets
- Outlays for purchase of property, plant and equipment
- Outlays for purchase of other long-term assets
- Outlays for purchase of a company or a group of assets
- Dividends in cash and dividends in other assets
- Issue, redemption and repayment of long-term debt, reclassification of short-term portion of long-term debt, & conversion of long-term debt to common or ordinary shares
- Issue of shares for cash or other assets and redemption or purchase of shares for cash or other assets
- Conversion of preferred shares to common or ordinary shares

Notes

The statement may account for either the change between periods in working capital, or cash and temporary cash investments provided the change in each working capital item is shown.

The statement may begin with net income (before unusual items), or omit non-cash items by beginning with revenue.

As a subtotal the statement should show the funds provided from or used in operations and disclose unusual items separately

The statement should disclose all financing and investing activities.

This statement is required whenever a balance-sheet and statement of profit and loss are presented.

The amount of funds provided by grants from Governments as a subsidy should be disclosed separately.

When a company or a group of assets is purchased or sold, a footnote should disclose the amounts of the principal assets and liabilities involved in the lump sum reported in the statement or a footnote to the balance-sheet should include such disclosures.

IV. DISCLOSURE OF ACCOUNTING POLICIES

The notes to the financial statements should disclose all significant accounting policies which have been used, including over-all evaluation policies (e.g., historical cost, application of a general purchasing power index, replacement value or any other basis).

Description of policy for:
- Carrying associated companies
- Elimination of profits on sales to associated companies
- Translating accounts of associated companies in a foreign currency

Description of the basis of accounting for :
- Transactions with other members of the group
- Transactions with associated companies

V. FINANCIAL INFORMATION ON MEMBERS OF A GROUP OF COMPANIES AND ASSOCIATED COMPANIES

Disclosure of identity of immediate and ultimate parent company

A parent company lists controlled companies

List of other associated companies. Where voluminous, list principal companies and indicate where complete list is publicly available. Indicate the geographical area or country of operations.

Account for such companies by the equity method or justify carrying them at cost or less with disclosure of the equity in net assets and net income in the footnotes.

Disclosure of the amount of guarantees on behalf of other members of the group

VI. SEGMENTATION OF FINANCIAL INFORMATION

A. Disclosure of foreign assets

Describe principal activities by foreign geographical area or country

New investment in property, plant and equipment by foreign geographical area or country

Disclose exposure to exceptional risks of operating in other countries

B. Segmentation by line of business

If an individual member company is in a single line of business, it should identify the broad industry in which it operates and describe the principal products or services.

A company operating in more than one industry should make the disclosure listed below:

- Criteria for segmentation by lines of business reported separately
- Describe the principal products and services in each line of business
- Sales by line of business, with intersegment sales disclosed separately
- New investment in property, plant and equipment by line of business
- Disclose the basis of accounting for transfers between lines of business

Note: Amounts disclosed should aggregate to the total of the item shown in the financial statements or reconciling amounts should be given.

VII. NON-FINANCIAL INFORMATION

1. Labour and employment

(a) Description of labour relations policy1/
  (i) Trade union recognition
  (ii) Complaints and dispute settlement mechanism and procedure
(b) Number of employees as at year end and annual average
(c) Number employed by function (professional,production,...)
(d) Number of women employees by function
(e) Number of national employees by function
(f) Average hours worked per week
(g) Labour turnover, annual rate
(h) Absenteeism - working hours lost (number and as percentage of total working hours per year)
(i) Accident rates (describe basis)
(j) Description of health and safety standards
(k) Employee costs:
  (i) Total wages, salaries and other payments to employees (before tax)
  (ii) Social expenditures paid to institutions and Government for benefit of workers (excluding pension schemes reported in the profit and loss statement)
  (iii) Summary description and cost of training programmes

2. Production

(a) Description of practices regarding acquisition of raw materials and components (indicate percentage acquired from intercompany foreign sources and percentage from all foreign sources)

(b) Indicate average annual capacity utilization in accordance with normal industrial practice

(c) Physical output by principal lines of business in accordance with normal industrial practice

(d) Description of significant new products and processes

3. Investment programme

(a) Description of announced new capital expenditure

(b) Description of main projects, including their cost, estimated additions to capacity, estimated direct effect on employment

(c) Description of announced mergers and takeovers, including their cost and estimated direct effect on employment

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1/ For reporting of these items, reference may be made to the application of national laws, agreements with trade unions or publicly available written company policies.

4. Organizational structure

(a) Names of members of the board of directors and, where applicable, the supervisory board and a description of their affiliations with companies outside the group

(b) Number of owners or shareholders and, where known, the names of the principal owners or shareholders

5. Environmental measures

Description of types of major or special environmental measures carried out, together with cost data, where available

P A R T II

DISCUSSION OF THE LIST OF MINIMUM ITEMS

BY

THE *ad hoc* INTERGOVERNMENTAL WORKING GROUP OF EXPERTS

LISTS OF MINIMUM ITEMS FOR GENERAL PURPOSE REPORTING

1. The Group agreed with the principle of appropriate disclosure to meet users' needs for better understanding, analysis and evaluation of the performance of transnational corporations and therefore agreed to consider items appropriate for inclusion in minimum lists concerning such enterprises. In defining the scope of disclosure, the Group stressed the need to bear in mind the criterion of materiality. Several delegations also stressed the importance of criteria such as confidentiality, feasibility and a reasonable relationship between costs and benefits. Several delegations emphasized the need for increased transparency in order to provide adequate and meaningful information. Some delegations considered that emphasis should be given to the disclosure of non-financial information by transnational corporations. Other delegations were of the opinion that it would be advisable to proceed with caution in this area since the few existing requirements were often relatively new and controversial and concerned special rather than general purpose reports.

2. The Group agreed that reports should disclose all items which were material enough to affect evaluations or decisions by users, whether or not such items were included in a minimum list. Some delegations considered that such additional disclosure should be provided as necessary to give a true and fair view of the operations of transnational corporations. Other delegations considered that transnational corporations should disclose such information as may be necessary to make the financial information complete, correct and clear.

3. The Group deferred consideration of the definition of "transnational corporation" pending the outcome of discussions to define this term in the Commission on Transnational Corporations. However, the Group decided that this did not preclude the Group from defining applicability criteria for enterprises in respect of general purpose reporting, without prejudice to the definition that would eventually be established.

4. The Group believed that transnational corporations as a whole regardless of size should be subject to some general purpose reporting requirements. The Group also agreed that the extent and nature of the information disclosed should take account of the transnational corporation's size. Certain criteria were proposed during the discussion such as net sales, total assets, average number of employees and value added. The Group considered that individual member enterprises of transnational corporations should disclose information according to the criteria established by national law and practice. The Group also agreed that with regard to size criteria, the principle of non-discrimination between transnational corporations and national enterprises should be observed. After being provided with a study (Working Paper No. 1981/3/11) prepared by the Centre on Transnational Corporations and further discussion of the problem, the Group agreed that the issue of size criteria merited further consideration.

5. Considering that there are different types of business entities, the Group considered that the word "company" should be avoided in favour of the word "enterprise", which, for general purpose reporting, is defined to include any entity doing business regardless of ownership or legal form.

6. The Group agreed that lists of minimum items for disclosure should not constitute a pre-determined format. It was also agreed that the question of the applicability of the lists of minimum items to enterprises, with a financial character, such as banks and insurance enterprises, would have to be considered subsequently. In this connection, the Centre on Transnational Corporations, at the request of the Group, prepared a background study (Working Paper No. 1982/5/1) which (a) reviewed information disclosure in general purpose reports by banking and financial institutions, and (b) identified existing efforts aimed at harmonizing accounting and reporting practices in this sector.

7. In dealing with general purpose reporting the Group agreed to concentrate on:

(a) Financial information disclosure by:

(i) The enterprise as a whole;

(ii) The individual member enterprise;

(b) Non-financial information disclosure by:

(i) The enterprise as a whole;

(ii) The individual member enterprise.

Financial information

8. The Group stressed that financial accounting emphasized the economic substance of events even though the legal form might differ from the economic substance and suggest different treatment. Where this approach is precluded by national law, appropriate disclosure should be made.

9. Some delegations were of the opinion that fundamental accounting assumptions should include a requirement for transnational corporations to provide accurate and honest financial statements, including notes. Others considered that those financial statements should present a true and fair view. At the request of the Group, the International Accounting Standards Committee presented a paper on this issue for consideration by the Group (Working Paper No. 1981/3/4). However, the Group was not able in the time available to consider this study.

10. The Group agreed that the annual financial statements generally comprised the balance sheet, income statement, statement of allocation of net profits or net income, statement of changes in financial position and notes to the financial statements, as well as any explanatory material or schedules identified as an integral part of the financial statements.

11. The Group accepted the description of comparative financial statements as financial statements showing corresponding amounts for the preceding period. If a change in an accounting policy had been made, it should be described and the effect quantified.

12. Several delegations argued that the Group should seriously consider:

(a) Changes to the structure of the financial statements;

(b) Definitions of technical terms;

(c) Valuation of financial statement items, especially historical cost and market value;

(d) Classification of assets and liabilities into current and long-term categories;

(e) Creation of compensation accounts;

(f) Translation of accounts denominated in foreign currency.

13. Other delegations considered that some of these questions raised complex accounting problems which could not be resolved in a reasonable period of time.

14. Several delegations expressed the view that financial statements should be issued twice in each fiscal year, at six-monthly intervals, and that the allocation of profits should be reported clearly in an allocation of profit statement. Other delegations considered that the annual financial statements should be supplemented by summary financial information on at least a semi-annual basis in the case of larger transnational corporations.

15. All delegations agreed that the auditor's opinion should accompany the financial statements.

16. It was the view of several delegations that the auditing services of transnational corporations established in a country should be planned and performed solely by accountants or accountancy firms from the host country having no direct or indirect links with transnational corporations or organizations of any kind. Similarly, such auditing services may not be transferred by the firms or experts in question to other service firms or experts, either under a subcontracting system or in any other form.

17. Other delegations disagreed strongly with this view. They held that competence, independence and integrity, but not nationality, were appropriate criteria to be applied in the selection of an auditor. Furthermore, they questioned whether it would be within the mandate of the Group to express itself as to the qualifications of auditors.

I. THE ENTERPRISE AS A WHOLE: FINANCIAL INFORMATION

18. The Group accepted the principle of consolidation of group enterprises and agreed that exceptions should be explained in the notes to the consolidated financial statements. Consolidation was understood to involve, among other things, the application of accounting principles and practices to eliminate transactions, investments and other balances, and profits - and sometimes losses - arising from transactions among group enterprises consolidated. The consolidated financial statements presented financial information concerning the enterprises consolidated as if they were a single enterprise.

19. Considering that control serves as a basis for consolidation, the Group agreed that control can generally be established through ownership of more than

50 per cent of the voting rights of an enterprise. Some delegations noted that control might take other forms such as:

(a) Management and service contracts;

(b) Ownership of less than 50 per cent of the voting rights, but exceeding any of the other minority interests which are widely dispersed;

(c) Exercise of a dominant influence by any other means.

20. In certain circumstances, group enterprises may be excluded from consolidation. Some delegations pointed out that the use of the equity method to account for group enterprises excluded from consolidation and associated enterprises is not prevalent in many countries and that there are exceptions to its use in countries where the method is well established. In view of the difference of opinion over the use of the equity methods, this would need to be further studied and considered. A study was undertaken by the United Nations Centre on Transnational Corporations at the Group's request (Working Paper No. 1981/3/1). However, the Group was not able in the time available to consider this study.

21. An associated enterprise in relation to a transnational corporation was understood to mean an enterprise - other than a group enterprise - in which the transnational corporation held a substantial interest or over whose financial or operating policies the transnational corporation exercised a significant influence.

22. The Group understood that, under the equity method, an initial investment by a transnational corporation in another enterprise was so adjusted in the consolidated financial statements of the transnational corporation as to reflect its share of the net assets of the other enterprise. The consolidated income statements reflect the transnational corporation's share of the operating results of the other enterprise.

23. The Group also discussed the issue of disaggregation of consolidated financial information by geographical area or country and line of business. The Group noted that there was a lack of internationally accepted criteria for implementing this.

24. Several delegations stressed the importance of segmentation of this kind. Some delegations considered that efforts should be made to resolve the many complex problems associated with the concept by the establishment of internationally applicable principles based on results of research and studies. Other delegations drew the attention of the Group to particular unresolved questions such as:

(a) What are the criteria for:

(i) Delineating a geographical area?

(ii) Determining a line of business?

(b) Should there be segmentation on a country by country basis?

(c) What are the items to be segmented?

(d) Should each enterprise be allowed to determine its "geographical area" and "line of business" as it deems appropriate in its particular circumstances?

A. List of minimum items for general purpose reporting: the balance sheet

25. The Group agreed that it was not necessary to specify exactly where the minimum items for the balance sheet should be disclosed - that is, in the balance sheet itself or in the notes thereto. The Group considered the following items to be appropriate for inclusion in a minimum list concerning the balance sheet of the enterprise as a whole.

Land, buildings, plant and equipment

26. The Group considered "land and buildings" to be preferable to the term "property".

27. Where land and buildings, plant and equipment are material in relation to total assets, an appropriate breakdown would be provided.

28. Leaseholds and improvements thereto are to be included under this item where they are treated as assets.

29. Gross amounts and accumulated depreciation would be shown. Some delegations felt that accumulated depreciation should be shown on the liabilities side of the balance sheet. Other delegations expressed grave reservations concerning this suggestion.

30. The Group agreed that depreciation should be disclosed in terms of either cost or value and that the method of computation should be disclosed in the notes to the financial statements. Delegations had conceptual differences regarding the nature and accounting treatment of depreciation. One school of thought considered depreciation an allocation of the cost or value of an asset over its estimated useful life in a systematic and rational manner. Another school of thought considered depreciation an accumulation of funds that affected the equity of the enterprise. According to the latter school of thought, accumulated depreciation should not be deducted from the cost of the asset but should be reported separately as an item of shareholders' equity. Some delegations stressed the importance of reflecting the effect of changing prices.

Investments

31. Under this item, investments in group enterprises not consolidated, investments in associated enterprises and other long-term investments would each be shown separately.

32. As regards other long-term investments, a requirement that market values be shown was not considered appropriate for a minimum list.

33. The Group considered that "investments" should not be qualified by the words "long term" in a minimum list.

Long-term receivables

34. Under this item, receivables from group enterprises not consolidated, receivables from associated enterprises and other long-term receivables would each appear separately.

Purchased goodwill

35. Some delegations suggested that in addition to purchased goodwill normally disclosed in the balance sheet, internally generated goodwill should be disclosed in the notes.

Patents, trade marks and similar intangibles

36. This item should include only expenditures incurred to acquire these intangibles. Valuations should not be included unless identified as such in those jurisdictions that permit it.

37. Several delegations considered that internally generated patents, trade marks and similar intangibles should be included in this item.

Deferred charges

38. This item generally includes expenditures which are not recognized as a cost of operations in the period in which they are incurred but which are carried forward to be written off over a period of years. Where treated as assets, the following would each appear separately: formation expenditure, research and development and other deferred charges.

39. Appropriate explanations and descriptions should be given of other deferred charges.

40. This item excludes prepaid expenses reported elsewhere.

41. When used as "other" long-term assets, an appropriate descriptive caption should be used in place of deferred charges if a material balance is carried.

Cash

42. This item should show cash on hand and in banks, including time deposits due within a short period.

Marketable securities

43. A requirement that market values be shown was not considered appropriate for a minimum list.

44. Some delegations felt that the possibility of the adoption of market prices or internal valuation should be excluded unless said prices were publicly and clearly known. Other delegations considered that the indication of market value was a useful item of supplementary disclosure; however, they considered that it was inappropriate for the Group to attempt to deal with the complex questions of valuation.

Receivables

45. Accounts and notes receivable (trade), receivables from members of the board of directors and other receivables should each be indicated.

46. Appropriate explanations and descriptions should be given of other receivables.

Inventories

47. Where inventories are a material item, an appropriate breakdown, such as raw material, work in process, finished goods, spare parts and supplies, would be provided. The Group did not consider it appropriate to prescribe valuation methods in the context of a minimum list.

Prepaid expenses

48. The Group agreed that prepaid expenses were to be disclosed separately, but there was no agreement as to the classification of the item.

49. Some delegations maintained that the traditional classification of prepaid expenses was erroneous and stated that prepaid expenses must be excluded from current assets, creating a new group denomination "compensation or order accounts".

Long-term loans and debentures

50. The Group agreed on disclosure of a summary of maturity patterns, and the basis of currency conversion and exchange rates used.

51. Some delegations believed that a summary by interest rates should be provided, as well as a summary of material loans and debentures by currencies. Other delegations considered that this was an inordinate degree of detail for the financial statements of the enterprise as a whole.

Short-term loans and overdrafts

52. There was no agreement on the need for separate disclosure of current portions of long-term liabilities.

Payables

53. Accounts and notes payable (trade), payables to members of the board of directors, taxes on income, dividends payable, as well as other accounts payable and accrued expenses should each be shown.

54. Appropriate explanations and descriptions should be given of other accounts payable and accrued expenses.

55. Some delegations considered that accrued expenses might be shown together with deferred income.

Deferred income

56. The Group agreed to include this item in the minimum list.

Provisions

57. Deferred taxes, provisions for pensions and other provisions should each be indicated separately. Appropriate explanations and descriptions should be given of other provisions.

58. Deferred taxes are amounts provided for taxes in respect of the current year's and previous years' results which are expected to become payable in future periods. The amount reflects the fact that the periods in which some items of revenue and expense are recognized for tax purposes do not coincide with the periods in which they are included in accounting income.

Minority interests

59. The Group agreed to include this item in the minimum list.

Owners' interest

60. A description and quantification of each component element would be provided, such as, if any, different classes of shares and other forms of owners' interest, capital paid in excess of par, revaluation surplus, reserves and retained earnings.

61. Movements during the accounting period would be indicated.

Intra-group receivables and payables

62. The Group noted that receivables and payables resulting from transactions between member enterprises of a group were eliminated in consolidation.

63. Several delegations suggested that information on such account balances, which had been eliminated in the process of consolidation, should be disclosed in the notes.

64. Other delegations believed that such disclosures would not assist users in understanding the financial statements of the enterprise as a whole. They pointed out that intra-group receivables and payables were disclosed in the balance sheets of the individual member enterprises or in special purpose reports.

Receivables and payables: members of the board of directors

65. The Group agreed that balances receivable from or payable to directors which might otherwise be considered immaterial should be reported in the notes because of their nature. Several delegations argued that this requirement should be qualified with the sentence "Balances resulting from ordinary recurring transactions are not required to be separately reported if clearly immaterial".

Restricted assets and secured liabilities

66. Where assets are restricted or pledged, or liabilities secured, an indication in summary form would be provided.

Pension plans and similar financial commitments

67. The Group agreed that wherever a transnational corporation had its own pension plan, a general description of benefits, financial obligations and investment of funds would be provided. Financial commitments not shown in the balance sheet would in any case be disclosed.

Leases

68. The Group agreed that leases not reflected in fixed assets and other long-term commitments would be appropriately described and quantified.

69. Several delegations pointed out that national law might preclude the treatment of a lease as an asset and stated that in such cases appropriate disclosure should be made.

70. Several delegations considered that information on leasing and lease-back arrangements among group or associated enterprises should be provided. Other delegations believed that such disclosure would not assist users in their understanding of the financial statements of the enterprise as a whole.

Contingent assets and liabilities

71. The Group stressed that accounting and reporting of contingent assets and liabilities should be based on the concept of prudence in respect of a contingent asset, and on the degree of the probability of payment in respect of a contingent liability.

72. Some delegations considered that prudence would preclude the recognition of a contingent asset in the financial statements.

73. Several delegations supported strongly a proposal that contingent assets and liabilities should be recorded by way of "compensation or order accounts" and reported in the balance sheet. Other delegations believed that this treatment would result in misleading balance sheet information, bearing in mind the uncertainty inherent in these items.

74. The International Accounting Standards Committee provided definitions of contingent assets and contingent liabilities (Working Paper No. 1981/3/3), which the Group was unable to consider in the time available.

Contracts for future capital expenditure

75. Contracts for future capital expenditure should be quantified and disclosed.

Events after balance sheet date

76. Material events that have occurred after the balance sheet date should be quantified and disclosed.

Movements in certain assets

77. The Group was unable, owing to shortage of time, to consider fully the question of disclosure of movements in the assets treated in paragraphs 26-41 above.

B. List of minimum items for general purpose reporting: the income statement

78. The Group agreed that the term "income statement" should be used in place of the term "profit and loss statement".

79. The Group further agreed that it was not necessary to specify exactly where the minimum items for the income statement should be disclosed - that is, in the income statement itself or in the notes thereto.

80. In this connection, the Group dealt with information items which would be appropriate for inclusion in a minimum list concerning the income statement of the enterprise as a whole.

Sales

81. All delegations agreed that this item should be disclosed and that the amount reported should be a net figure, that is, the amounts derived from the sales of products and provision of services falling within the enterprise's ordinary activities after deduction of sales rebates, value-added taxes and other taxes directly linked to turnover.

82. Several delegations proposed that there should be disclosure of the deductions made from gross sales. They also expressed the view that a breakdown of the total sales amount into components should be provided. For example, the breakdown could show separately (a) sales to third-party customers and sales to associated enterprises; (b) revenue from natural resources; (c) revenue from technology licensing.

83. These two proposals were not acceptable to some delegations, who argued that such detailed information items were not appropriate for inclusion in a minimum list.

Operating results

84. The Group agreed that operating results should be disclosed so as to show sales for the period and either (a) cost of sales and operating expenses, separately, or (b) the net change in inventories, own production capitalized, raw materials and consumables, wages, salaries and related costs, depreciation and amortization and other operating earnings and expenses.

85. Some delegations stated that, in the first case, cost of sales should be broken down into its main components: raw materials, labour and manufacturing expenses for manufacturing enterprises and purchases and other direct costs for other enterprises. Other delegations agreed that while these components should all form part of the cost of sales, such additional disclosure would result in an unnecessary degree of detail.

Interest and investment income

86. The Group agreed that this item of information should be included in the minimum list.

Equity in net income (loss) of associated enterprises

87. The Group agreed that this item should be changed to read "Share in net income (loss) of associated enterprises". In this regard, reference was made to the equity method of accounting for investments in associated enterprises.

Depreciation, depletion and amortization

88. All delegations endorsed the practice of accounting for (a) depreciation, especially for the use, obsolescence, wear and tear of buildings, plant and equipment; (b) the depletion of natural resources; and (c) the amortization of intangibles.

89. The Group agreed that charges for depreciation should be included in the minimum list. Accordingly, disclosure should be made in respect of charges for:

(a) Depreciation of buildings, plant and equipment;

(b) Depletion of natural resources;

(c) Amortization of intangibles.

Provisions

90. Several delegations suggested that disclosure of information be required in respect of provisions such as those for doubtful debts, probable losses, obsolete stock and major repairs. Other delegations voiced their reservations regarding this suggestion in view of the excessive degree of detail that such disclosure might involve.

Interest expense

91. Disclosure of interest expense in the income statement was accepted by the Group.

92. Several delegations were in favour of the following proposals:

(a) Inclusion of other financial charges as well;

(b) Disclosure, separately, of (i) interest expense on short-term debt and (ii) interest expense on long-term debt;

(c) Classification of interest expense according to the currencies of the borrowings;

(d) Disclosure, separately, of (i) interest expense related to financing of investment projects and (ii) interest expense related to financing of current operations;

(e) Showing a breakdown of interest expense according to sources of funds in terms of home and host countries.

93. Other delegations argued against these proposals, pointing out (a) that it would be difficult to define other financial charges; (b) that classification of interest expense into various categories as suggested would cause serious allocation problems; and (c) that it was not practical to include an inordinate amount of detail in a minimum list. They agreed, however, that interest expenses should include all amounts that were economically the equivalent of interest, for example, premiums payable on repayment of a loan. Accordingly, they suggested that the item should read "interest and similar charges".

Taxes on income

94. The Group agreed to include this item in the minimum list.

Unusual charges and credits

95. The Group agreed that items in this category should be disclosed. The nature of each item, if material, should be explained in the notes to the financial statements.

96. The Group noted that many items were included in this category, such as:

(a) Adjustments arising out of asset revaluation, where permitted;

(b) Gains or losses on sales of fixed assets;

(c) Previous years' items.

Some delegations considered that debits or credits resulting from changes in provisions and reserves should be included in the above examples.

97. The Group also considered a proposal that subsidies granted by Governments to enterprises should be reported by the recipients. All delegations recognized that such subsidies had significant effects on the enterprises as well as on the economies of home and host countries, especially developing countries. Several delegations advocated that where subsidies could be quantified, they should be included in "unusual charges and credits". However, they considered that subsidies which could not be quantified should be described both as to their nature and their importance. Other delegations were of the opinion that government subsidies were more appropriate for special purpose reporting, given the complex national systems of granting subsidies and the different accounting treatments. In view of the different positions taken by the delegations regarding the disclosure of government subsidies, the United Nations Centre on Transnational Corporations prepared a study (Working Paper No. 1981/4/1). However, the Group was not able in the time available to consider the study.

Minority interest in net income of group enterprises consolidated

98. After endorsing the addition of the word "net" in front of income, the Group agreed that the minimum list should include this item of information.

Net income

99. The Group agreed that net income should be included in a minimum list.

Transactions between group enterprises not consolidated; transactions with associated enterprises

100. These transactions are trading activities, the provision of services, the transfer of resources and other exchanges for which charges are levied between individual entities of the transnational corporation and between such entities and associates of the transnational corporation.

101. Several delegations considered that transactions with group enterprises not consolidated should be disclosed for each revenue or expense item either in the income statement or in the notes. The same kind of disclosure should in their view apply to transactions with associated enterprises.

102. Other delegations considered that separate disclosure might be appropriate for some items of a financial nature such as interest income and expense, but that a general requirement was excessive.

103. Several delegations supported as a possible compromise solution disclosure of the total amounts of revenue and expense relating to group enterprises not consolidated and associates, together with a description of the principal components thereof. However, it did not prove possible to arrive at a general agreement on this basis.

Employment costs

104. The Group agreed that the different components of employment costs should be disclosed separately, as follows:

(a) Wages, salaries and similar payments, including overtime, to employees;

(b) Pension costs;

(c) Costs of other employee benefits.

Research and development

105. The Group agreed that it was important to include an item on research and development in a minimum list.

106. Some delegations considered that the item to be disclosed should be the total research and development expenditure for the period, as the Group had decided when redrafting paragraph 43 of the draft code of conduct. a/ Other delegations preferred that the amount disclosed be the total charged to income for the period.

107. In addition, it was noted that transnational corporations allocated research and development costs to their subsidiaries in a variety of ways. Cognizant of the significance of research and development costs in terms of their economic effects and their fiscal implications, several delegations stressed the need to have information on the principle of allocation. Given the different bases used by transnational corporations in allocating research and development costs, it was felt that the basis of allocation should be an item of information for general purpose reporting. Other delegations were of the view that such disclosure was more appropriate for special purpose reporting.

Leasing expense for the period

108. The Group noted that many transnational corporations engaged in sizeable leasing transactions and that the resulting leasing expense was a significant financial item.

109. Several delegations believed that a leasing expense item should be included in a minimum list. The information provided would enable proper evaluation and

comparison to be made of the financial and cost structures of different transnational corporations.

110. Other delegations expressed the view that leasing was a subject of considerable controversy and that accounting for leasing expense posed a number of problems which had yet to be fully resolved. Given such a situation, these delegations advised against including leasing expense as an item of information in a minimum list.

Foreign exchange gain or loss

111. The Group acknowledged that transactions of transnational corporations involving various currencies gave rise to exchange gain or loss because of fluctuations in exchange rates.

112. Several delegations stressed that transnational corporations should be required to give a clear account of foreign exchange gain or loss in their general purpose reports. Such disclosure would enable users of information to better understand the impact of foreign exchange gains or losses on the profitability of an enterprise.

113. Other delegations took the position that it was not proper to stipulate the disclosure of foreign exchange gain or loss in a minimum list in view of the complications prevailing in the area of accounting for this item.

Sales pricing policies

114. The Group discussed a proposal concerning the inclusion of sales pricing policies as an item in a minimum list.

115. Several delegations supported the proposal in the belief that information provided in respect of sales pricing policies would assist users of information to understand price fluctuations and the impact of pricing policies on sales.

116. Other delegations disagreed with the proposal on the ground that it would be impractical to expect disclosure of sales pricing policies with any degree of specificity. Some delegations recognized sales pricing policies as an item appropriate for inclusion in special purpose reports.

C. List of minimum items for general purpose reporting: the statement of allocation of net profits or net income

117. The Group agreed that a statement of allocation of net profits or net income should be provided by the enterprise as a whole and that this statement should disclose the following elements:

(a) The balance of retained income brought forward from the previous year;

(b) The net income of the current year;

(c) Transfers to and from other reserves (including those required by national legislation);

(d) Dividends or similar attribution to the owners of the enterprise or group (subdivided by type);

(e) Any part of the net income payable to members of the board or others;

(f) The balance retained and carried forward to the next year.

118. The attribution of a current year's loss should be accounted for in a similar way.

D. List of minimum items for general purpose reporting: the statement of changes in financial position

119. The Group noted that it was not a generally accepted practice to issue a statement of sources and uses of funds in certain countries and that the definition of the term "funds" differed from country to country. Some delegations stated that it would be useful to issue such a statement for the purpose of explaining the flow of funds, increases and decreases in financial resources, internal and external financing and monetary transfers. But other delegations stated that there was some doubt about the usefulness of the statement of sources and uses of funds.

120. The Group nevertheless agreed that the statement of sources and uses of funds should be an integral part of the financial statements of a transnational corporation.

121. The Group also agreed that the name of the statement should be changed to "Statement of changes in financial position".

122. The Group agreed that the nature and purpose of the statement were to summarize the flow of funds during a period by presenting information about the financial resources provided from operations and other sources and the uses made of those financial resources. The statement may also include other items which do not directly affect cash or working capital.

123. The Group agreed that the statement should show separately significant elements of:

(a) Internally generated funds;

(b) Funds obtained from external sources;

(c) The uses to which those funds have been applied.

124. Some delegations, while agreeing to the above, considered that for better comparison a minimum list of items for specific disclosure should be provided. Other delegations considered that such a degree of detail was not necessary.

E. Disclosure of accounting policies

125. The Group accepted that different accounting policies underlying the preparation of financial statements were followed by business enterprises, thereby giving rise to data that were not comparable.

126. The Group stressed that the preparation of comparative financial statements should be based on accounting policies consistently applied and that changes in such policies and the effects thereof should be disclosed.

127. Disclosure of accounting policies was considered essential for understanding the content of financial statements. The Group therefore decided that the notes to the financial statements should disclose all significant accounting policies which had been used, including overall valuation policies (for example, historical cost, application of a general purchasing power index, replacement value or any other basis). These disclosures should include in particular a description of the accounting policies concerning:

(a) Inclusion and exclusion of group enterprises in consolidation;

(b) Investments in associated enterprises;

(c) Intra-group transactions;

(d) Translation of accounts denominated in foreign currency;

(e) Transactions of group enterprises with associated enterprises.

128. In connection with the translation of accounts denominated in foreign currencies, some delegations proposed that a medium like special drawing rights (SDRs) be used for the purpose of translation because of the stability of its exchange rate relative to other currencies. Other delegations stated serious reservations as to the viability of this proposal.

129. The Group agreed that the following items should be disclosed:

(a) Criteria for the selection of geographical areas or countries reported separately;

(b) Criteria for segmentation by line of business reported separately.

F. Disclosure of information concerning members of a group and associated enterprises

130. The Group agreed that the following items should be included in a minimum list:

(a) The identity of the parent enterprise if its name is not included in the name of the group;

(b) The names of the main enterprises within the group, indicating:

(i) The percentage owned;

(ii) The geographical area or country of operations.

The exclusion of a group enterprise from consolidation should be justified and the accounting treatment of the investment in such enterprises explained.

(c) The names of main associated enterprises, indicating:

(i) The percentage owned;

(ii) The geographical area or country of operations.

The accounting treatment of such investments should be explained.

(d) The policies applied in respect of transfer pricing.

131. Some delegations proposed that a distinction should be made between the policies concerning transfer prices for trade flows and those concerning non-trade flows. "Transfer price for trade flows" is the amount charged by a group enterprise to another group enterprise for goods (for example, raw materials input) to be used for further production or for resale. "Transfer price for non-trade flows" is the amount charged by the group enterprise to another group enterprise for all purposes other than the exchange of goods for further production or resale.

132. Several delegations proposed that studies be undertaken with respect to definitions of methods and criteria for "transfer prices".

G. Segmentation by geographical area

133. The Group agreed that at least the following minimum items of information concerning the transnational corporation as a whole should be broken down by geographical area or country as appropriate:

(a) Consolidated sales;

(b) Consolidated operating results;

(c) Significant new investment in land, buildings, plant and equipment;

(d) Average number of employees.

In addition, the major lines of business in each area or country should be described.

134. Some delegations considered that in addition the following items should be disclosed by geographical area or country as appropriate:

(a) Intra-group sales eliminated in consolidation;

(b) Consolidated net income;

(c) Total assets and total liabilities, and at least:

(i) Land, buildings, plant and equipment (gross);

(ii) Accumulated depreciation;

(iii) Intangible assets;

(iv) Other long-term assets.

135. Other delegations were of the opinion that such requirements were not appropriate for inclusion in a minimum list.

136. The Group agreed that land, buildings, plant and equipment should normally be attributed to the areas or countries where they are located. There was also agreement that the amounts disclosed by geographical area or country should add up to the total of the relevant items shown in the consolidated financial statements or reconciling amounts should be given.

H. Segmentation by line of business

137. The Group agreed that at least the following minimum items of information concerning the transnational corporation as a whole should be broken down by major line of business:

(a) Consolidated sales;

(b) Significant new investment in land, buildings, plant and equipment, in so far as practicable.

In addition, the major lines of business should be described.

138. Some delegations considered that in addition the following items should be disclosed by major line of business:

(a) Intra-group sales eliminated in consolidation;

(b) Consolidated operating results;

(c) Consolidated net income, in so far as practicable;

(d) Total assets and total liabilities, and at least:

(i) Land, buildings, plant and equipment (gross);

(ii) Accumulated depreciation;

(iii) Intangible assets;

(iv) Other long-term assets.

139. Other delegations were of the opinion that such requirements were not appropriate for inclusion in a minimum list.

140. The Group agreed that the amounts disclosed by major line of business should add up to the total of the relevant items shown in the consolidated financial statements or reconciling amounts should be given.

II. THE ENTERPRISE AS A WHOLE: NON-FINANCIAL INFORMATION

141. The Group considered the following items of non-financial information to be appropriate for inclusion in a minimum list (except as otherwise indicated).

Labour and employment

142. There should be a description of:

(a) General corporate policy, if any, regarding the recognition of trade unions;

(b) Any other general corporate labour relations policies.

143. The average number of employees should be shown as follows:

(a) Total employment;

(b) Breakdown by geographical area or country, as appropriate;

(c) Breakdown by line of business, in so far as practicable.

144. Some delegations proposed, as an item, a breakdown of the average number of employees by nationality. Other delegations questioned the usefulness of such information in a report for the enterprise as a whole and noted that information of this character was better suited to special purpose reports.

Production

(a) Physical output

145. Several delegations proposed that disclosure should be made of physical output by major line of business in accordance with normal industrial practice. In their opinion, when combined with the information published on sales, such information was of considerable value for assessing the performance of the enterprise. Some delegations considered, however, that because of the problems involved in measuring output in some lines of business, such a requirement would probably have to be limited in some way to make it workable, for example, by beginning with the words "in so far as practicable".

146. Other delegations pointed out that, in addition to the difficulties of measurement, the concept of "normal industrial practice" posed problems in relation to the transnational corporation as a whole, which would have operations in different countries. They therefore suggested that the Group might consider recommending either (a) that enterprises publish at least an indication of significant changes in physical output by major line of business; or (b) that they disclose physical output by major line of business in accordance with the measurement practice generally followed in the relevant type of business where such a practice exists.

147. However, other delegations considered that in view of the difficulties involved, a requirement for disclosure of physical output should not be included in a minimum list for general purpose reporting. In their view, such information was more appropriately required in the context of special purpose reports.

(b) Description of significant new products and processes, to the extent that it does not adversely affect the competitive position of the enterprise

148. Some delegations proposed as an additional item a description of the principal products, together with an indication of the market share enjoyed by the

enterprise. Other delegations expressed the view that such an item would result in the inclusion of an unnecessary degree of detail in view of the limited usefulness of the information.

Investment programme

149. Description of announced future capital expenditures. The Group agreed to include this item in the minimum list.

150. Description of main projects, including their cost. Some delegations proposed that this item include also the estimated direct and indirect effect on employment in the enterprise. Other delegations were of the view that information of such a nature was more appropriate for inclusion in special purpose reports. Several delegations would also add an item to indicate the effect of announced future capital expenditure on the cash flow of the enterprise.

151. The Group agreed that the questions regarding the estimated additions to capacity and the effect of announced future capital expenditure on employment in the enterprise needed further consideration.

152. Description of announced mergers and take-overs, including related payments or other considerations. Some delegations proposed that the estimated direct and indirect effect on employment also be included as an item of information. Other delegations expressed the view that such information was inappropriate for inclusion in general purpose reports and, if reported at all, should be the subject of special purpose reporting.

153. Some delegations also proposed an item calling for disclosure of plant closures. Other delegations stated that such information was inappropriate for inclusion in general purpose reports of the enterprise as a whole.

Organizational structure

154. Several delegations proposed as a minimum item for disclosure an indication of the organizational structure of the enterprise, including, where practicable, an indication of the centres for decision-making. Some delegations agreed that an indication of the organizational structure of the enterprise was an appropriate item for disclosure but stated that it would be difficult, if not impossible, for many enterprises to identify "centres of decision-making" with any degree of precision in a general purpose report and, therefore, that this item was not appropriate for a minimum list.

155. In regard to the ultimate parent, the names of members of the board of directors and, where applicable, the supervisory board, together with a description of the directorships or other senior positions held in enterprises within or outside the group should be disclosed. In cases where such disclosure would be impracticable because of its volume, it may be made available upon request.

156. Some delegations proposed an item calling for, where known, the number of owners or shareholders and the names of the principal owners or shareholders and the percentage owned. Other delegations questioned the usefulness of such information in view of the various media used to register securities and the wide use of bearer securities in some areas.

Environmental measures

157. Several delegations proposed an item providing for disclosure of the steps taken by the enterprise to protect the environment. These disclosures would include descriptions of steps taken pursuant to applicable international standards, as well as those taken in accordance with any standards established by the enterprise to mitigate known harmful effects arising from the operations of the enterprise.

158. Other delegations stated that environmental matters must of necessity be viewed in the context of local conditions and requirements, with due regard to international standards. These delegations questioned the usefulness of disclosing the measures taken to protect the environment at the level of the enterprise as a whole. In the opinion of these delegations, such information was more appropriate for special purpose reporting or reporting at the level of the individual member enterprise.

Value added

159. Some delegations proposed that it would be useful for transnational corporations to disclose information, particularly as regards production, on a value-added basis. The Group had an extensive, but inconclusive, discussion on the question whether such a breakdown should be considered to be financial or non-financial disclosure.

Transfer of technology, especially to the developing countries

160. Some delegations emphasized the importance of including an item in a minimum list calling for a description of policies, amounts, modalities and prices regarding the transfer of technology. Other delegations noted that the subject of the transfer of technology was being addressed in other forums, including other bodies of the United Nations, and that it was premature, therefore, to include an item in a minimum list at this time.

Observance of legal requirements

161. Some delegations proposed as an item a description of the general policy of an enterprise regarding the observance of the legal requirements of the jurisdictions in which an enterprise operates. Other delegations noted the detailed, ongoing work of the Intergovernmental Working Group on a Code of Conduct and in other United Nations bodies and elsewhere in regard to these matters. These delegations viewed such matters as specialized issues which involved legal concepts and determinations under national and international laws and thus were not appropriate for inclusion in a minimum list covering the disclosure of non-financial information in general purpose reports.

Auditor association with non-financial information

162. Some delegations stated the view that the credibility of non-financial information would be enhanced by having an independent auditor associated with these data. These delegations believed that much of the quantified information of a non-financial character was susceptible to verification on the basis of objective evidence and that it therefore should be reported on by an independent auditor. Other delegations noted the difficulty involved in the identification and

definition of items of information susceptible to audit, particularly those items related to future events and the subjective determinations made by the management of an enterprise, such as new products and processes, and the general absence of auditing standards governing an auditor's examination of such information. It is the view of these delegations that a requirement of auditor association with the items of non-financial information would add to the cost of an audit without a compensatory increase in the quality of the information.

III. INDIVIDUAL MEMBER ENTERPRISE: FINANCIAL INFORMATION

163. The Group agreed to deal with the minimum lists suggested in the 1977 report of the Group of Experts on International Standards of Accounting and Reporting b/ for general purpose reporting, on an unconsolidated basis, in financial statements of an individual member enterprise of a group and to report its findings to the Commission on Transnational Corporations. Nevertheless, some delegations indicated that this would be without prejudice to their reserved position concerning recommendations as to disclosures by the individual member enterprises.

164. The Group recognized that national laws, regulations and standards pertaining to information disclosure by individual enterprises varied widely. The Group agreed that a list of minimum items for an individual member enterprise should apply to the extent and in the manner required by national laws, regulations, standards and generally accepted practices.

165. The Group agreed that, with regard to information disclosure, the principle of non-discrimination between individual member enterprises of transnational corporations and national individual member enterprises should be observed, in a manner not inconsistent with the relevant provisions of the future code of conduct.

166. The Group agreed that, for the purposes of individual entity reporting, the entity should, consistent with local practice, disclose financial information in the language and currency of the host country.

167. The following lists are applicable to the individual entity of a group even if it provides the information specified in the lists for the enterprises as a whole.

A. List of minimum items for general purpose reporting: the balance sheet

168. The Group agreed that it was not necessary to specify exactly where the minimum items for the balance sheet should be disclosed - that is, in the balance sheet itself or in the notes thereto. The Group considered the following items to be appropriate for inclusion in a minimum list concerning the balance sheet of the individual member enterprise.

Land, buildings, plant and equipment

169. The Group considered "land and buildings" to be preferable to the term "property".

170. Where land and buildings, plant and equipment are material in relation to total assets, an appropriate breakdown would be provided.

171. Leaseholds and improvements thereto are to be included under this item where they are treated as assets.

172. Gross amounts and accumulated depreciation would be shown. Some delegations felt that accumulated depreciation should be shown on the liabilities side of the balance sheet. Other delegations expressed grave reservations concerning this suggestion.

173. The Group agreed that depreciation should be disclosed in terms of either cost or value and that the method of computation should be disclosed in the notes to the financial statements. Delegations had conceptual differences regarding the nature and accounting treatment of depreciation. One school of thought considered depreciation an allocation of the cost or value of an asset over its estimated useful life in a systematic and rational manner. Another school of thought considered depreciation an accumulation of funds that affected the equity of the enterprise. According to the latter school of thought, accumulated depreciation should not be deducted from the cost of the asset but should be reported separately as an item of shareholders' equity. Some delegations stressed the importance of reflecting the effect of changing prices.

Investments

174. Under this item, investments in group enterprises, investments in associated enterprises and other long-term investments would each be shown separately.

175. As regards other long-term investments, a requirement that market values be shown was not considered appropriate for a minimum list.

176. The Group considered that "investments" should not be qualified by the words "long term" in a minimum list.

Long-term receivables

177. Under this item, receivables from group enterprises, receivables from associated enterprises and other long-term receivables would each appear separately.

Purchased goodwill

178. Some delegations suggested that in addition to purchased goodwill normally disclosed in the balance sheet, internally generated goodwill should be disclosed in the notes.

Patents, trade marks and similar intangibles

179. This item should include only expenditures incurred to acquire these intangibles. Valuations should not be included unless identified as such in those jurisdictions that permit it.

180. Several delegations considered that internally generated patents, trade marks and similar intangibles should be included in this item.

181. Some delegations considered that assets of this type acquired from group and associated enterprises should be shown separately.

Deferred charges

182. This item generally includes expenditures which are not recognized as a cost of operations in the period in which they are incurred but which are carried forward to be written off over a period of years. Where treated as assets, the following would each appear separately: formation expenditure, research and development and other deferred charges.

183. Appropriate explanations and descriptions should be given of other deferred charges.

184. This item excludes prepaid expenses reported elsewhere.

185. When used as "other" long-term assets, an appropriate descriptive caption should be used in place of deferred charges if a material balance is carried.

Cash

186. This item should show cash on hand and in banks, including time deposits due within a short period.

Marketable securities

187. A requirement that market values be shown was not considered appropriate for a minimum list.

188. Some delegations felt that the possibility of the adoption of market prices or internal valuation should be excluded unless said prices were publicly and clearly known. Other delegations considered that the indication of market value was a useful item of supplementary disclosure; however, they considered that it was inappropriate for the Group to attempt to deal with the complex questions of valuation.

Receivables

189. Accounts and notes receivable (trade), receivables from members of the board of directors and other receivables should each be indicated.

190. Receivables from group and associated enterprises should be indicated.

191. Appropriate explanations and descriptions should be given of other receivables.

Inventories

192. Where inventories are a material item, an appropriate breakdown, such as raw material, work in process, finished goods, spare parts and supplies, would be provided. The Group did not consider it appropriate to prescribe valuation methods in the context of a minimum list.

Prepaid expenses

193. The Group agreed that prepaid expenses were to be disclosed separately, but there was no agreement as to the classification of the item.

194. Some delegations maintained that the traditional classification of prepaid expenses was erroneous and stated that prepaid expenses must be excluded from current assets, creating a new group denomination "compensation or order accounts".

Long-term loans and debentures

195. Separate disclosure should be made of loans and debentures from group and associated enterprises.

196. The Group agreed on disclosure of a summary of maturity patterns, and the basis of currency conversion and exchange rates used.

197. Some delegations believed that a summary by interest rates should be provided, as well as a summary of material loans and debentures by currencies. Other delegations considered that this was an inordinate degree of detail for the financial statements of the individual member enterprise.

Short-term loans and overdrafts

198. Separate disclosure should be made of loans from group and associated companies.

199. There was no agreement on the need for separate disclosure of current portions of long-term liabilities.

Payables

200. Accounts and notes payable (trade), payables to members of the board of directors, taxes on income, dividends payable, as well as other accounts payable and accrued expenses should each be shown.

201. Payables to group and associated enterprises should be shown.

202. Appropriate explanations and descriptions should be given of other accounts payable and accrued expenses.

203. Some delegations considered that accrued expenses might be shown together with deferred income.

Deferred income

204. The Group agreed to include this item in the minimum list.

Provisions

205. Deferred taxes, provisions for pensions and other provisions should each be indicated separately. Appropriate explanations and descriptions should be given of other provisions.

206. Deferred taxes are amounts provided for taxes in respect of the current year's and previous years' results which are expected to become payable in future periods. The amount reflects the fact that the periods in which some items of revenue and expense are recognized for tax purposes do not coincide with the periods in which they are included in accounting income.

Owners' interest

207. A description and quantification of each component element would be provided, such as, if any, different classes of shares and other forms of owners' interest, capital paid in excess of par, revaluation surplus, reserves and retained earnings.

208. Movements during the accounting period would be indicated.

Receivables and payables: members of the board of directors

209. The Group agreed that balances receivable from or payable to directors which might otherwise be considered immaterial should be reported in the notes because of their nature. Several delegations argued that this requirement should be qualified with the sentence "Balances resulting from ordinary recurring transactions are not required to be separately reported if clearly immaterial".

Restricted assets and secured liabilities

210. Where assets are restricted or pledged, or liabilities secured, an indication in summary form would be provided.

211. Some delegations suggested a separate indication of assets restricted, pledged or secured on behalf of group or associated enterprises.

Accounts receivable and payable

212. Some delegations considered that details should be provided of accounts receivable and payable in a foreign currency. Other delegations considered that this was an inordinate amount of detail.

Pension plans and similar financial commitments

213. The Group agreed that wherever an individual member enterprise had its own pension plan, or where it participated in a group pension plan, a general description of benefits, financial obligations and investment of funds would be provided. Financial commitments not shown in the balance sheet would in any case be disclosed.

Leases

214. The Group agreed that leases not reflected in fixed assets and other long-term commitments would be appropriately described and quantified.

215. Several delegations pointed out that national law might preclude the treatment of a lease as an asset and stated that in such cases appropriate disclosure should be made.

216. Several delegations considered that information on leasing and lease-back arrangements among group or associated enterprises should be provided. Other delegations believed that such disclosure would not assist users in their understanding of the financial statements of the individual member enterprise.

Contingent assets and liabilities

217. The Group stressed that accounting and reporting of contingent assets and liabilities should be based on the concept of prudence in respect of a contingent asset, and on the degree of the probability of payment in respect of a contingent liability.

218. Some delegations considered that prudence would preclude the recognition of a contingent asset in the financial statements.

219. Several delegations supported strongly a proposal that contingent assets and liabilities should be recorded by way of "compensation or order accounts" and reported in the balance sheet. Other delegations believed that this treatment would result in misleading balance sheet information, bearing in mind the uncertainty inherent in these items.

220. The International Accounting Standards Committee provided definitions of contingent assets and contingent liabilities (Working Paper No. 1981/3/3), which the Group was unable to consider in the time available.

Contracts for future capital expenditure

221. Contracts for future capital expenditure should be quantified and disclosed.

Events after balance sheet date

222. Material events that have occurred after the balance sheet date should be quantified and disclosed.

Movements in certain assets

223. The Group was unable, owing to shortage of time, to consider fully the question of disclosure of movements in the assets treated in paragraphs 169-185 above.

B. List of minimum items for general purpose reporting: the income statement

224. The Group agreed that the term "income statement" should be used in place of the term "profit and loss statement".

225. The Group further agreed that it was not necessary to specify exactly where the minimum items for the income statement should be disclosed - that is, in the income statement itself or in the notes thereto.

226. In this connection, the Group dealt with information items which would be appropriate for inclusion in a minimum list concerning the income statement of the individual member enterprise.

Sales

227. All delegations agreed that this item should be disclosed and that the amount reported should be a net figure, that is, the amounts derived from the sales of

products and provision of services falling within the enterprise's ordinary activities after deduction of sales rebates, value-added taxes and other taxes directly linked to turnover.

228. Several delegations proposed that there should be disclosure of the deductions made from gross sales. They also expressed the view that a breakdown of the total sales amount into components should be provided. For example, the breakdown could show separately (a) sales to third-party customers, both domestic sales and exports; (b) intra-group sales and sales to associated enterprises, both domestic sales and exports; (c) revenue from natural resources; (d) revenue from technology licensing.

229. These two proposals were not acceptable to some delegations who argued that such detailed information items were not appropriate for inclusion in a minimum list.

Operating results

230. The Group agreed that operating results should be disclosed so as to show sales for the period and either (a) cost of sales and operating expenses, separately; or (b) the net change in inventories, own production capitalized, raw materials and consumables, wages, salaries and related costs, depreciation and amortization and other operating earnings and expenses.

231. Some delegations stated that, in the first case, cost of sales should be broken down into its main components: raw materials, labour and manufacturing expenses for manufacturing enterprises and purchases and other direct costs for other enterprises. Other delegations agreed that while these components should all form part of the cost of sales, such additional disclosure would result in an unnecessary degree of detail.

Interest and investment income

232. All delegations agreed that this item of information should be included in the minimum list.

Equity in net income (loss) of associated enterprises

233. The Group agreed that this item should be changed to read "Share in net income (loss) of associated enterprises". In this regard, reference was made to the equity method of accounting for investments in associated enterprises.

Depreciation, depletion and amortization

234. All delegations endorsed the practice of accounting for (a) depreciation, especially for the use, obsolescence, wear and tear of buildings, plant and equipment; (b) the depletion of natural resources; and (c) the amortization of intangibles.

235. The Group agreed that charges for depreciation should be included in the minimum list. Accordingly, disclosure should be made in respect of charges for:

(a) Depreciation of buildings, plant and equipment;

(b) Depletion of natural resources;

(c) Amortization of intangibles.

Provisions

236. Several delegations suggested that disclosure of information be required in respect of provisions such as those for doubtful debts, probable losses, obsolete stock and major repairs. Other delegations voiced their reservations regarding this suggestion in view of the excessive degree of detail that such disclosure might involve.

Interest expense

237. Disclosure of interest expense in the income statement was accepted by the Group.

238. Several delegations were in favour of the following proposals:

(a) Inclusion of other financial charges as well;

(b) Disclosure, separately, of (i) interest expense on short-term debt and (ii) interest expense on long-term debt;

(c) Classification of interest expense according to the currencies of the borrowings;

(d) Disclosure, separately, of (i) interest expense related to financing of investment projects and (ii) interest expense related to financing of current operations;

(e) Showing a breakdown of interest expense according to sources of funds in terms of home and host countries.

239. Other delegations argued against these proposals, pointing out (a) that it would be difficult to define other financial charges; (b) that classification of interest expense into various categories as suggested would cause serious allocation problems; and (c) that it was not practical to include an inordinate amount of detail in a minimum list. They agreed, however, that interest expenses should include all amounts that were economically the equivalent of interest, for example, premiums payable on repayment of a loan. Accordingly, they suggested that the item should read "interest and similar charges".

Taxes on income

240. The Group agreed to include this item in the minimum list.

Unusual charges and credits

241. The Group agreed that items in this category should be disclosed. The nature of each item, if material, should be explained in the notes to the financial statements.

242. The Group noted that many items were included in this category, such as:

(a) Adjustments arising out of asset revaluation, where permitted;

(b) Gains or losses on sales of fixed assets;

(c) Previous years' items.

Some delegations considered that debits or credits resulting from changes in provisions and reserves should be included in the above examples.

243. The Group also considered a proposal that subsidies granted by Governments to enterprises should be reported by the recipients. All delegations recognized that such subsidies had significant effects on the enterprises as well as on the economies of home and host countries, especially developing countries. Several delegations advocated that where subsidies could be quantified, they should be included in "unusual charges and credits". However, they considered that subsidies which could not be quantified should be described both as to their nature and their importance. Other delegations were of the opinion that government subsidies were more appropriate for special purpose reporting, given the complex national systems of granting subsidies and the different accounting treatments. In view of the different positions taken by the delegations regarding the disclosure of government subsidies, the United Nations Centre on Transnational Corporations prepared a study (Working Paper No. 1981/4/1), which the Group was unable to consider in the time available.

Net income

244. The Group agreed that net income should be included in a minimum list.

Transactions between group enterprises; transactions with associated enterprises

245. These transactions are trading activities, the provision of services, the transfer of resources and other exchanges for which charges are levied between individual entities of the transnational corporation and between such entities and associates of the transnational corporation.

246. Several delegations considered that transactions with group enterprises should be disclosed for each revenue or expense item either in the income statement or in the notes. The same kind of disclosure should in their view apply to transactions with associated enterprises.

247. Other delegations considered that separate disclosure might be appropriate for some items of a financial nature such as interest income and expense, but that a general requirement was excessive.

248. Several delegations supported as a possible compromise solution disclosure of the total amounts of revenue and expense relating to group enterprises and associates, together with a description of the principal components thereof. However, it did not prove possible to arrive at a general agreement on this basis.

Employment costs

249. The Group agreed that the different components of employment costs should be disclosed separately, as follows:

(a) Wages, salaries and similar payments, including overtime, to employees;

(b) Pension costs;

(c) Costs of other employee benefits.

Research and development

250. The Group agreed that it was important to include an item on research and development in a minimum list.

251. Some delegations considered that the item to be disclosed should be the total research and development expenditure for the period, as the Group had decided when redrafting paragraph 43 of the draft code of conduct. c/ Other delegations preferred that the amount disclosed be the total charged to income for the period.

252. In addition, it was noted that transnational corporations allocated research and development costs to their subsidiaries in a variety of ways. Cognizant of the significance of research and development costs in terms of their economic effects and their fiscal implications, several delegations stressed the need to have information on the principle of allocation. Given the different bases used by transnational corporations in allocating research and development costs, it was felt that the basis of allocation should be an item of information for general purpose reporting. Other delegations were of the view that such disclosure was more appropriate for special purpose reporting.

Leasing expense for the period

253. The Group noted that many transnational corporations engaged in sizeable leasing transactions and that the resulting leasing expense was a significant financial item.

254. Several delegations believed that a leasing expense item should be included in a minimum list. The information provided would enable proper evaluation and comparison to be made of the financial and cost structures of different transnational corporations.

255. Other delegations expressed the view that leasing was a subject of considerable controversy and that accounting for leasing expense posed a number of problems which had yet to be fully resolved. Given such a situation, these delegations advised against including leasing expense as an item of information in a minimum list.

Foreign exchange gain or loss

256. The Group acknowledged that transactions of transnational corporations involving various currencies gave rise to exchange gain or loss because of fluctuations in exchange rates.

257. Several delegations stressed that transnational corporations should be required to give a clear account of foreign exchange gain or loss in their general purpose reports. Such disclosure would enable users of information to better understand the impact of foreign exchange gains or losses on the profitability of an enterprise.

258. Other delegations took the position that it was not proper to stipulate the disclosure of foreign exchange gain or loss in a minimum list in view of the complications prevailing in the area of accounting for this item.

Sales pricing policies

259. The Group discussed a proposal concerning the inclusion of sales pricing policies as an item in a minimum list.

260. Several delegations supported the proposal in the belief that information provided in respect of sales pricing policies would assist users of information in understanding price fluctuations and the impact of pricing policies on sales.

261. Other delegations disagreed with the proposal on the ground that it would be impractical to expect disclosure of sales pricing policies with any degree of specificity. Some delegations recognized sales pricing policies as an item appropriate for inclusion in special purpose reports.

C. List of minimum items for general purpose reporting: the statement of allocation of net profits or net income

262. The Group agreed that a statement of allocation of net profits or net income should be provided by the individual member enterprise and that this statement should disclose the following elements:

(a) The balance of retained income brought forward from the previous year;

(b) The net income of the current year;

(c) Transfers to and from other reserves (including those required by national legislation);

(d) Dividends or similar attribution to the owners of the enterprise or group (subdivided by type);

(e) Any part of the net income payable to members of the board or others;

(f) The balance retained and carried forward to the next year.

263. The attribution of a current year's loss should be accounted for in a similar way.

D. List of minimum items for general purpose reporting: the statement of changes in financial position

264. The Group noted that it was not a generally accepted practice to issue a statement of sources and uses of funds in certain countries and that the definition of the term "funds" differed from country to country. Some delegations stated that it would be useful to issue such a statement for the purpose of explaining the flow of funds, increases and decreases in financial resources, internal and external financing and monetary transfers. But other delegations stated that there was some doubt about the usefulness of the statement of sources and uses of funds.

265. The Group nevertheless agreed that the statement of sources and uses of funds should be an integral part of the financial statements of an individual member enterprise.

266. The Group also agreed that the name of the statement should be changed to "Statement of changes in financial position".

267. The Group agreed that the nature and purpose of the statement were to summarize the flow of funds during a period by presenting information about the financial resources provided from operations and other sources and the uses made of those financial resources. The statement may also include other items which do not directly affect cash or working capital.

268. The Group agreed that the statement should show separately significant elements of:

(a) Internally generated funds;

(b) Funds obtained from external sources;

(c) The uses to which those funds have been applied.

269. Some delegations, while agreeing to the above, considered that for better comparison a minimum list of items for specific disclosure should be provided. Other delegations considered that such a degree of detail was not necessary.

E. Disclosure of accounting policies

270. The Group accepted that different accounting policies underlying the preparation of financial statements were followed by business enterprises, thereby giving rise to data that were not comparable.

271. The Group stressed that the preparation of comparative financial statements should be based on accounting policies consistently applied and that changes in such policies and the effects thereof should be disclosed.

272. Disclosure of accounting policies was considered essential for understanding the content of financial statements. The Group therefore decided that the notes to the financial statements should disclose all significant accounting policies which had been used, including overall valuation policies (for example, historical cost, application of a general purchasing power index, replacement value or any other

basis). These disclosures should include in particular a description of the accounting policies concerning:

(a) Investments in group and associated enterprises;

(b) Intra-group transactions;

(c) Transactions with associated enterprises;

(d) Translation of accounts denominated in foreign currency.

273. In connexion with the translation of accounts denominated in foreign currencies, some delegations proposed that a medium like special drawing rights (SDRs) be used for the purpose of translation because of the stability of its exchange rate relative to other currencies. Other delegations stated serious reservations as to the viability of this proposal.

274. The Group agreed that the following items should be disclosed:

(a) Criteria for the selection of geographical areas or countries reported separately;

(b) Criteria for segmentation by line of business reported separately.

F. <u>Disclosure of information concerning other members of a group and associated enterprises</u>

275. The Group agreed that the following items should be included in a minimum list:

(a) The identity of the parent enterprise and of its ultimate parent, if known;

(b) The names of the main controlled and associated enterprises, indicating:

(i) The percentage owned;

(ii) The geographical area or country of operations.

The accounting treatment of the investment in such enterprises should be explained.

(c) The amount of guarantees on behalf of other members of the group and associated enterprises;

(d) The policies applied in respect of transfer pricing.

276. Some delegations proposed that a distinction should be made between the policies concerning transfer prices for trade flows and those concerning non-trade flows. "Transfer price for trade flows" is the amount charged by a group enterprise to another group enterprise for goods (for example, raw materials input) to be used for further production or for resale. "Transfer price for non-trade flows" is the amount charged by a group enterprise to another group enterprise for all purposes other than the exchange of goods for further production or resale.

277. Several delegations proposed that studies be undertaken with respect to definitions of methods and criteria for "transfer prices".

G. Segmentation by geographical area

278. The Group agreed that sales of the enterprise should be broken down by geographical area or country as appropriate. In addition, the major lines of business in each area or country should be described.

279. The Group also agreed that there may be circumstances where requirements for the following additional disclosure broken down by geographical area or country as appropriate would be desirable:

(a) Significant new investment in land, buildings, plant and equipment;

(b) Average number of employees.

280. Some delegations considered that in addition the following items should be disclosed by geographical area or country as appropriate:

(a) Intra-group sales;

(b) Operating results;

(c) Net income;

(d) Total assets and total liabilities, and at least:

(i) Land, buildings, plant and equipment (gross);

(ii) Accumulated depreciation;

(iii) Intangible assets;

(iv) Other long-term assets.

281. Other delegations were of the opinion that such requirements would be excessive and might not be desirable for inclusion in a minimum list.

282. The Group agreed that land, buildings, plant and equipment should normally be attributed to the areas or countries where they are located. There was also agreement that the amounts disclosed by geographical area or country should add up to the total of the relevant items shown in the financial statements or reconciling amounts should be given.

H. Segmentation by line of business

283. The Group agreed that sales of the enterprise should be broken down by line of business as appropriate. In addition, the major lines of business should be described.

284. The Group also agreed that there may be circumstances where requirements for significant new investment in land, buildings, plant and equipment broken down by line of business would be desirable.

285. Some delegations considered that in addition the following items should be disclosed by line of business:

(a) Intra-group sales;

(b) Operating results;

(c) Net income, in so far as practicable;

(d) Total assets and total liabilities, and at least:

(i) Land, buildings, plant and equipment (gross);

(ii) Accumulated depreciation;

(iii) Intangible assets;

(iv) Other long-term assets.

286. Other delegations were of the opinion that such requirements would be excessive and might not be desirable for inclusion in a minimum list.

287. In addition, the Group agreed that the amounts disclosed by line of business should add up to the total of the relevant items shown in the financial statements or reconciling amounts should be given.

IV. INDIVIDUAL MEMBER ENTERPRISE: NON-FINANCIAL INFORMATION

288. The Group agreed to deal with the minimum list suggested in the 1977 report of the Group of Experts on International Standards of Accounting and Reporting d/ for general purpose reporting by individual member enterprises in the field of non-financial information. It noted that no broad guidelines or standards had been established or developed in this field to date. The Group nevertheless considered that certain items of non-financial information were appropriate for inclusion in a minimum list as a first step in this area.

289. The Group recognized that national laws, regulations and standards pertaining to information disclosure by individual member enterprises varied widely. The Group agreed that a list of minimum items for an individual member enterprise should apply to the extent and in the manner required by national laws, regulations, standards and generally accepted practices.

290. The Group agreed that, with regard to information disclosure, the principle of non-discrimination between individual member enterprises of transnational corporations and national individual member enterprises should be observed, in a manner not inconsistent with the relevant provisions of the future code of conduct.

291. The Group agreed that, for the purposes of individual entity reporting, the entity should, consistent with local practice, disclose non-financial information in the language and currency of the host country.

List of minimum items

292. The following list is applicable to the individual entity of a group even if the entity provides the information specified in the list for the enterprise as a whole.

293. The Group considered the following items of non-financial information to be appropriate for inclusion in the minimum list (except as otherwise indicated).

Labour and employment

294. The Group agreed to include the following items in the minimum list:

(a) Number of employees as at year-end and annual average;

(b) Summary description of training programmes and the approximate related expenditure.

295. Some delegations considered that the following items should be included in the minimum list:

(a) Description of labour relations policy:

(i) Trade union recognition;

(ii) Complaints and dispute settlement mechanisms and procedures;

(b) Number employed by function (professional, production, etc.);

(c) Number of women employees by function;

(d) Number of national employees by function;

(e) Number of employees under contracts and those hired as casual labour;

(f) Average hours worked per week;

(g) Labour turnover, annual rate;

(h) Absenteeism - working hours lost (number and percentage of total working hours per year);

(i) Accident rate (describing basis);

(j) Description of health and safety standards.

According to these delegations, the disclosure of items (a) to (j) would help various users, especially national authorities, in all countries, particularly developing countries, to formulate appropriate economic policies, notably in the social and labour fields. They also noted that such information, besides having usefulness for the general public, would also enhance the public image of transnational corporations. Other delegations pointed out that such detailed disclosure was not appropriate for a general purpose report but was better suited to special purpose reports.

296. Some delegations further proposed to add a breakdown of the employees by nationality and by category (management, middle management, skilled and unskilled labour). Other delegations took the view that information of this character was not suited to general purpose reports but was better suited to special purpose reports.

Production

297. Some delegations considered that the following items should be included in the minimum list:

(a) Description of practices regarding acquisition of raw materials and components (indicating the percentage acquired from intercompany foreign sources and the percentage from all foreign sources);

(b) Indication of average annual capacity utilization in accordance with normal industrial practice;

(c) Physical output by principal line of business in accordance with normal industrial practice;

(d) Description of significant new products and processes;

(e) Percentage of the use of local materials and components and future plans in this field.

Other delegations took the view that such information was not appropriate for general purpose reports but was better suited to special purpose reports.

Investment programmes

298. The Group agreed to include the following items in the minimum list:

(a) Description of announced future capital expenditure;

(b) Description of main projects, including their cost, broken down by line of business in so far as practicable;

(c) Description of announced mergers and take-overs, including related payments or other considerations.

Organizational structure

299. The Group agreed to include the following items in the minimum list:

(a) Names of members of board of directors and, where applicable, the supervisory board, together with a description of the directorships or other senior positions held in enterprises within or outside the group;

(b) Names of registered principal owners or shareholders, their nationality and the percentage owned.

However, the Group realized that the information under (b) may not be obtainable in the case of bearer shares.

Net contribution to the balance of payments of the host country

300. Some delegations considered that this item should be included in a minimum list in order to better quantify the impact of the activities of transnational corporations on the national economy. Other delegations considered it inappropriate and stressed the difficulty of quantifying such information. They took the view that in any event information in this area was more appropriate for a special purpose report.

Observance of legal requirements

301. Some delegations proposed as a minimum item a description of the general policy of an enterprise regarding the observance of the legal requirements of the jurisdictions in which an individual member enterprise operates. Other delegations noted the detailed, ongoing work of the Intergovernmental Working Group on a Code of Conduct and in other United Nations bodies and elsewhere in regard to these matters. These latter delegations viewed such matters as specialized issues which involved legal concepts and determinations under national and international laws and thus were not appropriate for inclusion in the minimum list covering the disclosure of non-financial information in general purpose reports.

Transfer of technology, especially to the developing countries

302. Some delegations emphasized the importance of including an item in the minimum list calling for a description of policies, amounts, modalities and prices regarding the transfer of technology. Other delegations noted that the subject of transfer of technology was being addressed in other forums, including other bodies of the United Nations, and that it was premature, therefore, to include an item in the minimum list at this time.

Environmental measures

303. The Group agreed to include in the minimum list a description of types of major or special environmental measures carried out, together with cost data, where available.

304. Some delegations considered that the following items should be included in the minimum list. For each toxic or hazardous product manufactured, sold or licensed, an individual member enterprise of a transnational corporation should disclose:

(a) The chemical name and company's trade name(s) or product name(s);

(b) The plant/factory location where manufactured, the location of markets where sold or the countries where licensed;

(c) Company policies, standards and practices adopted for the protection of consumers, workers and the environment;

(d) To the best knowledge of the company, existing government restrictions, particularly home government restrictions, on the use or manufacture of the product;

(e) The name and address of a senior official who can make available on request all relevant information concerning the characteristics of the product, the recommended procedures for safe use and the uniform product safety information bulletin or label;

(f) Company policies, standards and practices used in the transport and storage of the product;

(g) Company policies, standards and practices used for safe waste disposal;

(h) The name and the address of a senior medical officer who can, on an urgent basis, provide antidote, spillage control, fire control, contra-indications or other emergency information.

305. Other delegations pointed out that such information was not appropriate for general purpose reports but was better suited to special purpose reports as envisaged in the relevant provisions of the code of conduct currently being developed.

Value added

306. Some delegations proposed that it would be useful for individual member enterprises of a transnational corporation to disclose information, particularly as regards production, on a value-added basis. The Group recalled that it had had an extensive but inconclusive discussion on the subject when considering the enterprise as a whole.

Auditor's association with non-financial information

307. The Group recalled that it had had an extensive but inconclusive discussion on the subject when considering the enterprise as a whole.

Notes

a/ See E/C.10/81, para. 14 and annex II.

b/ International Standards of Accounting and Reporting (United Nations publication, Sales No. E.77.II.A.17), pp. 68-75.

c/ See E/C.10/81, para. 14 and annex II.

d/ International Standards of Accounting and Reporting (United Nations publication, Sales No. E.77.II.A.17), pp. 77-79.