ADDRESSING WEAKNESSES IN MARKET FOUNDATIONS

SELECTED DOMESTIC AND INTERNATIONAL INITIATIVES

The attached compendium, prepared by the FSF Secretariat based on publicly available information, is a selective and limited sampling of initiatives under way among FSF members to deal with issues of corporate governance, accounting, audit and disclosure standards brought to light by recent corporate failures.

The compendium does not claim to be exhaustive. It is restricted to measures taken by:

- legislatures
- financial authorities
- national and international standard setters
- business or professional groups

We would welcome comments, additions and corrections to the compendium.

Last updated on 12 March 2003

COMPENDIUM OF SELECTED DOMESTIC AND INTERNATIONAL INITIATIVES

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1. Corporate governance codes in general

A public corporation brings together a variety of interests that cooperate in producing value for shareholders:

- Management runs the corporation to produce value for shareholders;

- The board of directors oversees the management on behalf of shareholders and selects the CEO and senior managers;

- To provide effective oversight, some corporate governance codes require that certain members of the board of directors must operate independently from management;

- Management must produce fair and complete financial statements under the oversight of the board and audit committee;

- The independent auditor has a duty to report any concerns to the board, through the audit committee;

- The auditor must remain independent and do its work competently; and

- Some codes include a requirement that the corporation must treat its employees fairly.

There is a potential for numerous conflicts of interest in this cooperative process, in the sense of individuals placing their personal interests ahead of those on whose behalf they are working.

Corporate governance is the system of checks and balances
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UNITED STATES

On 7 March 2002, President Bush announced a “Ten-Point Plan to Improve Corporate Responsibility and Protect America’s Shareholders,” which applies three core principles of effective governance: accuracy and accessibility of information, management accountability, and auditor independence. The ten points of the plan are addressed by U.S. Federal actions discussed below. These points were followed by Sarbanes-Oxley and SEC action, which are further discussed below. The ten points, referred to below as “U.S. Administration Proposals,” are as follows:
1. Each investor should have quarterly access to the information needed to judge a firm’s financial performance, condition, and risks.

2. Each investor should have prompt access to critical information.

3. CEOs should personally vouch for the veracity, timeliness, and fairness of their companies’ public disclosures, including their financial statements.

4. CEOs or other officers should not be allowed to profit from erroneous financial statements.

5. CEOs or other officers who clearly abuse their power should lose their right to serve in any corporate leadership positions.

6. Corporate leaders should be required to tell the public promptly whenever they buy or sell company stock for personal gain.
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ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

The OECD published in April 1999 a set of corporate governance standards and guidelines entitled “OECD Principles of Corporate Government”.

These standards were subsequently endorsed by the FSF as one of the 12 key standards essential for sound financial systems and deserving of priority implementation.

At its latest Ministerial Meeting on 15 May 2002, OECD ministers agreed that:

- OECD will survey developments in OECD countries on governance in the corporate and financial sectors, with a view to identifying lessons to be learned and the implications for the assessment of the OECD Principles of Corporate Governance;

- This assessment should be brought forward from 2005 to 2004;

- OECD will continue its program with the World Bank to promote corporate governance reform efforts worldwide, using the OECD Principles of Corporate Governance as a benchmark.

On 15 November 2002, the OECD Secretary General hosted an informal roundtable on corporate governance and market integrity in Paris.
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<tr><td>that moves parties towards fulfillment of their responsibilities and obligations. Corporate governance rules define the specific roles of some of these parties within corporations.</td>
<td>7. Investors should have complete confidence in the independence and integrity of companies' auditors.

8. An independent regulatory board should ensure that the accounting profession is held to the highest ethical standards.

9. The authors of accounting standards must be responsive to the needs of investors.

10. Firms' accounting systems should be compared with best practices, not simply against minimum standards.

CORPORATE FRAUD TASK FORCE: PRESIDENT BUSH STATEMENT OF 15 JULY 2002

"Today, by executive order, I created a new Corporate Fraud Task Force, headed by the Deputy Attorney General, which ... will function as a financial crimes SWAT team... I am proposing legislation that would double from 5 to 10 years maximum prison terms for those convicted of financial fraud".

U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 (enacted on 30 July 2002)

The most significant reform of U.S. securities laws since the 1930s. It directs the SEC to enact new rules with respect to:

- Duties of executive officers and company directors (e.g. certification of quarterly and annual reports);
- Loans to company officers and directors (prohibited) and faster disclosure of insider purchases and sales;
- Real-time disclosures of additional financial information;
- Greater disclosures of off-balance sheet activities;
- Constraints on pro forma reporting;
- Independence, duties and obligations of audit committees;
- Bans on certain non-audit services provided to audit</td>
<td>INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

On 18 May, IOSCO Emerging Markets Committee (EMC) adopted a resolution, which recognizes that "effective corporate governance is essential to the development of robust, well-regulated capital markets".

The IOSCO EMC recommended that its members implement those principles in their legislation, regulations and codes of good practices and use the OECD Principles of Corporate Governance (OECD Principles) as a benchmark.
IOSCO Technical Committee issued in October 2002 its Principles of auditor independence and the role of corporate governance in monitoring an auditor's independence (see items 5 and 16).

EUROPEAN UNION

The EU completed in March 2002 a Comparative Study of Corporate Governance Codes Relevant to the European Union and its Member States.

This study was considered by a High Level Group (HLG) of Company Law Experts, chaired by Professor Jaap Winter. On 4 November 2002, the Final Report of the HLG was presented to EU Commissioner Frits Bolkestein.

Issues addressed in the final report include: the role of non-executive and supervisory directors; management remuneration; the responsibility of management for financial statements; and auditing practices. Also addressed are a number of company law subjects, such as capital formation and maintenance rules; group and pyramid structures; corporate restructuring, as well as certain general themes for future development of company law in Europe.

The Winter's Final Report was welcomed by both the European Council and the European Parliament. In a speech delivered on 30 January 2003, Commissioner Bolkestein announced a forthcoming Action Plan on Company Law and his intention to come up with a Communication on company</td></tr>
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<tr><td></td><td>clients;

- Audit partner rotation;

- Severe criminal penalties for some securities law violations.

The Act establishes a national public-sector body, subject to oversight by the SEC, to regulate the auditing profession (see item 17).

The Act also instructs the SEC and GAO to complete various studies including a SEC study on all SEC enforcement actions involving violations of reporting requirements and restatements of financial statements.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

On 13 February 2002, the SEC asked the New York Stock Exchange (NYSE) and Nasdaq to review their corporate governance and listing standards. Both the NYSE and Nasdaq have submitted to the SEC for approval rule proposals to improve the corporate governance of listed companies. The SEC has published for public comment the proposals that would require shareholder approval of all equity compensation plans, and is currently reviewing the other rule proposals. Most recently, the SEC proposed rules to implement Section 301 of Sarbanes-Oxley, adopted in July 2002 (see item 5). Some of the proposals by the SROs are also discussed below.

NYSE and Nasdaq PROPOSALS

NEW YORK STOCK EXCHANGE (NYSE) PROPOSALS

The NYSE Board of Directors has approved new standards and changes in the corporate governance practices of NYSE - listed companies. An initial set of proposals was submitted by the NYSE to the SEC on 6 June 2002. More recent proposals were submitted on 16 August 2002 (Corporate Governance Rule Filing) and 7 October 2002 (Shareholder Approval of Equity Compensation).</td><td>law and corporate governance by the end of the first quarter of 2003. He also indicated that the recommendations of the Winter's Final Report will underpin the Commission's envisaged initiatives in this area.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

Issued proposed revisions to its Insurance Core Principles to strengthen corporate governance provisions. At the time of writing, the proposed revisions are under consultation.</td></tr>
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	Main proposals included: - Increasing role and authority of independent directors; - Tightening the definition of "independent director" and adding new audit committee qualification requirements; - Encouraging a focus on good corporate governance; - Giving shareholders more opportunity to monitor and participate in the governance of their companies; - Establishing new control and enforcement mechanisms; - Improving the education and training of directors. All listed companies to adopt and disclose their corporate governance guidelines. Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from NYSE rules. Nasdaq Announced first round of rule changes on 5 June 2002, notably requirement that all stock option plans in which officers and directors participate be approved by shareholders. Announced second round of more extensive changes on 25 July 2002: - Majority on boards to be independent; - Empowered audit committees; - All companies must have codes of conduct; - All insider transactions above $100,000 to be disclosed within two days.	

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	On 10 October 2002, issued a detailed summary of its proposed corporate governance reforms. Rule filings reflecting these proposals were posted on the Legal and Compliance section of www.nasdaq.com. Main proposals may be grouped under the following headings: - Stock options; - Loans to Officers & Directors; - Increase Board Independence; - Heightened Standards for Audit Committee Members; - Strengthen the role of independent directors in compensation and nomination decisions; - Empower Audit Committees and Harmonise Listing Standards; - Mandate Director Continuing Education; - Accelerated Disclosure of Insider Transactions; - Provide Transparency with respect to Non-U. S. Companies; - Codes of Conduct. THE CONFERENCE BOARD (U.S.) A Blue Ribbon Commission on Public Trust and Private Enterprise was set up on 20 June 2002; it released its final set of findings covering corporate governance, business ethics, shareholder relations and executive compensation on 9 January 2003. The Commission recommended the following best practices to companies: <u>Board Structure:</u> three alternative board structures were recommended, all a break from the past practices of many U.S. corporations in so far as they envisage the Chairman of the Board to be independent, i.e. non-executive (many offices	

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	of the Chairman and Chief Executive Officer are held by the same individual). This chairman is to have ultimate approval over the information flow to the board, board meeting agendas, and board meeting schedules. Companies choosing not to adopt any of these three approaches should explain why and how the board structure they use achieves strong, independent board leadership. Boards should be composed of a substantial majority of independent directors. <u>Director qualifications</u> are considered of key importance and a self-evaluation process of boards' performance is recommended. <u>Ethical conduct</u> is considered key and the establishment of management processes to "follow through" considered being essential for all companies. <u>Independent investigation</u> of alleged wrongdoing is considered key. Companies should hire a special external counsel to conduct an investigation that is likely to implicate a company's executives. <u>Forward-looking approach</u>: The commission recommends that boards and shareholders should focus on the corporation's long term success and calls on boards of directors to listen more to long term shareowners. <u>Audit committees and auditors:</u> The commission recommends to give the audit committee and other watchdogs a strong role; it also recommends that auditors should confine their activities to auditing. Audit firms, especially the Big Four, should ensure that quality audits are their number one priority. <u>Executive Compensation:</u> The Commission recommends that companies should tie executive compensation to corporate operating performance and develop incentives to encourage long-term growth and profitability. It recommends that compensation committees should be composed entirely of independent directors. Moreover, senior executives should hold stock in their companies for the long term and give advance notice of stock sales. Companies should strive for transparency in disclosure of their compensation policies and	

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	practices. Companies should expense stock options. AUSTRALIA In September 2002, the Government released a comprehensive set of policy proposals (CLERP 9) to strengthen audit regulation and the wider corporate disclosure framework. The main CLERP 9 legislative proposals are: - Expand the role of the Financial Reporting Council to include, in addition to its existing role of overseeing accounting standard setting, public oversight of audit independence; - Strengthen significantly the requirements in relation to auditor independence; - Make audit partner rotation compulsory after a fixed period of time; - Require disclosure in annual reports of fees for all non-audit services provided to a company by its external auditor and require audit committees to certify that receipt of certain non-audit services from the company's external auditor did not compromise audit independence; - Provide the Australian Securities and Investments Commission (ASIC) with the power to impose financial penalties and issue infringement notices in relation to contraventions of the continuous disclosure regime; - Provide protection for company employees who report breaches of the Corporations Act to ASIC. In August 2002, the Australian Stock Exchange (ASX) convened a Corporate Governance Council. A final set of recommendations is expected from the Council by end March 2003. The work of the Council is being conducted against the backdrop of the Government's preferred approach to corporate governance standards.	

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	UNITED KINGDOM The Secretary of State for Trade and Industry announced on 29 January 2003 a comprehensive package of reforms to: (a) raise standards of corporate governance - by implementing the recommendations of the Higgs' Report on the role and effectiveness of non-executive directors (see item 4 below) and the Smiths' Report on audit committees (see item 5 below); (b) strengthen accountancy and audit professions by toughening measures to underpin auditor independence (see item 16 below); and (c) provide for a more effective system of oversight of the accounting and audit profession - by establishing a unified, independent, public interest oversight body (see item 17 below). Changes to the regulatory structure are to be taken forward immediately, while changes to the Combined Code arising from the implementation of the Higgs and Smith Reports will be made in early Summer. Financial Services Authority (FSA) published on 30 July 2002 a discussion paper on "Modernising the Listing Regime" reviewing: - Corporate governance; - Corporate communication of price sensitive information; - Shareholder rights; - Financial disclosure. CANADA Office of the Superintendent of Financial Institutions (OSFI) issued corporate governance guidelines for federally-regulated financial institutions on 24 January 2003. TORONTO STOCK EXCHANGE (TSX) Announced on 26 April 2002 new guidelines on corporate governance, including requirements that:	

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	- On 18 Boards without an independent chair appoint a director for managing the board independently of management; - All members of audit committee be financially literate; - Disclosure of corporate governance practices apply to non-corporate TSX issuers, trusts and limited partnerships. September 2002, the TSX proposed further changes that will expand and enhance the listing requirements for companies listed on the exchange. These new measures include enhancing the independence of the companies' boards of directors and requiring that audit committees be composed of a majority of unrelated directors. On 26 September 2002, the Canadian Council of Chief Executives (CCCE), representing CEOs of 150 leading Canadian corporations, released a statement outlining actions that CEOs and boards of directors can take to strengthen corporate governance. FRANCE-MINISTRY OF THE ECONOMY A project of law on "financial security" approved by the Counsel of Ministers on 5 February 2003, will among other things: - Establish enhanced corporate transparency and good governance measures; - Create a consolidated regulator , l'Autorité des marchés financiers (AMF) by merging the Commission des opérations de Bourse (COB) and the Conseil des marchés financiers (CMF). The Commission controlling insurance companies and the Commission controlling mutual and social security companies are to be merged between themselves, too; - Establish new obligations with respect to the information to be given to shareholders' meetings: work methods of the board of directors, and internal control procedures for the	

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	company. The auditor will be required to present to shareholders' meetings a report relative to these procedures where they concern accounting and financial information. Listed companies should publish relevant information. GERMAN GOVERNMENT Published in August 2001 a new German Corporate Governance Code (GCGC) listing essential statutory rules of governance for listed companies (the so-called Cromme Code). The new code tightens the rules protecting the independence of Boards and various committees from excessive management representation. On 26 July 2002, a Transparency and Disclosure Law came into force. This law envisages to strengthen stock corporation and accounting legislation with respect to transparency and disclosure issues. The law, among other things, introduced a requirement to the effect that the executive boards and supervisory boards of listed companies shall declare once a year that the recommendations of the GCGC have been and are being complied with or reasons for non-compliance. Such declaration is to be made permanently accessible for stockholders (online). HONG KONG SAR GOVERNMENT Following a period of public consultations, the HK Stock Exchange issued on 17 February 2003 its proposed changes to listing requirements in the areas of shareholders rights, director and board practices, and corporate reporting and disclosure of information. Necessary rule changes will be implemented by end June 2003. Main proposals include: (a) Requiring voting by poll for connected transactions that require controlling shareholders to abstain from voting and transactions requiring interested shareholders to abstain from voting;	

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	(b) Requiring independent shareholders' approval for refreshments of the general mandate; (c) Increasing the minimum number of independent non-executive directors to three; (d) Requiring disclosure of directors' remuneration on an individual basis; (e) Providing further guidance regarding independence of non-executive directors; (f) Requiring listed companies to establish an audit committee; (g) Recommending listed companies to establish a remuneration and nomination committee in the Code of Best Practices; and (h) Requiring listed companies to report on their corporate governance practices. ITALIAN GOVERNMENT The Financial Securities and Market Act approved in February 1998 marked an important reform in the Italian corporate governance rules for listed companies. The Act brought about enhanced disclosure requirements and introduced new provisions aimed at protecting investors and minority shareholders by updating previous rules on take-over bids, cross-shareholding, as well as strengthening investors' protection rights and the key role of the internal board of auditors (collegio sindacale) and its relationship with the external auditors. The Italian Stock Exchange has introduced in 1999 a Code of Conduct for listed companies, amended in July 2002. Among other things, the Code has required listed companies to: i) ensure the presence in the Board of an adequate number of non-executive independent directors; ii) ensure the presence within the Board of an "Internal Control Committee"; and iii) comply with criteria of substantial and procedural fairness	

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	whenever transactions with related parties take place. Listed companies have to make public their degree of compliance with the Code. On 10 January 2003, further reforms to the Italian corporate law were enacted. These will come into force on 1 January 2004, amending the Civil Code. Among other things, Italian corporations (Società per Azioni) will be offered the choice between different models of corporate governance: the traditional one, the "dual board" system, and the "unitary board" system. Responsibilities of the Board of Directors are further strengthened and a tougher discipline on Directors' conflicts of interest established. Regulation of corporate groups is provided: the economic interest of the group as a whole is taken into account and adequately traded off against the need of protection for the single companies and their minority shareholders; information concerning the group structure has to be made public. In the wake of the Enron scandal, the Minister of Economy and Finance set up a study committee (Galgano Commission) to find out whether changes are needed to strengthen and to complete current regulation. JAPAN Various revisions of the Commercial Code were made to: (1) in December 2001, enhance the corporate statutory auditors system -see item 5; and (2) in May 2002, allow large corporations the option of choosing a "committee system" governance structure including nomination, audit, and compensation committees (effective as of April 2003) - see item 5. The Financial Services Agency (FSA) announced in August 2002 a comprehensive programme for promoting securities markets reform. As a result, two reports were issued in December 2002 by two important advisory bodies established within the FSA, namely the First Subcommittee and the Subcommittee on Certified Public Accountant Regulation of the Financial System Council. Key elements of the programme include measures to promote the development of	

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	the securities markets by facilitating access of a wider pool of investors while seeking to restore investors' confidence and strengthening public surveillance; measures to strengthen corporate governance, such as strengthening disclosure arrangements (see item 20); a comprehensive review of the Certified Public Accountants Law to strengthen auditors' independence and oversight auditor; and continuing progress in the development of accounting and auditing standards that are consistent with international ones. Bills based on the Subcommittees' reports were submitted to the current regular session of the Diet on 14 March 2003. THE NETHERLANDS De Nederlandsche Bank introduced in April 2001 a Regulation on Banks' Organisation and Control that provides a framework for banks' internal organisation and control of operational risk aimed at promoting controlled and sound management. Following the results of the Commission Peters in 1997, a new commission on corporate governance is being envisaged. ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION (AIMA) This association of European hedge funds released on 4 September 2002 a *Guide To Sound Practices For European Hedge Fund Managers* covering corporate governance, risk management and other topics. STANDARD & POORS Is looking at increasing the weight of corporate governance in rating decisions. On 15 October 2002, released a survey rating the corporate governance, disclosure and transparency practices of the companies in the S&P 500 list on the basis of newly developed metrics designed to assist senior management, corporate boards, and investors assess corporate governance	

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	practices. FRENCH BUSINESS ASSOCIATIONS France has conducted 2 reviews of its corporate governance structures (Viénot-I and II). A third review, tabled by D. Bouton on 23 September 2002, confirmed the soundness of previous Viénot recommendations and urged greater enforcement of these. The Bouton report also suggests greater board independence (at least 50% non executive directors).	
2. Incentives of CEOs to uphold high standards of conduct and business ethics *CEOs are typically responsible for:* - *Operating companies on a day to day basis;* - *Strategic planning;* - *Annual plans and budgets;* - *Selecting qualified management and an effective organisational structure;* - *Identifying and managing risk; and* - *Truthful financial reporting.* *The right incentives (rewards and penalties) are important to ensure CEOs adequately fulfil all these responsibilities in an ethical way, never unduly putting their personal interests before those of the corporation.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Directs the SEC to issue rules requiring CEOs and CFOs to personally vouch for the truth and fairness of their companies' annual and quarterly financial reports. They can be subject to criminal charges and imprisonment for non- compliance or wilfully falsifying reports. Empowers the SEC to prohibit from serving as directors or officers of a corporation subject to the Exchange Act reporting requirements any persons who have violated particular securities rules. All officers and directors are now required to reimburse any bonuses, incentives or equity-based compensation received, if company has to restate its financial statements with any financial reporting requirement under the U.S. securities laws owing to misconduct. U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) On 27 June 2002, SEC ordered the CEOs and CFOs of the 947 largest SEC-registered corporations to personally certify in writing, under oath their most recent accounts and re-file them, if necessary (deadline of 14 August was met by almost all the companies affected).	INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS) Issued proposed revisions to its Insurance Core Principles to strengthen provisions in this area. The revised principles will also address the issue of ethical behaviour in criterion m.

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	On 15 January 2003, pursuant to Sarbanes-Oxley, the SEC adopted rules to require public companies to disclose information about corporate codes of ethics and audit committee financial experts. Companies are required to disclose annually whether they have at least one "audit committee financial expert" on their audit committees and whether they have adopted a code of ethics for their CEOs, CFOs, and chief accounting officers or controllers, or persons performing similar functions. If they have not, they are required to explain why. NEW YORK STOCK EXCHANGE (NYSE) PROPOSALS OF 6 JUNE 2002 "Each listed company's CEO must certify annually that the company has established and complied with procedures for verifying the accuracy and completeness of information provided to investors and that he or she has no reasonable cause to believe the information is not accurate or complete. "CEOs must also certify annually that they are not aware of any company violations of NYSE rules. Violations may lead to public reprimands as well as suspension or de-listing". "All listed companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees....and promptly disclose any waivers of the code for directors or executive officers". ITALY The effectiveness of the discipline of directors' conflicts of interest contained in the Civil Code was felt not to be wholly adequate. The forthcoming company law reform has considerably strengthened the discipline. The Galgano Commission suggested modifying d.lgs 58/1998 to insert a special provision, addressed to listed companies only, imposing sanctions on directors in case of failure to disclose the conflict, even if the company does not suffer damage. It also took the view that personal loans to executives should be prohibited.	

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The draft law on “financial security” requires board of directors’ members, executive and supervisory board’s members, CEOs, and their relatives to disclose their transactions to the AMF and public.

AUSTRALIAN GOVERNMENT

The issues of management oversight, business ethics and board structure are expected to be covered by the upcoming report of the ASX Corporate Governance Council (see Item 1).</td><td></td></tr>
<tr><td>3. Use of equity-based remuneration as managerial incentives

Equity-based remuneration has been increasingly used to motivate managers and employees.

One of its intents is to better align the interests of managers and the corporation as reflected in the interests of its stockholders (reducing the “principal-agent” problem). Depending on its design, equity-based remuneration can inadvertently encourage short-term value maximization which is not in the long-term interests of shareholders or their company.

The other intent of equity-based remuneration is to reward performance. Stock values are widely regarded as the best measure of the market’s appraisal of a company’s performance at a given time. Equity-based compensation thus has the advantage of tying management’s compensation more closely to the market’s evaluation of firm performance.

Debate about the appropriate use and design of equity-based compensation does arise, however.

Concerns about fairness arise from the capacity of some equity compensation to reward managers for strong</td><td>U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002

Amended Section 16(a) of the Exchange Act to accelerate the deadline for filing transaction reports by insiders of U.S. public companies.

On 15 January 2003, pursuant to Sarbanes-Oxley, the SEC adopted rules restricting insider trading during pension fund blackout periods.

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

The FASB issued an invitation to comment on IASB’s exposure draft related to share-based payments (see item 14).

NEW YORK STOCK EXCHANGE
(NYSE) PROPOSALS OF 6 JUNE 2002

“Shareholders must be given the opportunity to vote on all equity based compensation plans. Brokers may only vote customer shares on proposals for such plans pursuant to customer instructions”.

“[will] require listed companies to have a compensation committee composed entirely of independent directors”.</td><td>INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

Issued in November 2002 an Exposure Draft on a proposed accounting treatment of stock options in corporate financial statements (see item 14 below).</td></tr>
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performance of the economy rather than their individual corporation. *Finally, there are concerns about whether shareholders have sufficient say over stock option remuneration decisions and whether company remuneration committees are sufficiently independent from management.*	U.S. CONFERENCE BOARD BLUE RIBBON COMMISSION In its first of three reports, released on 17 September 2002 and focusing on executive compensation, the Commission provides guidance on excessive use of stock options, outlines four compensation principles and recommends best practices (see item 1). AUSTRALIAN GOVERNMENT The Government's CLERP 9 paper envisages the early adoption by the Australian Accounting Standards Board of the proposed IASB standard on share based payments. The issue of remuneration practice is expected to be covered by the upcoming report of the ASX Corporate Governance Council (see Item 1). UK GOVERNMENT Tabled legislation on 25 June 2002 requiring listed companies to report annually on directors' pay and to hold a shareholders' vote on this report. Necessary regulations were tabled in July. TORONTO STOCK EXCHANGE (TSX) Proposed on 2 August 2002 new listing requirement that all security-based compensation arrangements obtain prior shareholder approval. CANADIAN SECURITIES ADMINISTRATORS (CSA) 21 June continuous disclosure proposal requires that information circulars disclose new equity compensation plans. ITALY The Italian Stock Exchange has introduced rules on the disclosure of directors' dealings in their company shares, exceeding certain amounts.	

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THE NETHERLANDS

On 1 September 2002, adopted the Law on the Public Disclosure of Remuneration and Compensation Schemes requiring disclosure of stock options granted to management, as well as changes in equity and option positions of management.

GERMANY

The Government’s 10-point programme announced on 25 February 2003 envisages, among other things, that shareholders should be informed about possible remuneration amounts before they vote on companies’ stock options programmes. Supervisory Boards are also required to ensure that stock options programmes are appropriate. Full transparency on the amounts and effects of stock options programmes is required.</td><td></td></tr>
<tr><td>4. Relationship of CEO and board of directors

As a general principle, the Board of a company should maintain both access to timely and accurate information about the company’s operations and the ability to act on that information independently of management. Placing the CEO and other managers on the board can help promote information access, yet it may in some instances compromise independence. Issues in the relationship between CEO and board of directors arise as governments and corporations seek to find the right trade-off between independence and information access.

For example, frequently in the U.S. the CEO also acts as Chairman of the Board. Combining both roles may ensure</td><td>U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002

The Act addresses various aspects of the relationship of the CEO and the board of directors. Section 301 requires that each member of the audit committee shall be a member of the board of directors of the issuer, and shall otherwise be independent. “Independent” is defined as not receiving, other than for service on the board, any consulting, advisory, or other compensatory fee from the issuer, and as not being an affiliated person of the issuer, or any subsidiary thereof (see item 5). Section 303 deems it unlawful for any officer or director of an issuer to take any action to fraudulently influence, coerce, manipulate, or mislead any auditor engaged in the performance of an audit for the purpose of rendering the financial statements materially misleading. Section 404 directs the SEC to prescribe rules requiring each annual report required under the Securities Exchange Act of</td><td></td></tr>
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ISSUE	SELECTED INITIATIVES	
	NATIONAL	**INTERNATIONAL**
consistency of purpose between CEO and his/her board, but may also affect independence. *Also at issue is the balance between executive directors and outside, independent directors (non-executive directors) in the Board's composition, with some jurisdictions requiring that a majority be independent.* *Substitution of outsiders for managers on corporate boards can increase board independence, yet may also limit board competence.* *There are suggestions that independent directors require continuing education to keep abreast of financial and market developments.* *In considering whether to write special rules on board composition or on training of board members, jurisdictions are faced with a trade-off between the value of general rules in promoting independence and costs that such rules can inadvertently impose.*	1934 to contain an internal control report, which shall - (1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting. Section 406 directs the SEC to require each issuer to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code and to revise its regulations concerning prompt disclosure on Form 8-K to require immediate disclosure "of any change in, or waiver of," an issuer's code of ethics. U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) On 8 January 2003, the SEC proposed a rule addressing standards related to listed company audit committees (see item 5). On 15 January 2003, pursuant to Sarbanes-Oxley, the SEC adopted rules to require public companies to disclose information about corporate codes of ethics (see item 2). NEW YORK STOCK EXCHANGE (NYSE) PROPOSALS OF 6 JUNE 2002 "Independent directors must comprise a majority of the board; non-management directors must meet without management in regular executive sessions". Tighter test for determining the independence of a director: "the board must affirmatively determine the director has no material relationship with the listed company (either directly or indirectly)". Independence also to require a <u>five</u> (instead of current three) year cooling-off period for former employees of listed company, or of its independent auditor. "Listed companies must have a compensation committee composed entirely of independent directors".	

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	CANADA- TORONTO STOCK EXCHANGE (TSX) Proposed on 26 April 2002 that boards without a non-executive chair must appoint a director responsible for independently managing the board. UK GOVERNMENT Derek Higgs' review of the role and effectiveness of non-executive directors was published on 20 January 2003. The review undertaken at the initiative of the Secretary of State for Trade and Industry and the Chancellor of the Exchequer, focus on the conditions and behaviours necessary for the non-executive directors to achieve high performance and effectiveness levels in order to promote business prosperity, as well as ensuring adequate accountability. Derek Higgs's report recommends changes to the U.K. Combined Code to require a greater proportion of independent, better informed individuals on the board. The new Code will require greater transparency and accountability in the behaviour, formal performance appraisal, and closer relationships between non-executive directors and shareholders. The report also calls for a more rigorous and meritocratic appointment process for directors. Building on the established "comply or explain" approach, listed companies will have to report on how they apply the Code's principles and to state whether they comply with the detailed provisions and, if not, why not. The Financial Reporting Council announced that it will take forward the recommendations of the Higgs' report (as well as the Smith's Report- see next section) for changes to the Combined Code by 1 July 2003. GERMAN GOVERNMENT Within the two-tier board structure, the Transparency and Disclosure Law (TransPuG), entered into force 26 July 2002, improved corporate disclosure and further strengthened the position of the non-executive supervisory board vis-à-vis the management or executive board. The law also required corporations to disclosure whether they accept and comply with the (voluntary) corporate governance code (Cromme	

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	Code). HONG KONG SAR HK Stock Exchange plans to issue by end-June 2003 guidance on the role of non-executive directors and increase the number of independent non-executive directors to three. Under current proposals, listed companies will be required to establish: a) An audit committee, comprising of at least three non-executive directors with a majority of independent non-executive directors; and b) An independent board committee to advise the board on transactions requiring independent shareholders' approval. It also intends to amend its Code of Best Practices for directors so that the Codes will comprise of recommendations that will: a) Become the minimum standard for listed companies. Listed companies will be required to explain the reasons for any non-compliance with the minimum standards; and b) Become good practice standards. Listed companies will not be required to explain the reasons for non-compliance with the good practice standards. The main recommended minimum standards are: a) To segregate the role of the chairman and the chief executive; b) To establish a remuneration committee; and c) To set out certain duties and responsibilities of the audit, remuneration and nomination committees (other duties and responsibilities would only form good practice	

ISSUE	SELECTED INITIATIVES	
	NATIONAL	INTERNATIONAL
	standards). The main recommended good practice standards are: a) At least one third of the board should be represented by independent non-executive directors; b) To establish a nomination committee; and c) To set out other duties and responsibilities for the audit, remuneration and nomination committees. ITALY The corporate law reform strengthened the supervisory role of non-executive directors and improved the outflow of information from the CEO to the Board of Directors.	
5. Role and composition of audit committees *Audit committees, typically 3 to 5 people in the U.S., are required by many stock exchange listing standards and are responsible for the oversight of the corporation's entire financial reporting process.* *Audit committees are typically required to meet frequently enough to appropriately monitor annual and quarterly financial reports. They are also often required to be able to meet without management and have the time for active discussions with external and internal auditors.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Under Section 301 of the Act, the U.S. Congress instructs the SEC to issue rules no later than 26 April 2003 directing the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the requirements of Section 301. Section 301 requires that: - Each member of the audit committee of the issuer must be independent; - The audit committee must be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the issuer, and the registered public accounting firm must report directly to the audit committee;	INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO) The Technical Committee issued in October 2002 its Principles of auditor independence and the role of corporate governance in monitoring an auditor's independence, touching on the role of the audit committee as a means for strengthening auditors' independence (see item 16). Audit committees should be in both appearance and fact independent of management; they should act on behalf and in the interests of investors; they should oversee the process of selection and appointment of the external auditors and the conduct of the audits. BASEL COMMITTEE ON BANKING SUPERVISION (BCBS) BCBS provides guidance for banks on how to structure their audit committees in its August 2001 paper entitled *"Internal Audit in Banks and the Supervisor's Relationship with Auditors".*

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<tr><th rowspan="2">ISSUE</th><th colspan="2">SELECTED INITIATIVES</th></tr>
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<tr><td></td><td>- The audit committee must establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

- The audit committee must have the authority to engage independent counsel and other advisors, as it determines necessary to carry out its duties; and

- The issuer must provide appropriate funding for the audit committee.

Section 407 of the Act directs the SEC to issue rules that require issuers to disclose whether at least 1 member of its audit committee is a “financial expert”.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

On 8 January 2003, the SEC proposed a rule addressing standards related to listed company audit committees. The rule would direct the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the audit committee requirements established by Section 301 of Sarbanes-Oxley. The comment period closed on 18 February 2003. On 15 January 2003, pursuant to Sarbanes-Oxley, the SEC adopted rules to require public companies to disclose information about audit committee financial experts (see item 2).

NEW YORK STOCK EXCHANGE (NYSE) PROPOSALS OF 6 JUNE 2002

“The chair of the audit committee must have accounting or financial management experience”.

Tighter definition of independence for directors sitting on audit committee (e.g. cannot own 20% or more of the stock).
Audit committee must have sole responsibility for hiring and firing the company’s auditors and for filing any significant non-</td><td>INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

IAIS Technical Committee has approved to submit for adoption at the IAIS General Meeting a guidance paper on the subject of “Use of Actuaries as Part of a Supervisory Model”.</td></tr>
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ISSUE	SELECTED INITIATIVES	
	NATIONAL	**INTERNATIONAL**
	audit work by the auditors". TORONTO STOCK EXCHANGE (TSX) Proposed on 26 April that all audit committee members be "financially literate" with at least one member having accounting or financial expertise. UNITED KINGDOM Sir Robert Smith's report on audit committees which was carried out at the request of the coordinating Group on Accounting and Audit (CGAA) was published on 20 January 2003. The report focus on the role of audit committees in reinforcing the independence of the auditor. It provides recommendations for changes to the U.K. Combined Code as well as practical guidance to implement changes. Recommended changes will become effective on 1 July 2003. Main recommendations relate to the composition and role of audit committees. Composition of the audit committee: - To Include at least three members, all independent non-executive directors; - At least one member to have significant, recent and relevant financial experience, and suitable training to be provided to all. Role of the audit committee: - To monitor the integrity of the financial statements of the company, reviewing significant financial reporting judgements; - To review the company's internal financial control system and, unless expressly addressed by separate risk committee or by the board itself, risk management systems; - To monitor and review the effectiveness of the company's internal audit function;	

ISSUE	SELECTED INITIATIVES	
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	- To make recommendations to the board in relation to the external auditor's appointment; in the event of the board's rejecting the recommendation, the committee and board should explain their respective positions in the annual report; - To monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements; - To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. ITALY The Code of Conduct for listed companies provides that the board of directors shall establish an internal control committee, made up of non-executive directors, of which the majority shall be independent. The forthcoming corporate law reform allows companies to choose among three board patterns: the traditional one, the "dual board system" (the German one) and the "unitary board system" (the Anglo-Saxon one). In the traditional pattern the board includes executive and non-executive directors; furthermore, the pattern is characterized by the presence of the internal board of auditors, whose task is, among others, to monitor the decisions of the managing body. In the "dual board system", the members of the management board cannnot be part of the supervisory board. As for the "unitary board system", at least one third of its members must be "independent directors". Furthermore, the internal audit committee must be composed entirely of independent directors. GERMAN GOVERNMENT In keeping with the two tier board system, the Law On	

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	Corporate Control And Transparency of 1998 (KonTraG) shifted the responsibility for selecting, commissioning and overseeing auditors from the management board to the supervisory board, which acts as audit committee. JAPANESE GOVERNMENT The revision of the Commercial Code in December 2001 strengthened the board corporate statutory auditors system, by increasing the required number of outside corporate statutory auditors from one to at least half of total auditors (effective May 2005) and strengthening the definition of an "outside" corporate statutory auditor from requiring no employee or director relationship for the preceding 5 years to banning any such employee or director relationship (effective May 2005). The revision of the Commercial Code in May 2002 allowed large corporations to choose the option to adopt the Committee System including nomination, audit and compensation committees (effective April 2003). Each of the three committees is to consist of three or more directors with a majority of independent (outside) directors in each committee.	
6. Treatment of whistle-blowers *When all checks and balances fail, whistle-blowers can sometimes be a safety valve of last resort. At issue are the pros and cons of granting protection to whistle-blowers.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Section 806 of the Act extends to employees of issuers and accounting firms "whistleblower protection" that would prohibit the employer from taking certain actions against employees who lawfully disclose private employer information to, among others, parties in a judicial proceeding involving a fraud claim. To seek relief, employees must file a complaint with the U.S. Department of Labor. As a further protection for employees who wish to report securities fraud, Section 301 instructs the SEC to require audit committees to have in place procedures for receiving complaints from whistleblowers. Section 1107 also addresses retaliation against informants.	

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<tr><th rowspan="2">ISSUE</th><th colspan="2">SELECTED INITIATIVES</th></tr>
<tr><th>NATIONAL</th><th>INTERNATIONAL</th></tr>
<tr><td></td><td>U.K. FINANCIAL SERVICES AGENCY (FSA)

On 1 May 2002, the FSA inaugurated a telephone line and E-mail address for employees who have concerns about possible wrongdoing at their workplace and who have been unable to raise or resolve them internally.

The FSA also issued guidance encouraging all FSA-authorised firms to bring in similar procedures.

AUSTRALIAN GOVERNEMENT

The Government's CLERP 9 paper (see item 1) contains proposals in relation to providing protection for company employees who report breaches of the Corporations Act to ASIC.</td><td></td></tr>
<tr><td colspan="3">ACCOUNTING STANDARDS</td></tr>
<tr><td>7. Responsiveness of accounting standards to market changes and the needs of investors

Responsiveness refers to:

- The speed at which accounting standards evolve in response to changes in markets and the needs of investors;

- Their ability to keep pace with the increasing diversity and complexity of financial markets and products.</td><td>SECURITES AND EXCHANGE COMMISSION (SEC)

On 18 April 2002, SEC staff announced that the SEC will:

- Broaden funding sources to decrease FASB's dependence on revenues from the accounting profession;

- Provide input to selection of projects on FASB's agenda;

- Work with FASB to develop a mechanism that will ensure that each project is completed on a timely basis;

- Actively oversee the standard-setting process to ensure it functions in the best interests of investors".

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

Is pursuing key projects dealing with, among other issues:</td><td>INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

Has published for public comments in May 2002 proposals to revise 12 of its 34 active standards in the form of an exposure draft titled "Improvements to International Accounting Standards.

Standards under review included: IAS1 (presentation of financial statements), IAS2 (inventories),
IAS8 (accounting policies, changes in accounting estimates, and errors),
IAS10 (events after the balance sheet date), IAS15 (information reflecting the effects of changing prices), IAS16 (property, plant and equipment), IAS17 (leases), IAS21 (the effects of changes in foreign exchange rates), IAS24 (related party disclosures), IAS27 (consolidated and separate financial statements), IAS28 (accounting for investments in associates), IAS33 (earnings per share), and IAS40 (investment property). The comment period concluded on 16</td></tr>
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ISSUE	SELECTED INITIATIVES	
	NATIONAL	**INTERNATIONAL**
	- Business combinations and consolidations; - Short term international convergence; - Disclosure about intangible assets; - Liabilities and equity - Fair value; - Financial performance reporting; - Revenue recognition; and - Short-term international convergence. U.K. ACCOUNTING STANDARDS BOARD Is reviewing relevant UK accounting standards in the light of the outcome of investigations into ENRON and of international accounting standards. COMMISSION DES OPÉRATIONS DE LA BOURSE (COB, France) Announced on 15 April 2002 that they would lend full support to IOSCO work program (see next column on next page). JAPAN The private accounting standard setting body, the Accounting Standards Board of Japan established in July 2001, is pursuing such projects as accounting for stock options and the guideline for the application of accounting standards for the impairment of fixed assets. The Business Accounting Council, an advisory council established within the FSA, continues to pursue its remaining accounting agenda, namely business combinations.	September 2002. Other international projects include: - First time application of International Financial Reporting Standards (IFRS); - Share-based payments; - Business combinations; - Reporting performance; and - Short-term international convergence. INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS) Is collaborating with the IASB to develop international accounting standards for insurance.

ISSUE	SELECTED INITIATIVES	
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8. Rules versus principles in accounting standards *U.S. GAAP are formulated as very detailed rules that are highly prescriptive and easier to enforce legally than the more general principles favoured in Europe for accounting standards.* *Rules leave less room for judgment and discretion, but may encourage abiding by the <u>letter</u> instead of the <u>spirit</u> of accounting standards. A principles-based approach, on the other hand, may allow too much room for judgement.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 The U.S. Congress instructed the SEC to submit a report based on a study of the adoption by the U.S. financial reporting system of a principles-based accounting system. FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) Working closely with SEC staff, the FASB issued on 21 October 2002 a proposal for public comment on a principles-based approach to accounting standard setting that discusses how that approach might improve the quality and transparency of financial reporting and affect the development of future standards. Being mindful that adoption of a principles-based approach would require changes in the processes and behaviours of all participants in the U.S. financial accounting and reporting process, the FASB sought for more public input before it determines the extent to which it should set in train initiatives to adopt that approach. The debate has at its extremes those who view detailed accounting standards as more difficult to use and costly to implement, as well as detailed rules as allowing for structuring transactions that meet the literal requirements of the rules, but ignore the intent and spirit of the standards on the one hand, and those who are concerned that principles-based standards could reduce the comparability of financial information and leave too much room for judgement by companies and auditors. The comment period ended on 3 January 2003.	
9. Coherence of national and international standards *The global harmonization of standards involves efforts by national authorities and international standard setters.* *The EU has decided that, by 2005, all companies listed there must comply with the International Accounting Standards of the IASB.*	U.S.SECURITIES AND EXCHANGE COMMISSION (SEC) In a 29 October 2002 press release, Commission members applauded the decisions by the FASB and IASB to work together toward greater convergence between U.S. GAAP and international accounting standards.	INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) In a 28 March 2002 statement, David Tweedie, Chairman of the IASB renewed his organisation's "commitment to act in consultation with its partner standard setters in the world, including the U.S. FASB to examine the quality of existing accounting standards in light of issues raised by the Enron bankruptcy".

ISSUE	SELECTED INITIATIVES	
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Convergence between GAAP and IAS standards would facilitate comparison, strengthen audit quality, and reduce costs for multinational companies. *The issue of convergence is not only one of concepts and principles for accounting: equally important is convergence in terms of high quality audit standards and oversight and enforcement.* *International standard setters are entrusted with promoting convergence of accounting standards across countries.* *They do so either by encouraging the adoption of international standards in lieu of national ones, or by promoting the greater harmonisation of different national standards.* *For instance, the EU's efforts to create a single capital market involve a proposal for a "single passport" where a company listed in several countries would require only one prospectus approval in its home jurisdiction.*	FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) Is committed to accelerating the convergence between International Accounting Standards (IAS) and U.S. Generally Accepted Accounting Principles (GAAP). Have set in train a short-term project with IASB to find common solutions to certain specifically identified differences. An Exposure Draft is expected by the latter part of 2003. U.K. FINANCIAL SERVICES AUTHORITY (FSA) Is concerned that forthcoming EU prospectus directive will "be a maximum harmonisation directive. This means that there would be no ability to impose prospectus disclosure requirements in addition to those specified in the EU directive...it will not be possible to impose super-equivalent provisions". (On 5 November 2002, EU finance ministers endorsed common disclosure rules for issues of shares and bonds. The new rules, part of the EU's plan to integrate financial services markets by 2005, will allow firms to list securities everywhere in the Union on the basis of a single disclosure document or prospectus). AUSTRALIAN GOVERNMENT In July 2002 the Financial Reporting Council (FRC) announced its formal support for the adoption by Australia of IASB standards by 2005. As a result of this decision, financial statements prepared under the Corporations Act will need to comply with IASB standards for accounting periods beginning on or after 1 January 2005. CANADIAN SECURITIES ADMINISTRATORS Canada has own GAAP that differ from U.S. GAAP (closer to principles than rules). Canadian Securities Administrators (CSAs) proposed in June 2002 that SEC issuers be allowed to file financial statements under U.S. GAAP only, as long as statements are reconciled	"Our goal is to identify the best standards around the world and establish a body of accounting standards that build on the best. Available standards produced by national standard setters, standards that are the gold standard. We call this goal convergence to the highest level". "To the extent that the underlying rationale in US GAAP is the best available and of high quality, we intend to incorporate that rationale into international standards...to the extent that another standard has a superior approach, we intend to adopt it". On 27 June 2002, the IASB announced a new work programme focusing on: - Consolidations (including SPEs); - Revenue - definition and recognition - and related aspects of liabilities; - Convergence in the areas of pension, income tax, segment reporting and revaluations. It has also set in train a <u>full scale convergence project</u> with FASB. On 18 September 2002, the Boards of IASB and FASB: - Affirmed their commitment to convergence of standards; - Expressed their support for a short-term project to eliminate many existing differences between their respective accounting standards; - Expressed support for coordinating technical agendas to avoid creating differences. On 29 October 2002, the Boards of IASB and FASB issued a MOU to implement the convergence project. They also adopted a short-term convergence project to find common solutions to certain specifically identified differences. An Exposure Draft addressing those identified differences is

ISSUE	SELECTED INITIATIVES	
	NATIONAL	**INTERNATIONAL**
	to Canadian GAAP within two years. CSA has also issued discussion paper on whether Canadian and foreign issuers should be able to choose between U.S. GAAP or IAS for reporting purposes. GERMANY Is the European country where the highest percentage of listed companies (over 40%) already display their results using IAS. As an element of a 10-point action plan announced by the German Government on 25 February 2003, ample use is to be made of the Member States' options provided by the EU regulation on international accounting standards (see right hand column below). Under the regulation listed companies will be required to prepare their consolidated accounts in conformity with IAS from 2005. In Germany listed companies will be permitted to prepare their individual accounts under IAS as well, provided that they maintain another set of individual accounts in conformity with national GAAP for purposes of taxation and distribution of profits. Similarly, subject to the same proviso with respect to individual accounts, unlisted companies will be able to choose between IAS and national GAAP for the preparation of both consolidated and individual accounts. MONETARY AUTHORITY OF SINGAPORE (MAS) Is requiring all companies listed in Singapore to prepare IAS-based accounts as of Jan. 2003 (current Singapore accounting standards are already very close to IAS). HONG KONG SAR HK Society of Accountants adopted a formal plan for convergence with IAS/IFRS in July 2001. It plans to achieve full convergence with IAS/IFRS by end- 2003	expected by the latter part of 2003. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO) Chairs Committee decided on 18 May to focus on priorities relating to International Accounting Standards (IAS). IOSCO is continuing to monitor the work program of IASB and is evaluating proposed accounting standards from the securities regulators perspective. The Technical Committee is conducting a survey on the accounting review and enforcement mechanisms currently in place in IOSCO member jurisdictions. Work will also look at enforcement and mutual recognition agreements necessary to successful implementation of IAS by 2005 for all companies listed in the European Union (see work by Fédération Européenne des Experts Comptables, FEE, in item 19 below). EUROPEAN UNION (EU) The Regulation on IAS adopted in June 2002 came into force on 11 September 2002. The Regulation requires the use of EU-endorsed IAS by listed companies in the EU by 2005. It also establishes a new vetting mechanism - the Accounting Regulatory Committee - to assess IAS set forth by the IASB for the purposes of EU endorsement. The Commission will take decisions concerning endorsement of IAS based on the opinion of the Accounting Regulatory Committee, presumably in Spring 2003. Continuation of the dialogue with US authorities to encourage their acceptance of IAS financial statements prepared by listed EU companies for listing within the US (without reconciliation to US GAAP from 2005 onwards). EU support for global convergence through the IAS process on important accounting issues such as

ISSUE	SELECTED INITIATIVES	
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	JAPAN Its accounting standards are principle-based and almost consistent with IAS. Foreign companies which are listed in their home countries can be allowed to use their own accounting standards including IAS and US GAAP to prepare financial statements in Japan. THE NETHERLANDS The use of IFRS currently required for listed companies will be extended to all financial institutions in 2005.	the treatment of financial instruments, share-based payments and off-balance sheet financing schemes. Publication by the Commission of a second consultative document on *Regular Reporting* (e.g. quarterly reporting, on-going disclosure obligations). THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS (CESR) CESR is contributing to the development and implementation of a common approach to the enforcement of international accounting standards through a consultative process concerning a proposed statement of principles of enforcement of accounting standards in Europe. The proposed statement provides a definition of enforcement of financial information, selection techniques applicable by enforcers, and a description of the responsibilities of different parties involved. INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) IFAC's board met on 21 March 2002, under the stewardship of its new CEO, Mr. Ian Ball, and approved a priority project focused on "restoring the credibility of financial statements in the global marketplace. "The project will address worldwide problems and issues, and best practices in the areas of financial and business reporting, corporate governance and auditor performance". A report is expected by mid 2003. A special task force drawing its membership from IFAC, audit committees, boards of directors and management from the investment and financial community will carry it out. BASEL COMMITTEE ON BANKING SUPERVISION (BCBS) Has increased ongoing awareness on the identification and monitoring of important accounting and auditing questions flowing from recent high profile corporate failures. Is preparing an updated and expanded version of its guidance document on loan accounting, which is consistent with IAS 39.

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<tr><td></td><td></td><td>Has developed, together with the Financial Stability Institute, a training programme for banking supervisors on international accounting and auditing issues.</td></tr>
<tr><td>10. Consolidation of SPVs and other off-balance sheet entities

SPVs (or SPEs) and other off-balance sheet entities (so-called “variable interest entities”) may be used by a company to conceal liabilities which have a major bearing on its consolidated financial position.

There is a need to strengthen and clarify the principles governing when it is legitimate for an SPV to be treated as off balance sheet entity.

Before FASB issued Interpretation 46, U.S. accounting rules had permitted some related entities to remain off the balance sheets, where an independent third party owns at least 3% of the assets.

The coherence of treatment of SPVs internationally is likely to be an on-going issue.</td><td>U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002

Directs SEC to revise its disclosure rules with respect to “off-balance sheet transactions and relationships with unconsolidated entities or persons”.

By 26 January 2003, the SEC must issue final rules that require companies to “disclose all material off-balance sheet transactions, arrangements and obligations”.

Section 401(c) of the Act instructs the SEC to study off-balance sheet disclosures to determine the extent of off-balance sheet transactions (including assets, liabilities, leases, losses and the use of special purpose entities) and whether generally accepted accounting rules result in financial statements of issuers reflecting the economics of such off-balance sheet transactions to investors in a transparent fashion.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

On 22 January 2003 adopted amendments to implement the mandate of Section 401(a) of Sarbanes-Oxley that added Section 13(j) of the Securities Exchange Act of 1934 to the effect of requiring a registrant to provide an explanation of its off-balance sheet arrangements in a separately captioned subsection of the “Management Discussion and Analysis” section of its disclosure documents. Registrants (except small business issuers) are also required to provide an overview of certain known contractual obligations in a tabular format. The new provisions include a definition of “off-balance sheet arrangements” that primarily targets the means through which companies typically structure off-balance sheet transactions or otherwise incur risks of a loss that are not fully transparent to investors. In addition, the new amendments contain</td><td>BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

Is surveying issues relating to the use of Special Purpose Entities.

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

Consolidation policy is one of the issues on the IASB agenda.(See de-recognition discussion in Item 11). This project would consider strengthening or clarifying the rules defining when an SPE should be consolidated.

Interpretation SIC-12 clarified that an enterprise should consolidate a SPE when, in substance, the enterprise controls the SPE. The concept of control is the one stated in IAS27, requiring having the ability to direct or dominate decision making accompanied by the objective of obtaining benefits from the SPE’s activities.</td></tr>
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	principle-based disclosure requirements that registrants should provide information that is necessary for an understanding of their off-balance sheet arrangements and their material effects. FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) Issued on 1 July 2002, draft guidance on the consolidation of special-purpose entities. A public roundtable on the proposals was held on 30 September 2002. The FASB Board issued its Interpretation 46 on Consolidation of Variable Interest Entities (FIN 46) on 17 January 2003. Before the Issuance of FIN 46, companies typically included another entity in their consolidated financial statements only if they controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FRANCE Regulatory changes concerning special-purpose entities (SPEs) used by French companies and asset derecognition are pending. These changes should be based on the joint Commission des opérations de bourse - Commission bancaire recommendations which were published in November 2002. In particular, regulatory changes should include: • Eliminating the capital ownership requirement specified in France's Commercial Code as a pre-condition for consolidating SPEs controlled by industrial and commercial companies. The draft law on "financial security" takes into account this change. • Bringing into line the different Comité de la réglementation comptable (CRC) regulations as regards the consolidation	

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	of SPEs - particularly the criteria used to assess substantive control - thereby making it possible to approximate the relevant provisions of International Financial Reporting Standards (IFRS); and • Revising the rules for recognising and derecognising assets in companies' balance sheets across all industries, drawing particularly on the approach set forth in IFRS. CANADIAN ACCOUNTING STANDARDS BOARD (AcSB) During the summer of 2002, the AcSB undertook measures to strengthen Canadian accounting standards, such as draft guidelines on guarantees and special purpose entities. The guarantee guideline has been finalised and is effective for fiscal periods ending on or after 31 December 2002.	
11. De-recognition of assets and liabilities *De-recognition refers to the accounting rules on how to record the sale or divestiture of an asset in a company's accounts.* *De-recognition rules are subject to abuse as when, for instance, operating leases allow airlines to move a portion of their aircraft fleet off- balance sheet, thus understating their true liabilities.*	FRANCE See Item 10.	INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) De-recognition issues (other than those addressed in IAS 39) and accounting for leases are two of the issues on the IASB research agenda. IASB has stated: "there is a distinct possibility that the [accounting for leases project] would lead us to propose that companies recognise assets and related lease obligations for all leases".
12. Revenue recognition *These issues arise when revenues are booked earlier than when they accrue, when contingent revenues are treated as certain or when revenue is booked for sales that are never consummated.*	FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) At a 15 May 2002 meeting, the FASB Board added to its technical agenda a project to develop a comprehensive Statement of Financial Accounting Standards on revenue recognition and to amend the related guidance on revenues and liabilities in certain FASB Concepts Statements. The Board plans to issue Exposure Drafts of the concepts statements in mid-2004 and to finalise the standard and related amendments in 2005.	INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) A project seeking to establish workable general principles as a basis for determining when revenue should be recognised in financial statements is active in IASB's agenda.

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<tr><td>13. Accounting for derivatives

For transparency, derivatives need to be carried at fair value, but there are real challenges in valuing derivatives in real time (“mark to market”), notably for illiquid positions in long-term contracts.</td><td>FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

The Board completed its re-deliberations on the amendment to FASB Statement No. 133 on 18 December 2002. The Board plans to issue a final Statement during the first quarter of 2003.

CANADIAN ACCOUNTING STANDARDS BOARD (AcSB)

During the summer of 2002 released draft guidance on non-hedging derivatives.</td><td>INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

The rules on accounting for derivatives are found in the so-called IAS 39 and are the subject of review by the IASB. The review was completed in August and proposed amendments to IAS 39 issued for comment by 14 October 2002. A series of public roundtable discussions with respondents will be held during the week of 10 March 2003.

EUROPEAN UNION (EU)

The Committee of European Securities Regulators (CESR) was invited to report on supervisory issues related to the increased complexity of derivatives and their trading.</td></tr>
<tr><td>14. Accounting for management and employee stock option rewards

Most accounting rules do not require that all remuneration paid through stock options be costed and deducted from net income in corporate income statements. This has been a contentious issue among policy-makers and standard setters for some time. U.S. GAAP however, has had an accounting standard on this issue since mid-1990s; in the United States, some employee stocks options are footnoted in financial accounts and must be declared for tax purposes.

As stock options have been a steadily rising component of remuneration, concerns have arisen about whether investors are being given adequate access to information about the financial implications of this form of compensation. One concern is that current option accounting rules may lead to the overstatement of profits.</td><td>FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

“Applauds those companies...[that have adopted the] “preferable approach” to recording stock options.

In the mid-1990s, the FASB proposed that companies be required to recognise stock-based compensation to employees in the income statement using a fair value based method. However, due to the strong opposition it received, the Board modified its position. The modified position, reflected in Statement 123, permits the continued used of the intrinsic value based method of accounting provided that companies disclose the amount of net income and earnings per share that would have been reported had the preferable fair value based method been used.

On 18 November 2002, the FASB issued an Invitation to Comment on the IASB proposal and the differences between IASB and FASB treatment of stock options. The comment period ended on 1 February 2003.

It should be noted that both the IASB and the FASB have concluded that stock-based compensation should be</td><td>INTERNATIONAL ACCOUNTINGS STANDARDS BOARD (IASB)

On 7 November 2002, published for public comment proposals on how entities should account for share-based payment transactions, including grants of share options to employees (draft ED2 Share-Based Payment). The objective of these proposals is to ensure that entities recognise share-based payment transactions in their financial statements as an expense, based on the fair value of goods and services received. The comment period ended on 7 March 2003.</td></tr>
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	recognised as an expense at fair value. Moreover, both base the amount of compensation expense on fair value. Public input is being sought on how FASB could better improve the accounting for stock-based compensation in the U.S. AUSTRALIAN GOVERNMENT As noted under item 3, the Government's CLERP 9 paper envisages the early adoption by the Australian Accounting Standards Board of the proposed IASB standard on share-based payments. UK COORDINATING GROUP ON ACCOUNTING AND AUDIT ISSUES Urges Accounting Standards Board to work closely with the International Board to develop standards to address share options and other share-based payments systems. ITALY Consob regulation requires listed companies to fully disclose in the annual financial statements directors' remuneration and incentive schemes. CANADIAN ACCOUNTING STANDARDS BOARD (AsCB) On 17 October 2002 the AsCB initiated a project to require the recognition of all employees stock-based compensation transactions as expenses. The AcSB issued its proposals for comment on 23 December 2002. JAPAN The Accounting Standards Board of Japan is considering the accounting for stock options. Major discussion points were published in December 2002.	

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<tr><td>15. Accounting for pension contributions and obligations

There are many issues relating to the correct valuation and disclosure of gains and losses arising from company defined benefit plans.</td><td>FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

On 12 March 2003, the FASB is to decide whether to add a project to its agenda to reconsider all or some of pension accounting in SFAS 87.

U.K. ACCOUNTING STANDARDS BOARD (ASB)

On 30 November 2000, the ASB issued its Financial Reporting Standard (FRS) 17 marking an important change in the accounting for pensions and other retirement benefits in the employer's accounts.

FRS 17 requires the abandonment of the use of actuarial values for assets in a pension scheme in favour of a market value based approach. Recognising that the use of market values at the balance sheet date introduces volatility into the measurement of the surplus or deficit, FRS 17 requires that the effects of the fluctuations in market values be treated in the same way as revaluations of fixed assets, that is to be recognised immediately in the second performance statements, the statement of total recognised gains and losses. This approach has two advantages: (1) the balance sheet shows the deficit or recoverable surplus in the pension scheme; and (2) the total profit and loss charge is more stable than it would be if the market value fluctuations were spread forward.
Companies were required to post disclosure notes for accounting periods ending on or after June 2001 and to fully apply FRS 17 for accounting periods ending on or after June 2003. In the light of IASB's efforts in this area, the ASB has recently extended the effective date until 1 January 2005.

JAPAN

The Business Accounting Council, an advisory body established within the FSA, issued comprehensive standards for the accounting of pensions and other retirement benefits that have been effective since 2000.</td><td>INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

IASB has examined the differences among the various national accounting standards for pensions (in particular the use of smoothing mechanisms) as part of their on-going work on convergence. This may well involve changes to the IAS 19 with a view to the convergence of pension standards worldwide.</td></tr>
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AUDITING QUALITY: STANDARDS & PRACTICES		
16. Codes of practice and auditor Independence *Proper checks and balances require independence between the internal and external auditors of a company. When outside auditors have common links with inside auditors and are beholden to aggressive corporate managements, the risks of audit failure increase.* *Auditing firms, to the extent that they also provide consulting advice to the firms they audit, are also potentially in conflict of interest.* *Some countries tend to allow auditors to also provide consulting services, except under specified circumstances. Others tend to prohibit it, except under specified circumstances.* *Others still, like Germany, restrict the percentage of revenue, which an audit firm can derive from non-audit work.* *The pressure on audit firms to maintain a long-term economic relationship with the companies they audit is said to jeopardize the rigour and independence of their auditing work.* *Some advocate mandatory rotation of audit firms or at least audit partners, after a set number of years, to protect the integrity of audit work.* *It is acknowledged that rotation of firms poses transition problems as incoming firms replace the outgoing ones.* *Jurisdictions writing codes of auditor independence thus face trade-offs between the costs and potential inefficiencies that such rules can introduce, and the potential value they can create in promoting auditor independence.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 The U.S. Congress instructs the SEC to ensure through rulemaking that companies abide by the following requirements: - Audit committees of listed companies are directly responsible for appointing, compensating and overseeing external audit firms; - Auditors are prohibited from offering certain non-audit services to a company they are auditing, - A new lead partner and review partner is appointed every five years (“partner rotation”). U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) On 22 January 2003, the SEC approved rules to strengthen auditors independence, thus fulfilling the mandate of Title II of the Sarbanes-Oxley Act. The new rules set conditions under which auditing firms would be considered independent for the purposes of performing audits of public companies financial statements. In particular, the SEC approved measures that will: - Revise the rules related to the non-audit services that, if provided to an audit client, would impair an accounting firm’s independence; - Require that certain partners on the audit engagement team rotate after no more than five or seven consecutive years, depending on the partner’s involvement in the audit, except that certain small accounting firms may be exempt from this requirement; - Establish rules that an accounting firm would not be	INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO) A Statement by the Technical Committee on the “Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence” was issued on 18 October 2002. The Statement sets forth the views of the IOSCO Technical Committee on the principles that should govern independence of auditors of financial statements of listed companies. These are underpinned by three main concepts: (a) rigorous requirements for audit firms should ensure that they establish and maintain internal systems and processes for identifying, monitoring, and addressing threats to independence and ensuring compliance with standards; (b) the adequacy and effectiveness of such audit firms’ internal systems and processes must be assessed by an external oversight body acting in the public interest (see item 17); and (c) a governance body independent of management of an entity being audited (“audit committee”) should oversee both the process of selection and appointment of the external auditor and the conduct of the audit, thus serving as a proxy for shareholders. The Statement identifies certain specific threats to auditors’ independence (self-interest; self-review; advocacy; familiarity; and intimidation) and provides guidance on how to address them. It also describes the role of the audit committee in ensuring auditors’ independence (see item 5). INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) IFAC released on 14 January 2002 an updated Code of Ethics for Professional Accountants featuring new rules on independence.

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	independent if certain members of management of that issuer had been members of the accounting firm's audit engagement team within the one-year period preceding the commencement of audit procedures; - Establish rules that an accountant would not be independent from an audit client if any "audit partner" received compensation based on the partner procuring engagements with that client for services other than audit, review and attest services; - Require the auditor to report certain matters to the issuer's audit committee, including "critical" accounting policies used by the issuer; - Require the issuer's audit committee to pre-approve all audit and non-audit services provided to the issuer by the auditor; and - Require disclosures to investors of information related to audit and non-audit services provided by, and fees paid to, the auditor. On 22 January 2003 the SEC also approved rules requiring auditors to retain specific types of records for seven years after conclusion of audit. UNITED KINGDOM Industry and Treasury Ministries announced on 27 February 2002 that they would co-chair a Coordinating Group on Accounting and Auditing Issues, which tabled an interim report on 24 July 2002. Following the recommendations of the Coordinating Group, the Secretary of State for Trade and Industry announced on 29 January 2003 that: - The professional bodies have already changed their regulations so that the lead audit partner has to be rotated within five years (from seven);	On 18 October 2002, set up a Task Force on Restoring Credibility in Financial Statements to identify and analyse the causes of the loss of credibility and consider effective courses of action to restore it. The Task Force will address issues in the areas of principles of best practice in financial and business reporting, corporate governance, and auditor performance. It plans to issue a report by mid 2003. BASEL COMMITTEE ON BANKING SUPERVISION (BCBS) BCBS provides detailed guidance for banks on the proper relationship between internal and external auditors in its April 2001 paper entitled *"Internal Audit in Banks and the Supervisor's Relationship with Auditors"*. EUROPEAN UNION (EU) A Recommendation on Statutory Auditors' Independence in the EU was issued by the Commission on 16 May 2002. The Recommendation includes a set of high level principles to ensure independence in statutory audits. A key principle is that auditors should be prohibited from carrying out a statutory audit if they have any relationship with their client that might compromise their independence. This may include any financial, business, employment or other link, or any situations where the auditors provide to the same client services additional to the audit. Other broader safeguards include: (i) a full annual disclosure of fees for audit and non-audit services; (ii) a written declaration confirming independence by auditor to audit client's governance body; (iii) a rotation requirement on key audit partners within seven years; (iv) a cool-off period of two years; and (v) a requirement to be subject to external quality assurance systems recommended by the Commission (see item 17). In three years time, the Commission will review implementation progress and consider whether binding EU legislation may be required.

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	- Partners and senior employees of audit firms will not be able to take up employment with a company they audit within two years of leaving the audit firms; and - Most of the U.K. large audit firms have already agreed to: (i) publish an annual report; (ii) provide management and financial information; (iii) reveal levels of dependency on single clients, including how the firm handles conflicts of interest and interdependence issues; - Standards and ethical guidance for auditors on the provision of non-audit services are to be toughened up. U.K. ACCOUNTANCY FOUNDATION (ETHICS STANDARDS BOARD) Issued on 28 May 2002 a discussion paper on the ethics of accountants, focusing mainly on the independence of auditors and audit teams. Some U.K public companies have stated they will not buy consulting services from their auditors' firm. CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (CICA) In May 2002, the CICA's Assurance Standards Board (ASB) issued new standards for communications between auditors and the individuals responsible for the financial reporting process. On 5 September 2002, the CICA released new draft independence standard to apply to Canadian auditors and other assurance providers. This document reflects the updated global standard and US requirements for auditors of listed entities. On 24 October 2002, the CICA announced the establishment	

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	of the Auditing and Assurance Standards Oversight Council (AASOC), an independent public body to oversee the setting of auditing and assurance standards. AUSTRALIAN GOVERNMENT The CLERP 9 paper proposes a range of measures designed to enhance audit independence and strengthen investor confidence in audit reports. The proposals include: • Strengthened restrictions on employment relationships between an auditor and the audit client; • New restrictions on financial relationships between an auditor and the audit client; • Mandatory disclosure in the annual report of fees paid for the categories of non-audit services; • A statement in the annual report whether the company's audit committee is satisfied that the provision of non-audit services is compatible with auditor independence; • A requirement that the top 500 companies on the Australian Stock Exchange have an audit committee; • Mandatory audit partner rotation after a set period of time; • Giving auditing standards the force of law; and • Amended requirements for the registration of company auditors, including meeting an agreed competency standard, abiding by an accepted code of professional ethics and completing a specialist auditing course. FRENCH GOVERNMENT A project of law approved by the Council of Ministers on 5 February 2003 (see item 1) establishes, among other things, an absolute prohibition against auditors providing any types of non-audit services to audited companies as well as rotation of	

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	lead audit partners every six years as well as rotation of lead audit partners every six years. In addition, auditors' nomination decisions are clarified and information relative to auditors' remuneration will be made available to shareholders. GERMAN GOVERNMENT The 1998 Law On Corporate Control And Transparency (KonTraG) summarizes the rules for conducting and certification of audits. It calls for internal rotation of audit partners after 6 audits of a listed corporation over the past 10 years. Audit firms may not audit corporates if total fees (audit, consulting, other) from the client relationship make up more than 30% of the audit firm's total fee income. These rules, as well as those on internal rotation, will be tightened and refined as stated in the Government's 10-point action plan announced on 25 February 2003. The action plan also foresees extending the auditor's liability for damages in cases of professional misconduct. At the heart of the action plan regarding statutory auditors lies a tight restriction of the scope on non-audit services that an auditor may provide to the audit company. Along the lines of the Sarbanes-Oxley Act, not only bookkeeping services (as under existing provisions), but also design and implementation of financial information systems, appraisal or valuation services, actuarial services, internal audit outsourcing services, managerial services, and advisory or promotional services in the field of finance and investment will all be prohibited. Further restrictions are under consideration for legal services and tax services. The provision of non-audit services which are not to be banned outright will be subject to approval by the company's audit committee (supervisory board) and to public disclosure. ITALY Auditing companies are not allowed to carry on consultancy services, and auditors are prevented from auditing a company	

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	if any of their contractual or personal relations are likely to affect their independence. Mandatory rotation of the auditing firm is required by the law within a nine year period. Legislative proposals have been put forward aimed to prevent auditing firms from providing services other than auditing also by means of a network of companies (see Galgano Commission Report). MONETARY AUTHORITY OF SINGAPORE (MAS) Now requires mandatory rotation of auditing firms for Banks. For other listed companies, MAS requires only rotation of audit partners. These rules, as well as those on internal rotation, will be tightened and refined as stated in the Government's 10-point action plan announced on 25 February 2003. The action plan also foresees extending the auditor's liability for damages in cases of professional misconduct. At the heart of the action plan regarding statutory auditors lies a tight restriction of the scope of non-audit services that an auditor may provide to the audited company. Along the lines of the Sarbanes-Oxley Act, not only bookkeeping services (as under existing provisions), but also design and implementation of financial information systems, appraisal or valuation services, actuarial services, internal audit outsourcing services, managerial services, and advisory or promotional services in the field of finance and investment will all be prohibited. Further restrictions are under consideration for legal services which are not to be banned outright will be subject to approval by the company's audit committee (supervisory board) and to public disclosure. JAPAN The Japanese authorities have undertaken a comprehensive review of the Certified Public Accountants Law in Japan. The revision is aimed at: (i) strengthening auditor independence; (ii) enhancing auditor oversight and (iii) increasing the quality and number of professional CPAs. The revised law will contain, inter alia, provisions requiring CPAs and audit firms	

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	to maintain their independence; prohibiting provision of certain non-audit services; requiring audit partner's rotation (after a period of 7 years or less to be prescribed by Cabinet Order) and a "time-out" period to be prescribed by Cabinet Order; and disclosure of audit fees. A bill was submitted to the Diet in March 2003. THE NETHERLANDS The two professional accounting bodies (Nivra nd Novaa) fully implemented the EU Recommendation on Statutory Auditor's Independence on 1 January 2003.	
17. Arrangements for oversight of audit profession *Concerns about the effectiveness of auditor oversight have led to changes in the design and composition of oversight arrangements. Some of the changes that have been undertaken and proposed seek to address concerns about conflicts of interest - or lack of arms-length dealings - between oversight arrangements and auditors.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Sets up, for the first time, an independent board "the Public Company Accounting Oversight Board"(PCAOB) to oversee the audit profession. The PCAOB will be independent (2 out of 5 members only can be practicing accountants) of the profession The PCAOB will: - Register CPAs providing auditing services to public entities; - Establish or adopt auditing, quality control, ethics and independence standards; - Inspect registered auditing firms; - Conduct investigations and disciplinary proceedings; - Enforce compliance with securities laws, Board rules, and professional standards regarding audit report preparation and issuance, accountants' obligations, liabilities; - Propose and implement rules covering foreign auditing firms;	INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO) IOSCO issued a Statement of the Technical Committee on "Principles for Auditor Oversight" on 18 October 2002. The Statement provides a list of general principles for the oversight of audit firms and auditors that audit financial statements of listed companies. The underlying concept is that the audit profession should be under the purview of an external, independent body acting in the public interest. This body would establish mechanisms governing the admission/revocation to/from the audit profession; ensuring that adequate monitoring of auditors' independence is maintained; ensuring that adequate monitoring of the quality and implementation of audit practices and ethical standards is maintained; and the ongoing oversight of the audit profession, including with regard to remedial and disciplinary powers. INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) Has promulgated International Standards of Auditing and an IFAC Code of Ethics for accountants. Will strengthen the process and transparency of the International Auditing Practices Committee (IAPC), which will be opened up to members

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	- Initiate the process of proposing standards and rules subject to SEC's oversight; and - Set budget and manage the operations of Board and its staff. On 4 March 2003, the Board voted unanimously to adopt proposed rules relating to registration of foreign audit firms. In addition, the Board announced that it would host a round-table discussion in late March 2003 to hear further public comments regarding this matter. FRENCH GOVERNMENT Tabled legislation to establish a new oversight system for the accounting and audit profession comprised of a new public-interest Conseil de surveillance (le Haut Conseil du Commissariat aux comptes) and a professional directorie, la Compagnie nationale des commissaires aux comptes. The mission of the Haut Conseil will be to validate the professional audit standards and oversee their implementation together with the professionals themselves represented by the Compagnie nationale. Additionally, the draft law provides that audit standards be ratified by the Ministry of Justice, which is empowered to ask for selective inspections. Moreover, listed companies' auditors should inform AMF if they encounter irregularities or problems in the scope of their mission. ITALY Consob licenses and supervises the activity of auditing firms that audit listed companies' annual accounts. In order to perform their activity those auditing firms must be enrolled in a Special Register held by Consob. Consob monitors their independence and their technical qualification and skills, with strong enforcement powers. In performing its supervision Consob can require communications of data, information, records and documents, and carry out inspections. When Consob finds serious irregularities in the performance of the	independent of the profession. Created a Forum of Firms (FOF) to improve the standard and consistency of audits of trans-national entities around the world. Committed to implementation of an IFAC compliance regime for its members. EUROPEAN UNION (EU) The Commission's Recommendation on "Quality assurance for the statutory audit in the EU: minimum requirements" issued on 15 November 2000, stated that quality assurances systems should have adequate public oversight. In this vein, auditors should be subject to external public review on the way they carry out statutory audits with regard to both actual audit practices and ethical principles and rules followed, including independence rules. BASEL COMMITTEE ON BANKING SUPERVISION (BCBS) Surveying structural and principle issues relating to internal audit.

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	audit activity, it can impose different kind of sanctions. UNITED KINGDOM On 29 January 2003, the Secretary of State for Trade and Industry announced that the Financial Reporting Council will assume the functions of the Accountancy Foundation to create a unified, independent, public-interest U.K. regulator with three main roles: (a) setting accounting and audit standards; (b) pro-actively enforcing and monitoring them; and (c) overseeing the self-regulatory bodies. Changes to the regulatory structure are to be taken forward immediately. U.K. ACCOUNTANCY FOUNDATION (REVIEW BOARD) Issued in February 2002 a consultation document on “Protecting the Public Interest”. It outlines the Board’s work program, with much emphasis on audit independence and enforcement issues. JAPAN The revised Certified Public Accountants Law (see item 16) will empower the CPA Examination and Investigation Board - an important third-party body within the FSA - as the oversight body to monitor the quality control review on the audit carried out by the Japanese Institute of CPAs (JICPA). Additionally, the revised law will enhance the overall oversight function of the government by providing it with additional powers and authority to inspect audit firms and take remedial actions against audit firms and the JICPA. Criminal sanctions will also be toughened up. CANADA Canada’s Securities Regulators (CSA), the Office of the Superintendent of Financial Institutions (OSFI) and the Chartered Accountants of Canada announced jointly on 17 July 2002 the creation of a new and independent Canadian Public Accountability Board (CPAB) to set and enforce auditing standards on publicly listed companies.	

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<tr><td></td><td>The CPAB came into being in October 2002 under the Chairmanship of Gordon G. Thiessen, former Governor of the Bank of Canada, to among other things:

- Ensure inspections of CA firms by a National Inspection Unit;

- Issue audit independence standards incorporating IFAC and SEC requirements;

- Insist on audit partner rotation every 7 years; and

- Require audit reviews by a second partner.

MONETARY AUTHORITY OF SINGAPORE (MAS)

Is strengthening the role of its Public Accountability Boards for the auditing profession, with new on-side audit monitoring units.

AUSTRALIAN GOVERNMENT

On 18 September 2002, the Government released reform proposals to strengthen arrangements for the oversight of the accounting and auditing profession in Australia (CLERP 9 paper). Proposals include the re-constitution of the Auditing and Assurance Standards Board (hitherto a private professional body) to be placed under the oversight of the Financial Reporting Council (a public body). The Council will also be responsible for monitoring and reporting to the Government on auditor independence issues.

THE NETHERLANDS

Consideration is being given to assign to the Authority for the Financial Markets the main responsibility for the oversight of compliance with accounting standards and reporting requirements.

Consideration is also being given to assign to the Authority for the Financial Markets the oversight on the auditing profession.</td><td></td></tr>
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18. Effects of audit industry consolidation *Current trends towards greater concentration in the trans-national audit firms raise many issues:* - *Competition;* - *The effects on audit quality and audit independence;* - *Prospects for audit firm rotation, when their number is dwindling;* - *Ability to sanction and discipline firms that are dwindling in number.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 The U.S. Congress directed the GAO to conduct a study (by June 30, 2003) regarding the consolidation of public accounting firms since 1989, including the present and future impact of the consolidation, and the solutions to any problems discovered. UNITED KINGDOM Treasury and Industry departments have "considered with the Office of Fair Trading (OFT) whether there are any competition implications of the high concentration in the market for audit and accountancy services" On 22 November 2002, the OFT decided to keep the accountancy and audit market under review, with the possibility of further action in the future, rather than refer matters to the Competition Commission (CC) or launch its own market investigation.	
19. International coherence in auditing standards and enforcement *There is a strong public interest in seeing that audit standards, the quality of audit practices, and enforcement measures are consistent across countries.* *Enforcement typically comprises:* - *Guidance and interpretation of standards;* - *Statutory audits;* - *Approval of financial statements;* - *Oversight by supervisors or peer group examiners;* - *Court sanctions;*	AUSTRALIA Australia's Auditing and Assurance Standards Board (AuASB), which currently operates as part of the Australian accounting profession, is to be reconstituted as a statutory body. The AuASB has adopted a policy of convergence between Australian and international auditing standards and this policy will be continued when the Board is reconstituted. Standards issued by the reconstituted Board will have legislative backing, thus facilitating enforcement action against auditors who fail to adhere to auditing standards when they are conducting audits under the Corporations Act. GERMAN GOVERNMENT In addition to the improvements in independence and accountability of statutory auditors (see item 16, above) the Government in their 10-point action plan announced on 25	EUROPEAN UNION On 15 November 2000, the Commission issued the Recommendation "Quality assurance for the statutory audit in the European Union: minimum requirements", setting forth minimum requirements to ensure good audit quality in the EU. The Recommendation includes minimum requirements with respect to: (i) coverage of the quality assurance regime; (ii) methodology (both peer review and regulatory monitoring are viewed as acceptable options); (iii) review coverage and selection of reviewers; (iv) the scope of quality review; (v) audits on public interest vis-à-vis non-public interest clients; (vi) the existence of a public oversight on quality assurance systems consisting of a majority of non-practitioners on the overview board of the quality assurance system; (vii) disciplinary sanctions; and (viii) confidentiality provisions. The Commission is set to review progress in the implementation of this Recommendation three years after its

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<tr><td>- Public and press sanctions.</td><td>February 2003, are proposing a two-tier enforcement mechanism based on co-operation between a committee of private experts and the federal Financial Supervisory Authority. The - publicly supervised - body of experts is to look into financial information selected on a combined sampling and reactive approach, whereas the State Authority, acting on the findings of the expert committee, is to bear responsibility for sanctioning any infringements.

Criminal sanctions for misconduct in the areas of accounting and auditing are also under review.

JAPAN

The Business Accounting Council issued new auditing standards effective 1 March 2003. The new standards are consistent with international standards on auditing.</td><td>adoption.

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

Issued in November 2002 an Exposure Draft on proposed terms of reference on how the IAASB intends to operate to help ensure that the IAASB may be able to operate in the public interest. Comment period ends on 28 February 2003.

Issued on 4 February 2003 the “IAASB Action Plan 2003-2004” focusing on three major initiatives: (a) the development of high-quality auditing, assurance, quality control and related services standards; (b) promote the adoption and acceptance of IAASB pronouncements throughout the world; and (c) improve the quality and uniformity of audit practices by encouraging debate, as well as increase the public image of IAASB’s activities and outputs.

FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS (FEE)

Working closely with IFAC and its International Auditing Standards Committee, the FEE is calling for Europe to commit much more strongly to a set of International Standards on Auditing, under the coordination of a forum of European national auditing standard setters.

Published in April 2001 a survey of enforcement practices in all European countries.

Concluded that close to half of European countries have no institutional oversight system to enforce auditing standards

Published a second paper in April 2002 on “Enforcement of IFRS in Europe”.

To be ready for the IAS 2005 deadline, the FEE urges:

- All countries without an enforcement agency to create one based on the review panel model (rather than stock exchange regulator model);</td></tr>
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		- Greater progress on European coordination of enforcement efforts.
DISCLOSURE PRACTICES and MARKET OVERSIGHT		
20. Comprehensiveness of disclosure	U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) On 22 January 2003, the SEC approved final rules requiring: - The auditor to report certain matters to the issuer's audit committee, including "critical" accounting policies used by the issuer that are critical to the presentation of their financial results and that require management's most difficult, subjective or complex judgements; - Registrants to disclose more information about relations with unconsolidated entities which materially affect their liquidity, capital or capital requirements; - Registrants to provide more information about trends affecting their business. CANADIAN SECURITIES ADMINISTRATORS (CSA) Released on 21 June 2002 a draft national guideline on continuous disclosure. ITALY Consob and the Italian Stock Exchange recently adopted new rules about disclosure on transactions with related parties and on insider dealing, respectively. New Consob rules also address disclosure of research reports on listed securities produced by analysts working for authorized intermediaries.	INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO) The Technical Committee launched a Task Force on Disclosure and Transparency to set out principles to facilitate harmonisation across jurisdictions. A Statement by the Technical Committee on "Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities" was issued on 18 October 2002. The Technical Committee has developed a set of common high level principles for ongoing material development disclosure for listed companies (so-called International Ongoing Disclosure Standards, or IODS) after the IPO stage. The key concept is that listed entities should have an ongoing obligation to disclose information that would be material to an investor's investment decision and that is necessary for full and fair disclosure. The Statement touches on: (a) the key elements of an ongoing disclosure obligation (materiality); (b) timeliness (divided into two broad categories: "as soon as possible" and "periodic basis"); (c) simultaneous and identical disclosure (listings in multiple jurisdictions); (d) dissemination of information (means of dissemination); (e) disclosure criteria (fairness of presentation); (f) equal treatment of disclosure (same info to all); and (g) allocation of accountability (responsibility for disclosing information rests with the entity, as well as with specific persons within the entity in certain jurisdictions.

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<tr><td></td><td>FRANKFURT STOCK EXCHANGE

On 19 November 2002 the Frankfurt Stock exchange (Frankfurter Wertpapierbörse) approved the new segmentation of its equity market. The new structure for equities and certificates representing shares, which came into force on 1 January 2003, comprises the new Prime Standard segment with uniform post-admission duties, in addition to the General Standard segment that applies the statutory minimum requirements set out for the Official Market (“Amtlicher Markt”) or the Regulated Market (“Geregelter Markt”).

AUSTRALIAN GOVERNMENT

The Australian Government carried out a systematic review of its framework of continuous disclosure. Its findings were presented in the CLERP 9 Policy Proposal Paper released in September 2002. It concluded that the framework was fundamentally sound. It recommended a number of refinements to enhance the operation of the system:

- Market operators should have greater formal powers to deal with false markets that result from external rumours and speculation;

- Enforcement provisions will be strengthened by allowing ASIC to issue infringement notices in relation to less serious contraventions of the regime, by increasing maximum civil penalties that may be imposed on a body corporate from $200,000 to $1 million and by enhancing ASIC’s capacity to pursue civil remedies against persons involved in a contravention.

AUSTRALIAN STOCK EXCHANGE (ASX)

The ASX introduced amendments to its continuous disclosure requirements on 1 January 2003.

JAPAN

A report issued on 16 December 2002 by the First</td><td>Also, IOSCO Technical Committee has approved for publication in February 2003 a statement on Management’s Discussion and Analysis (MD&A). This statement highlights basic principles that should be followed by issuers when preparing MD&A, and by regulators when reviewing this disclosure.

BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

Pillar 3 of the New Basel Capital Accord recognises that market discipline has the potential to reinforce capital regulation and other supervisory efforts to promote safety ands soundness in banks and financial systems. The BCBS believes that supervisors have a strong interest in facilitating effective market discipline as a lever to strengthen the safety and soundness of the banking system.

The BCBS aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment and management processes, and therefore the capital adequacy of the institution. The requirements in Pillar 3 take the form of complementary qualitative and quantitative disclosures covering each risk area.

As Pillar 3 forms a part of the New Capital Accord, it follows the timetable set for completion of the New Capital Accord as a whole. The third consultative package of the New Capital Accord (CP3) is expected to be released to industry in Q2 2003 with finalisation expected by end of 2003. The BCBS is targeting implementation of the New Accord by banks by year-end 2006.

JOINT FORUM WORKING GROUP ON ENHANCED DISCLOSURE (JFWGED)

The Joint Forum decided in March 2002 to:

Survey firms in each members jurisdiction to measure compliance with the four key recommendations of the Multidisciplinary Working Group on Enhanced Disclosure (the</td></tr>
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	Subcommittee of the Financial System Council recommended among other things, measures to strengthen disclosure arrangements, including with regard to: (i) governance-related information; (ii) risk information; and (iii) management discussion and analysis. These reforms will come into effect in April 2003. Securities exchanges amended their rules to require all listed companies to disclose governance information on earning digests as of March 2003.	so-called “Fisher Group”); - Assess whether regulators have considered new requirements for enhanced disclosure of financial risks; - Consider new ways of expressing vulnerability to risk and assessing risk. The SEC is chairing a working group to continue the work of the Fisher group on enhanced disclosure. Its work plan was approved by the Joint Forum in 2002 and work is underway. The JWGED also surveyed the investors community in North America, Europe and Asia to better understand needs and gaps in current disclosure policies. Meetings with the investors community were held in October 2002 and January 2003. Firm interviews are being conducted in early 2003. Results are expected until the Spring of 2003. INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) The IASB has a project on its agenda to revise IAS 30, "Disclosures in Financial Statements of Banks and Similar Financial Institutions." The IASB has tentatively decided that the project should, apart from reviewing existing requirements in IAS 30, consider disclosure and presentation issues that arise for all types of entities that engage in deposit-taking, lending, or securities activities irrespective of whether they are regulated and supervised as banks or not. In addition, the IASB is considering enhancing the existing disclosures to cover risk exposure information. The types of risk exposures to be considered in the project include financial risks (e.g. credit risk, liquidity risk, cash flow interest rate risk and market risks), solvency risk and operational risks. The IASB expects to issue a partial draft disclosure standard in 2003.

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<tr><td></td><td></td><td>INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

Adopted in January 2002 a Guidance Paper on Public Disclosure for Insurers.</td></tr>
<tr><td>21. Timeliness of disclosure

Most jurisdictions require companies to report on results at fixed intervals (quarterly, semi-annually, etc.).

This raises the issue of disclosing information between two fixed reporting periods.

Some jurisdictions (UK, Canada, Singapore) have moved to a more demanding standard of “continuous disclosure”, where relevant new information should be disclosed to shareholders, whenever it becomes available.</td><td>U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002

Directs SEC to require companies to disclose on a “real-time” basis (continuous-time) additional financial information about companies.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

On 27 August 2002, the SEC, pursuant to Sarbanes-Oxley, adopted rules shortening the time period between the end of an issuer’s quarter or fiscal year and the due date of its quarterly report on Form 10-Q or annual report on Form 10-K.

In January 2003, the SEC, pursuant to Sarbanes-Oxley, adopted rules regarding disclosure of non-GAAP financial information (see item 23). The SEC also adopted amendments to Form 8-K to require public companies to furnish to the Commission releases or announcements disclosing material non-public financial information about completed annual or quarterly fiscal periods. Additionally, the SEC adopted rules to require disclosure of off-balance sheet arrangements (see item 10).

AUSTRALIAN GOVERNMENT

The CLERP 9 Policy Proposal Paper re-affirmed the Australian Government’s support for six monthly periodic reporting combined with continuous disclosure of materially price-sensitive information. It recommended against the adoption of mandatory quarterly reporting by Australian companies.

CLERP 9 also emphasised the importance of all investors</td><td>BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

In its current state, Pillar 3 of the New Capital Accord requires banks to make the disclosures prescribed in Pillar 3 on a semi-annual basis. However, qualitative disclosures that provide a general summary of bank’s risk management objectives and policies, reporting system and definitions may be published on an annual basis.

In recognition of the increased risk sensitivity of the New Basel Capital Accord and the general trend towards more frequent reporting in capital markets, large internationally active banks and other significant banks must disclose capital adequacy ratios (and their components) on a quarterly basis. In addition, if information on risk exposure or other items is prone to rapid change, than banks must also disclose information on a quarterly basis. In all cases, banks must publish material information as soon as practicable.</td></tr>
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	receiving equal and timely access to materially price sensitive information continuously disclosed by companies. CANADIAN SECURITIES ADMINISTRATORS (CSA) Released on 21 June 2002 a draft national guideline on continuous disclosure. JAPANESE GOVERNMENT Requested that Banks disclose as quickly as possible their quarterly results. In January 2002, the Japan Bankers Association responded with a new policy for speedier disclosure of financial information, including non-performing loan ratios, capital adequacy ratios, and mark to market valuations of securities. Stock exchanges amended the rule to make it obligatory to disclose “quarterly overview” concerning listed companies from April 2003 and established the study committee at the Tokyo Stock Exchange to prepare for “quarterly disclosure of financial and operational information” with the target set at FY 2004. Listed companies are required to file current reports, without delay, when material change has occurred between reporting periods. The events which trigger this requirement are stipulated in the Cabinet Order of the Securities and Exchange Law.	
22. Transparency of valuation assumptions	U.S. CONGRESS: SARBANES-OXLEY ACT 2002 Directs the SEC to consider requiring the identification of “key accounting principles...important to an issuer’s financial results” and to consider “the likelihood of different reported results if different assumptions or conditions were to prevail”.	

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	U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) On 22 January 2003, the SEC, pursuant to the Sarbanes-Oxley, proposed rules that require the auditor to report certain matters to the issuer's audit committee, including "critical" accounting policies used by the issuer. CANADIAN INSTITUTE OF CHARTERED ACCOUNTANT (CICA) On 28 November 2002, the CICA issued new guidance for management discussion and analysis (MD&A). The guidance is designed to assist management prepare MD&A that assists investors, potential investors, analysts and other users in understanding how a company has created shareholder value to date and how it intends to continue doing so.	
23. Use of pro forma financial results *Companies sometimes disclose information independently of what the disclosure rules require. The increased flow of information to investors can be beneficial. Yet, concerns have arisen about the use of pro forma accounting - custom-made accounting conventions specific to their industry. The primary concerns are about the use of pro-forma accounting to display financial results that are much more favourable than would be the case under GAAP rules and are not comparable from one company to another (and therefore, not as transparent).* *Also, press earnings reports are increasingly used to pre-empt the more rigorous disclosures of formal quarterly statements.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Section 401(b) directs the SEC to issue final rules by 26 January 2003, requiring that any public disclosure of pro forma financial information by a public company must be presented in a format that is not misleading and reconciled with GAAP-based financial results. U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) The SEC adopted a new Regulation G to implement Section 401(b) on 15 January 2003. The new Regulation G applies whenever a company publicly discloses or releases material information that includes a non-GAAP financial measure. It prohibits material mis-statements or omissions that would make the non-GAAP financial measure misleading and requires a quantitative reconciliation of the differences between the non-GAAP financial measure disclosed and the comparable financial measure(s) calculated and presented in accordance with GAAP.	INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO) Issued a cautionary statement regarding non-GAAP results measures on 19 May 2002.

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24. Plain language reporting *There is a frequent complaint that financial reporting increasingly uses obscure and technical language inaccessible to the average investor.*	U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) On 21 March 2002, former SEC Chairman Pitt noted in Congressional testimony the importance of clear and concise financial statements... disclosures and financial reports, which will be made more meaningful and intelligible to average investors. Additionally, in 1998, the SEC adopted the plain English disclosure rule and issued a Plain English Handbook. In 1999, the SEC produced an updated guide to the plain English rule and amendments that apply to filings by public companies.	
25. Independence of investment analysts *Investment analysts are often employed by large integrated financial companies that are active in underwriting, investment and market analysis. Concerns have arisen about conflicts of interest arising from the interplay between these three sectors of activity.*	U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) Launched on 25 April 2002 a formal inquiry into "market practices concerning research analysts and the potential conflicts that can arise from the relationship between research and investment banking." On 6 February 2003, the SEC adopted a new Regulation on Analyst Certification (Regulation AC) which will require research analysts to certify the truthfulness of the views they express in research reports and public appearances, and to disclose whether they received any compensation related to specific recommendations or views expressed in those reports and appearances. The SEC on 8 May 2002 approved proposed changes to the rules of the National Association of Securities Dealers and the New York Stock Exchange (NYSE) to address conflicts of interest involving research analysts. An additional development in this area included a global settlement between U.S. top brokerage firms and U.S. regulators that was announced on 20 December 2002. The settlement establishes that: (1) firms will sever links	EUROPEAN UNION (EU) ECOFIN Council adopted the Market Abuse Directive on 3 December 2002. THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS (CESR) On 31 December 2002,submitted its technical advice to the European Commission on implementation measures in connection with certain aspects of the Market Abuse Directive. CESR's advice covered five key areas, namely: (i) the definition of inside information; (ii) the definition of market manipulation; (iii) the disclosure obligation of issuers; (iv) the requirements for research, and (v) the conditions for access to the safe harbours for share buy-backs and stabilization. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO) Work is currently focused on the conflicts that confront analysts employed by brokerage and investment banking firms (so-called "sell-side" analysts), as a significant proportion of the inherent conflicts appear to involve this

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<tr><td></td><td>between research and investment banking; (2) firms will ban completely the spinning of IPOs; (3) firms will furnish independent research; (4) firms will disclose analyst recommendations; and (5) firms are to pay USD 900 million for retrospective relief to investors; USD 450 million to fund independent research; and USD 85 million for investor education.

On 6 February 2003, the SEC adopted a new Regulation on Analyst Certification (Regulation AC) which will require research analysts to certify the truthfulness of the views they express in research reports and public appearances, and to disclose whether they received any compensation related to specific recommendations or views expressed in those reports and appearances.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD)

Approved new rules on 28 July 2002 banning practices allowing brokers to make improper gains from IPOs (e.g. “spinning”, “laddering” and quid pro quo agreements).

U.K. FINANCIAL SERVICES AUTHORITY (FSA)

Released on 31 July 2002 a discussion paper on options for reforming its approach to regulating investment research.

One option would label research reports as “advice”, “promotion” or “marketing” material.

INVESTMENT DEALERS ASSOCIATION OF CANADA (IDA)

Approved new rules in June 2002 regarding conflict of interest among securities analysts (these rules are under review by provincial securities commissions).

GERMAN GOVERNMENT

4th Financial Market Promotion Act proposes to obligate financial analysts to observe basic rules of conduct</td><td>group of analysts.

In February 2003 the Subcommittee of Chairs was commissioned to define a mandate to develop high level principles related to potential conflicts of interest in this area.</td></tr>
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	(comprehensibility, due diligence, independence, etc.) On 3 September 2002, the German Finance Minister announced that their consolidated regulator (BAFin) would tighten and make more precise rules regarding analyst independence. AUSTRALIAN GOVERNMENT The next phase of the Government's Corporate Law Economic Reform Program, CLERP 9, proposes that ASIC provide guidance on disclosure of analysts' conflicts of interest, as required under the licensing obligations of the Corporations Act. ITALY Consob regulation covers the disclosure of conflicts of interests by market analysts and the dissemination of reports. JAPAN The Japanese Securities Dealers Association (JSDA) strengthened its rules on securities analysts on 15 January 2003. Tougher requirements were established with regard to: (i) research independence; (ii) the disclosure of conflicts of interest; (iii) the prohibition of the pre-disclosure of research reports to subject companies; (iv) the review process of research reports; (v) stricter control of information acquired through the research process; and (vi) an obligation to retain research reports for 3 years after their publication. MONETARY AGENCY OF SINGAPORE (MAS) Issued on 6 March 2002 discussion draft of new Financial Adviser Regulations, including new restrictions on use of term "independent".	
26. Quality of risk assessment and due diligence by financial counterparties	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Requires General Accounting Office (GAO) to conduct a	

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The due diligence of counterparties in assessing risk is the first line of defence of markets in correctly pricing risks.	study on "whether investment banks and financial advisors assisted public companies in manipulating their earnings and obfuscating their true financial condition. The study should address the role of the investment banks".	INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSION (IOSCO) The Technical Committee issued in October 2002 a report titled "Investment Management: Areas of Regulatory Concern and Risk Assessment Methods". The report sets out the standards that collective investment schemes (CIS) operators should adhere to and necessary supervisory arrangements. It also issued in November 2002 a statement on the subject of "Investment Management Risk Assessment, Management Culture and Effectiveness" focussing on the risk areas concerning managerial culture and effectiveness, operational processes and practices, and marketing prices.
27. Quality of rating agencies' work/timeliness of rating decisions *There has been criticism of rating agencies for not performing due diligence, for being too slow at noticing changes and too slow in announcing rating changes.* *Like financial analysts, rating agencies are also accused of conflicts of interest, in this case because they are paid by the companies they rate and because they have expanded into various advisory activities in addition to their rating business.*	U.S. CONGRESS: SARBANES-OXLEY ACT OF 2002 Directs SEC to review before 26 January 2003 the role of credit rating agencies in securities markets, notably: - Role of agencies in evaluating issuers; - Their importance to investors; - Impediments to the accuracy of credit raters' work; - The dissemination of their information; - Barriers to entry in the credit-rating industry; - Conflicts of interest. The SEC issued its Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets on 24 January 2003. The Report identifies a wide range of issues that the SEC views as deserving of further study. The SEC plans to publish a concept release within 60 days of the Report to address concerns related to rating agencies and expects to	INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO) In February 2003 IOSCO Technical Committee has decided to assess and analyse issues related to rating agencies, and to look in particular at their regulation, functioning and potential conflicts of interest. The Committee of Chairs has been commissioned to develop the scope of a mandate for future work. EUROPEAN UNION (EU) The ECOFIN Council of Oviedo (April 2002) decided that a cross-sectoral policy assessment should be undertaken concerning agencies' assessments of credit ratings and the case for regulatory intervention in this sector. STANDARD & POORS Committed to reformatting corporate statements on a comparable accounting basis (e.g. showing stock options as expenses) for purposes of rating decisions.

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	issue proposed rules within a reasonable period of time after the close of the comment period. The SEC hopes to elicit extensive comments on these issues from market participants, other regulators, and the public at large. GERMAN FINANCE MINISTER On 3 September 2002, advocated a Basel-like process to define the requirements to apply to rating agencies and to be more aggressive about enforcing these.	
28. Disclosure of rating triggers *Rating triggers are clauses in financial contracts which, for instance, set off default, acceleration or "puts" in back-up credit lines, bond indentures and counterparty agreements.* *While designed to protect investors, they can have the unintended effect of triggering sudden declines in confidence and liquidity, resulting in defaults or bankruptcies.*	U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) As a result of its January 2003 report on rating agencies, the SEC is exploring whether there should be improvements to the extent and quality of disclosure by issuers of the existence and impact of rating triggers.	STANDARD & POORS (S&P) Released on 15 May 2002 a survey of 1000 U.S. and European investment grade debt issuers, showing that less than 3% of them (23 companies) show serious vulnerability to rating triggers (even though one half of the sample respondents had some sort or contingent liability). MOODYS Released on 18 July 2002 a survey of 1600 U.S. debt issuers showing that 88% of companies rated Ba1 or higher have rating triggers in their borrowing agreements, but that less than a fourth of these triggers are disclosed in companies' SEC filings.