Mandatory IFRS and Corporate Governance in Peruvian Corporations

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Abstract

The primary purpose of this paper is to analyze the effect of mandatory implementation of IFRS in Peru on accounting quality and subsequently on corporate governance (as transparency and comparability in financial reporting and disclosure practices are intimately related to corporate governance). A secondary purpose is to review the evolution of corporate governance in Peru and make proposals for improving the state of corporate governance in Peru.

To this end, both primary and secondary data were analyzed. Primary data were gathered through interviews with relevant stakeholders and surveys of non-financial listed companies. Secondary data were obtained from official government sources and the Osiris database, complemented by companies' annual reports, financial statements, and auditors' reports.

To complement the analysis of the impact of the mandatory adoption of IFRS, additional studies were conducted on earnings management and value relevance, both of which reflect corporate governance .

Primary data analysis provides evidence that the official implementation of IFRS has helped to improve accounting quality in Peru. This is because IFRS adoption clarified and standardized accounting standards, which had previously not been well-defined. On the other hand, analysis of secondary data suggests that IFRS adoption had no significant impact on either earnings management or value relevance, and consequently, no significant impact on corporate governance.

Keywords: IFRS, Corporate Governance, accounting standards, Peru

1. Introduction

Corporations in Peru complied with Peruvian GAAP (Generally Accepted Accounting Principles)—which were influenced mainly by IFRS (International Financial Reporting Standards) and taxation, and previously by US GAAP—prior to the mandatory adoption of IFRS for listed companies in 2011.

At the same time, the concept of corporate governance has been expanding in Peru, as in other Latin America countries, due to OECD efforts to promote responsible corporate governance practices in the late 1990s.

When researchers analyze corporate governance and accounting standards, most focus on the effect that corporate governance has on accounting standards and financial reporting quality. This paper takes a different approach, first analyzing the effect of the mandatory implementation of IFRS in Peru on accounting quality (and consequently on corporate governance of Peruvian corporations), and then analyzing the evolution of corporate governance in Peru. One reason for this approach is that the definition of accounting standards applied in Peru before the adoption of IFRS—that is, the definition of Peruvian GAAPs—is unclear. (This topic is addressed below). The paper concludes with some proposals for improving corporate governance in Peru.

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2. Relevant Concepts

A number of definitions exist for corporate governance. Since this paper analyzes corporate governance in the Peruvian context, the definition used is that of the National Supervisory Commission for Companies and Securities, or CONASEV in Spanish, which is the most active institution dealing with corporate governance issues in Peru.[1] CONASEV's definition is as follows: Corporate governance explains the rules and procedures for taking decisions in matters such as the equal treatment of shareholders, the handling of conflicts of interest, capital structure, remuneration schemes and administrative incentives, the acquisition of control, the disclosure of information, the influence of institutional investors, among others, that affect the process through which company income is distributed (CONASEV, 2002).

A key issue related to corporate governance is the "agency problem," which occurs when a contractual agency relationship is established under which one or more principals engage with another agent who agrees to perform a certain service or duty on their behalf (Jensen and Meckling, 1976).

OECD (2015) principles emphasize the importance of transparency in financial reporting and disclosure practices as the prime corporate governance mechanism for reducing the information asymmetry that stems from the agency problem.

[1] All the abbreviations of Peruvian institutions used in this paper are from the original words in Spanish. For a list of acronyms used in the paper, see Appendix 1.

According to Zeghal *et al.* (2012), supporters of mandatory IFRS adoption argue that conversion to IFRS improves information quality as it enhances the comparability and transparency of financial reporting around the world. This, in turn, is expected to reduce the cost of capital for firms (Covrig and Defond 2007; Jeanjean and Stolowy 2008; Armstrong *et al.* 2010; Li 2010).

Two indications of the strength of accounting quality and subsequently, corporate governance, are earnings management and value relevance.

Healy and Wahlen (1999, pp.368) formulated the following, widely accepted, definition of earnings management: "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers."

Consistent with prior research, Barth *et al.* (2001) define an accounting amount as value relevant if it explains variation in share price.

Thus, this paper focuses on the effect that mandatory implementation of IFRS in Peru has had on the quality of financial reporting, and on corporate governance.

3. Corporate Governance in Peru

In the specific case of Peru, corporate governance has been evolving at a rapid pace over the last decade. Until the early 1990s, a concentrated shareholding structure and a management model that put control in the hands of family groups characterized most Peruvian companies. Under such a framework, there was no pressure from external stakeholders to introduce mechanisms for control over management, minority shareholder protection, or provision of information to investors. However, the corporate legal framework has had to adapt to the new profile of companies that operate in a global economy. That is, companies have been required to open their capital to domestic and foreign private investment, and doing so requires that they provide minimum levels of control, protection, and information to investors and minority shareholders (Vigo, 2013).

Recognizing its importance for the development of the capital market, greater corporate transparency has been promoted. Furthermore, the advantages of good corporate governance practices have become clear and well-defined. In 2002, a committee composed of eight public and private sector entities, chaired then by CONASEV—currently by

Superintendence of Securities Market (SMV)—was formed in order to establish principles of corporate governance applicable to Peruvian companies.

As a result of this joint effort, in July 2002 the “26 Principles of Good Corporate Governance” for Peruvian companies were issued. These principles were based on corporate governance principles issued by the OECD, taking into consideration the particular characteristics of Peruvian companies, their ownership structure, and the legal framework. They covered, among other relevant topics, matters relating to the rights and equitable treatment of shareholders, the role of stakeholders in corporate governance, communication and transparency of information, and the responsibilities of the board. Thus, an important benchmark of good practices for Peruvian companies, especially for those whose securities are publicly offered in the market, was constituted.

In line with the issuance of the 26 Principles and following international trends, CONASEV then took on the challenge of requiring companies whose securities were offered to the public to disclose their degree of adherence to the Principles through their annual reports and prospectus information. In the beginning, companies provided information about their practices but no external audits were conducted. As a result, questions were raised about the validity of the information that some companies provided. CONASEV therefore began analyzing the information provided by the registered companies, and when inconsistencies or deficiencies were found, CONASEV requested that those companies amend their information and inform the market of such amendments. In this way, CONASEV has taken a proactive approach in order to improve the “comply or explain” procedure in Peru.

Moreover, in 2008 the Lima Stock Exchange (BVL) issued the Index of Good Corporate Governance (IBGC: *Indice de Buen Gobierno Corporativo*). To be included in the IBGC, a company must have its corporate governance evaluated by a validating entity accredited by the BVL. (Most of the accredited validating entities are auditing firms such as PWC, Deloitte, EY, KPMG and Grant Thornton). Validation is based on a questionnaire developed by the SMV. Each principle of the validation scheme has specific criteria defined to ensure that evaluation is as objective as possible. If a company passes a minimum threshold—originally set at 60% of total possible points, currently set at 70%) it becomes a candidate for the Index. Then, in order to be included in the Index, a candidate company must pass minimum liquidity requirements. The BVL’s accreditation process for a validating entity requires the presentation of its credentials to the BVL for evaluation. The criteria include the firm's experience in corporate governance consulting or validation, and the qualifications of the team that will carry out validations. Currently there are ten validating companies in the IBGC.

In a meeting of the Latin American Corporate Governance Roundtable that took place in Peru in 2010, participants signed for publication a set of 'white paper recommendations' focused on the role of institutional investors in corporate governance. The most important suggestions made for Peru from the 2010 meeting were the following:

- Policies and good practices should be set in order to stimulate more active involvement of institutional investors and facilitate more appropriate governance;
- The better-governed companies for investment purposes should be identified and publically recognized;
- The functioning of boards of directors should be improved;
- Finally, the responsibility of management should be clearly defined.

For over 10 years companies have been submitting their surveys regarding the 26 Principles of Good Governance. These show that Peruvian companies have been improving their corporate governance practices year-by-year.

Although the corporate governance practices and compliance of Peruvian corporations had been improving every year since 2005, a comprehensive review of those principles was needed. That review was carried out in 2012–13, and took into account the development of the legal regulatory framework governing the market, deficiencies and weaknesses that were revealed during the 2007–2008 global financial crisis regarding transparency of information and internal control of companies, and progress on issues of corporate governance made by the CAF (Development Bank of Latin America) and the OECD.

On February 23, 2012, a committee made up of 14 institutions, under the chairmanship of the SMV and with financial support from the CAF, issued the Code of Good Corporate Governance for Peruvian Companies, which replaced the 26 Principles.

The new Code, taking into account the needs and characteristics of the Peruvian stock market and Peruvian corporations, addresses issues related to corporate governance. The committee responsible for preparing the Code collected input from public entities and the private sector, with the aim of improving the implementation of better corporate governance practices in Peruvian companies. The Code of Good Corporate Governance for Peruvian Companies is composed of 31 principles and divided into five pillars: (1) Rights of Shareholders, (2) General Meeting of Shareholders, (3) The Board and Senior Management, (4) Risk and Compliance, and (5) Transparency of Information. The new Code—which includes two complementary annexes of principles, one for enterprises and the other for family businesses—has been applied since 2014.

On June 14, 2014, the SMV issued Resolution No. 012-2014-SMV/01, which requires that companies that have securities registered in the Public Registry of the Securities Market disseminate their good governance practices to the public when they report their compliance with the Code of Good Corporate Governance for Peruvian Companies.

The SMV recognizes that adoption of the Code of Good Corporate Governance for Peruvian Companies is voluntary; however, for companies with securities registered in the Public Registry of the Securities Market, adoption becomes mandatory, as degree of compliance with the Code must be reported. Adherence to each principle is evaluated based on the following parameters:

a) "Comply or explain": If the company fully complies, then it satisfies the requirement. If the company does not fully comply, it must explain the reason(s) why it did not fully comply with the principle;

b) Information/evidence in supporting data and documents: Is information provided that allows one to know in detail how the company has implemented the principle?

4. Accounting in Peru

<u>Authorities and Standards</u>

The three financial accounting authorities in Peru are the Accounting Standards Council (CNC), the Superintendence of the Securities Markets (SMV) and the Superintendence of Banking, Insurance, and Pension Funds (SBS).

Currently, Financial Accounting in Peru is regulated by the Accounting Standards Council (CNC). The CNC is an agency within the Ministry of Economy and Finance. Moreover, the Superintendence of Securities Markets (SMV) regulates, supervises and controls the non-financial listed companies while the financial companies are regulated by the Superintendence of Banking, Insurance, and Pension Funds (SBS).

Some other important key players are the Public Accountants Associations, the auditing firms (mainly the Big Four), SUNAT (the Tax Agency), Peruvian Institute of Independent Auditors (IPAI) and the universities.

Brief History of Accounting Standards in Peru

Historically, financial accounting in Peru was thought mainly as accounting following tax regulations, oriented to the calculation of taxes. Most of the companies prepared financial statements basically to fill taxes and the role of the accountant was basically to prepare the financial statements such as the tax payments were legally minimized.

In the early 70's Peru had neither an institution who set the accounting standards which the companies must follow nor a proper system to record the accounting transactions. The common practice for most of the companies was just to follow the tax rules set by the Tax Agency. However, some companies followed the US GAAP (mainly subsidiaries of American corporations), and Accounting Professors, mainly from audit firms, used this as proper literature.

However, in 1974 an important event occurred: the implementation of the General Chart of Accounts (PCG) which was an attempt to implement a standardized accounting system for all the companies. Thus, financial accounting became more standardized but at the same, more mechanical (every accountant just followed the system of accounts without using much professional judgment). At this time, the historical cost model did not have competitors, as now occurs with the fair value model.

From 1994 to 1998 the Peruvian Accounting Standards Board (CNC) issued a series of resolutions through which it officially adopted IAS as the Peruvian GAAP for the purposes of statutory financial reporting (World Bank, 2004).

As most of the countries, Peru adopted IFRS largely as a legitimacy-seeking process (Judge *et al.*, 2010), replacing Peruvian GAAPs with IFRS in response to coercive, mimetic, and normative pressures

Until 2000, the SMV (former CONASEV) was responsible for the supervision of the companies organized in accordance with the LGS (Company Law or Corporate Code). The LGS requires that financial statements of corporations be prepared and presented in accordance with generally accepted accounting principles (GAAP) in Peru. On July 23rd, 1998, the CNC issued the resolution 013-98- EF/93.01 clearly specifying that the Peruvian GAAPs were the IAS.

The SMV mandated until 2000 that companies with certain levels of gross income and total assets present their annual audited financial statements, in accordance with the standards established by the SMV. These standards, where, a mix of limited local development, US GAAPs and IAS. It didn't matter whether the company was under the supervision of the SMV or not. Excepting those companies that were supervised by the SBS, all the companies with those levels of income or assets must submit their financial statements to the SMV. In 2000 with the promulgation of the law 27323, the SMV functions were modified. Likewise, under the argument that the submission of financial statements represented an extra cost for the companies, it was established that only the companies that were under the supervision of the SMV (at that time called CONASEV) must present financial information to the SMV, following the Manual for the Preparation of Financial Information (previously published by resolution CONASEV 103-99-EF / 94.10 on November 24th, 1999). In this way, a large number of companies were excluded from the obligation to present audited or unaudited financial information (Molina *et al*, 2014).

Moreover, in 2005 CONASEV issued Resolution No. 092-2005-EF / 94.10 stating that after January 1st 2006, companies under CONASEV's control and supervision must comply with the IFRS.

Finally, in 2010, CONASEV issued Resolution 102-2010 mandating that all companies under its supervision fully comply with the IFRS issued by the IASB. (See Figure 1)

Insert Figure 1 about here

Currently, the CNC main role is to make official/endorse the IFRS that apply to the huge majority of Peruvian companies (private companies), while non-financial listed companies are under the supervision of the SMV. Finally, financial companies are under the supervision of the SBS.

Thus, not all the Peruvian companies comply with full IFRS. Peruvian companies must comply with accounting standards according to their size and industry (Tanaka, 2014). Table

1 summarizes the current situation of the accounting standards that companies must comply according to their characteristics.

Insert Table 1 about here

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5. Literature Review

5.1 Corporate Governance in Peru

Only limited research has been done to date on corporate governance in Peru.

A corporate governance assessment conducted in Peru by the World Bank (2004) concluded that the governance structure of the pension fund administration was weak, and that there were insufficient checks and balances to deal with conflicts of interest. The report stated that improving the pension fund's internal governance structure was crucial in order to ensure the preservation of private savings for retirement. Voting and board representation policies were being developed by the regulating authorities so that the pension funds could assume an active role as shareholders of the companies in their portfolios. The World Bank also gave a number of recommendations.

Eyzaguirre (2009) analyzed the role of institutional investors in promoting good corporate governance practices in Peru, emphasizing the role of pension funds (AFPs in Peru) in promoting good governance and positing that although listed companies are required to reveal their degree of compliance with the "26 Principles of Good Corporate Governance for Peruvian Corporations," improvement in the quality of disclosures has been slow. Furthermore, in order for Peruvian companies to enhance the contribution of AFPs to bettering corporate governance in Peru, as well as to improve their own corporate governance, Eyzaguirre (2009) recommended the following: (1) improve legislation/regulation; (2) improve enforcement; (3) improve institutional investors' accountability to their stakeholders; (4) develop proxy rules; (5) improve dialogue between companies and investors via conference calls; and (5) improve composition of the boards of directors of the pension funds.

Doidge *et al.* (2007) included Peru in a cross-national study of the influence of country characteristics on corporate governance. They concluded that in less-developed countries (a group in which Peru was included), it is costly to improve investor protection because the institutional infrastructure is lacking and good governance has political costs. Further, in such countries, the benefits gained from improving governance are smaller because capital markets lack depth. Finally, such countries have poor investor protection and there is some evidence of complementarity between country-level investor protection and firm-level governance.

McGee (2010) referred to the World Bank's Reports on the Observance of Standards and Codes (ROSC) in order to analyze the situation of corporate governance in Peru. He classified the data into five categories—Rights of Shareholders, Equitable Treatment of Shareholders, Role of Stakeholders in Corporate Governance, Disclosure and Transparency, and Responsibility of the Board—based on the extent of compliance with the OECD's Principles of Corporate Governance. On a scale of 0 to 5, he obtained the following results (see Figure 2)

Insert Figure 2 about here

Eyzaguirre and Blume (2012) studied the role of institutional investors (mainly, pension funds and mutual funds) on the corporate governance of Peruvian firms, and concluded the following:

1) The size of the Peruvian capital market limits the number of available attractive investment oportunities. This makes it more practical for institutional investors to set a minimum standard of corporate governance for the companies in which they invest.

2) Institutional investors may need technical support from the OECD, IFC (International Finance Corporation), and GCGF (Global Corporate Governance Forum) to implement recommendations.

3) Task force participants should seek to maintain a working and consulting relationship among themselves.

Tanaka (2014) concluded that Peru has been developing regulations regarding corporate governance at a good pace—including the 2014 Code of Good Corporate Governance for Peruvian Companies, described above—and that Peruvian corporations have consistently improved their compliance with these regulations. In order to explore the relationship between corporate governance and corporate financial performance in Peruvian corporations, Tanaka (2015) conducted a comprehensive research study using financial data obtained from the OSIRIS database and annual reports and corporate governance data from responses to a CONASEV/SMV survey of participant companies regarding compliance with the “26 Principles of Good Governance for Peruvian Companies.” Tanaka’s findings showed that good corporate governance is correlated with good financial performance.

Mongrut *et al.* (2018) analyzed the impact of adoption of a corporate governance code on dividend payout ratio in 111 companies listed on the Lima Stock Exchange (LSE), from 2007 to 2015. They concluded that companies that have adopted a corporate governance code—especially those with a “high-quality” code—pay more dividends, despite the fact that dividend payout is usually negatively correlated with ownership concentration.

Mongrut *et al.* (2019) studied the determinants of earnings opacity in the six largest Latin American economies—including Peru—and found compelling evidence that the mere adoption of the IFRS is insufficient to guarantee transparency in emerging markets.

5.2 IFRS (International Financial Reporting Standards) in Peru

The most important research done on accounting standards in Peru is the Report on the Observance of Standards and Codes (ROSC) conducted by the World Bank in 2004. After the initial Report was issued, a thorough analysis of the situation at that time and a number of recommendations were presented. For example, it was recommended that “Peru’s largest non-listed companies should be required by law to present annual audited IFRS-based financial statements, and these statements should be made available to the public” (World Bank, 2004, p. 22). This recommendation was implemented, but after a couple of years it was declared unconstitutional. In general, non-listed companies found that there was no advantage to adopting IFRS. In addition, the cost of implementation, mainly conducted by external auditing firms and independent accountants, was considered to be extremely high.

A number of papers that followed the World Bank report should be mentioned. Lam (2011), analyzed the implementation of the new plan of accounts in Peru (PCGE), which was prepared in concordance with IFRS. Molina *et al.* (2014) briefly reviewed the process of implementation of international standards in Peru. Tanaka (2014) analyzed the convergence of accounting standards in Peru.

With regard to the effects of the implementation of IFRS in Peru, Diaz (2014) analyzed the effects on the financial statements of Peruvian companies after the adoption of IFRS in 2011.

6. Hypothesis Development

As stated above, when researchers analyze corporate governance and accounting standards, most focus on the effect that corporate governance has on accounting standards and financial reporting quality.

Brown *et al.* (2011) stated that evidence from Australian firms suggests that corporate governance regulation has a positive impact on the quality of the firm's disclosures. However, additional research is merited in other countries, particularly in developing countries, to better understand the influence of corporate governance regulation on firm disclosure behavior.

Wang and Campbell (2012) concluded that state ownership discourages earnings management to a certain extent in the current environment of China, but that IFRS implementation does not seem to deter earnings management. They also found that for companies that are not state-owned, increasing the number of independent (external) board members discourages earnings management, but increasing the number of inside board members has no effect.

Yu and Zabihollah (2012) found that effective internal corporate governance helps companies to be more aligned with IFRS and thereby provide high-quality financial information. They also found that audit quality as an external governance factor mediates the relationship between internal corporate governance and IFRS convergence.

Leung and Ilsever (2013) have posited that information asymmetry between managers and investors may be mitigated when the extant literature, in general, supports the argument that corporate governance mechanisms, if managed and implemented appropriately, are positively associated with levels of corporate disclosure, including financial reporting.

Verriest *et al.* (2013) investigated the association between corporate governance and the choices of EU listed firms with respect to IFRS adoption in 2005 and found that firms with stronger governance disclose more information, comply more fully, and use the carve-out provision of IAS 39 less opportunistically.

Saenz and Garcia-Meca (2013), using a sample of listed Latin American non-financial companies from 2006 to 2009, concluded that the role of external directors is limited in the Latin American context. They also found that boards which meet more frequently take a more active stance in the monitoring of management, resulting in a lower use of earnings management.

Lian and Shan (2016) found that firms in Germany and the U.K. with better corporate governance and therefore lower earnings management incentives are associated with higher accounting quality, i.e, smaller sizes of discretionary accruals and lower volatilities of accrual residuals.

On the other hand, research studies on the effect that IFRS adoption has on accounting quality have produced diverse outcomes.

Ball (2006) stated that IFRS offer equity investors a variety of potential advantages, including more accurate, comprehensive, and timely financial statement information, relative to the national standards they replace for public financial reporting in most of the countries adopting them. To the extent that financial statement information is not available from other sources, this should lead to better-informed valuation in the equity markets, and hence lower risk to investors.

Van Tendeloo and Vanstraelen (2006) posit that without the possibility of using hidden reserves to manage earnings, IFRS adopters turn more to discretionary accruals to manage their earnings. Moreover, it appears that companies that have adopted IFRS tend to engage more in earnings smoothing, but this tendency weakens for companies that use a Big 4 auditor.

Barth *et al.* (2008), in a 21-country study, found that firms that apply IAS generally evidence less earnings management, more timely loss recognition, and more value relevance in their accounting than do matched sample firms that apply non-US domestic standards.

In research on three first-time IFRS adopter countries—Australia, France, and the UK—Jeanjean and Stolowy (2008) found that the pervasiveness of earnings management did not decline after the mandatory introduction of IFRS, and that in fact it increased in France.

Iatridis and Rouvolis (2010) found that during the official IFRS adoption period, there is some evidence of earnings management, perhaps because of significant costs of transitioning to the new standards, but that in the subsequent accounting period, the level of earnings management is significantly reduced. They also found that the implementation of

IFRS results in more value relevant accounting measures in the second year of adoption compared to the first year.

Analyzing a sample of non-financial firms listed on 11 EU stock markets, Callao and Jarne (2010) concluded that earnings management intensified after the adoption of IFRS in Europe, as discretionary accruals increased in the period following implementation.

Zeghal *et al.* (2011) posit that mandatory adoption of IAS/IFRS has resulted in decreased levels of earnings management for companies with good corporate governance and those that depend on foreign financial markets.

Results of an empirical study by Liu *et al.* (2011) indicate that accounting quality has improved in China since 2007, with decreased earnings management and increased value relevance of accounting measures.

Capkun *et al.* (2012) found evidence that earnings management (smoothing) decreased after the adoption of IAS/IFRS for early adopters. Their results also showed that earnings management (smoothing) increased for late and mandatory adopters after their adoption of IFRS in 2005.

Rodriguez *et al.* (2017), using a sample of companies from Argentina, Brazil, Chile, and Mexico, found that the change from local accounting regulations to internationally approved standards increased value relevance, and improved earnings timeliness in large firms.

The present paper analyzes the effect of the mandatory implementation of IFRS in Peru on accounting quality, and on corporate governance of Peruvian corporations. Prior to mandatory adoption of IFRS, the accounting standards followed by listed non-financial companies (Peruvian GAAPs) in Peru were not well-defined. Adopting IFRS, by definition, results in the use of more clearly-defined accounting standards, which should logically have a positive effect on accounting quality. Further, it is assumed that improved accounting quality will result in improved corporate governance. This assumption is in line with the argument of proponents of mandatory IFRS adoption that conversion to IFRS improves information quality and thus enhances the comparability and transparency of financial reporting (Zeghal *et al.*, 2012). From this, the main hypothesis of this research is derived, namely: The mandatory implementation of IFRS in Peru has had a positive effect on the quality of accounting information and, consequently, on corporate governance in Peru.

7. Methodology

In order to test the hypothesis, primary and secondary data were analyzed. Primary data included interviews and surveys with key stakeholders. Secondary data was also analyzed to strengthen the analysis.

7.1 Interviews

The interviews were conducted in Lima (Peru's capital) from September 6 to 28th, 2017 and September 4 to 17th, 2018. The interviews were recorded, transcribed and sent to the interviewees for their revision. The average length of the interview was 63 minutes.

Moreover, it is important to mention that although the data from nineteen interviewees (from twenty institutions/firms) is presented in the table below, eventually the opinions of some other important stakeholders (not included in the list) were obtained, being the actual number of interviewees of more than twenty. However, as per their request, the names of the interviewees are not mentioned.

For the selection of the interviewees their relevance in the Peruvian Accounting system was considered. For example, the President of the CNC (Peru's Accounting Standards Council), as well as a supervisor of the SMV and a manager of SUNAT (Peru's tax agency). Also, the dean of the Lima's Professionals Accounting Association (CCPL) was interviewed. The CCPL accounts for more than 50% of the accountants in Peru.

On the other hand, for the selection of the auditing firms the following data was considered: (see Table 2)

Insert Table 2 about here

According to the table previously presented, the Big Four and BDO as well as other minor audit firms were selected for the interviews. A list of the interviewees is presented below (see Table 3)

Insert Table 3 about here

7.2 Surveys of companies

Selection of the Data

As of the date of this research, there are 201 listed companies that are under the supervision of the SMV. From that list, 36 companies are financial corporations that must comply with the accounting standards issued by the SBS. Therefore, there are 175 companies that must comply with IFRS. In order to verify the validity of the survey responses, an analysis using data from the Osiris database was completed. (see Figure 3)

Insert Figure 3 about here

The distribution of the companies (in industries and size) that responded to the survey was similar to the distribution found with the Osiris database, supporting the validity of the results obtained in the survey.

In order to obtain the highest number of respondents, the survey was sent to all the companies which are under the supervision of the SMV.

Summary of the Results

After sending the survey to the 175 companies under the supervision of the SMV that comply with IFRS and some other big private corporations, 29 companies (16.6% of the sample) responded to the questionnaire.

As previously mentioned, this paper is part of a comprehensive research project regarding the implementation of IFRS in Peru, so only the survey questions relevant to IFRS and corporate governance are included in this paper (see Figure 4)

Insert Figure 4 about here

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8. Analysis of the Results

8.1 Interview Results

Topic 1: Peruvian GAAPs

Review of the literature revealed an issue with regard the accounting standards followed by Peruvian companies before the adoption of IFRS (Peruvian GAAPs): namely, the exact definition of Peruvian GAAPs. In fact, there is no exact definition of Peruvian GAAPs. When one reviews the annual reports of listed Peruvian companies, one finds that before 2011, the financial statements were prepared “in conformity with accounting principles generally accepted in Peru.” However, what are Peruvian GAAPs? There is no definition, no manual, and no book of those standards. Therefore, in order to find a clear definition of Peruvian GAAPs, interviewees were asked a question related to this. Some of the responses are summarized below:

Regulators and other government institutions

CGN: Before 1994, companies that were supervised by CONASEV (current SMV) had the obligation to submit audited financial statements. Some of those companies applied US GAAP, as accounting standards. However, the vast majority of companies accounting used the tax regulations to prepare financial statements.

SMV: in the past, when the LGS referred to Peruvian GAAP, one can’t find them anywhere.

Audit Firms

BDO: Accountants followed the tax regulation in Peru (for most of the non-listed companies)

EY: In Peru there have been no other accounting principles, we never had a regulatory framework. The accounting was tax based, basically the depreciation of the fixed asset was calculated following tax rules. Before 2011 in Peru, in reality they were the IFRS, that is a problem because in theory always we used IFRS, but, we depreciated the assets with the tax rates. They were the Peruvian GAAP. There were some other exceptions, too, but the main distinction between IFRS and Peruvian GAAPs were related to P.P.& E.

KPMG: Peruvian GAAP was something that actually did not exist. It was more market practices than a codified set of standards

PWC: Under the umbrella of Peruvian GAAP we took many licenses related for example with the depreciation of fixed assets, recognition of income.

Other important Stakeholders

Latinger: In Peru, we did not have our own model. Influence from US GAAPs has been relevant for many years, and represented the basic material for teaching financial accounting before 2000. Gradually, IFRS took their place, with a hug difference: the standards were available to preparers in their own language, and this has been a great difference. What are Peruvian GAAPs? I am a Professor of financial accounting and I don't know what were those standards?. Each one takes its own definition (of the Peruvian GAAPs).

PUCP: Here, in the country, many companies without considering what the SMV states, continue to apply the accounting principles based on taxation, even more so the SUNAT has intervened, a very harmful interference in the profession because it now forces companies to carry electronic books, the way they have to issue billing, etc.

Other interviewee: when one talks about Peruvian GAAP and IFRS is not really a matter of what is the difference, in which paragraph the standard changes. It is that we take seriously what the standard says

Consequently, as it can be deducted from the previous paragraphs, there is no clear definition of the Peruvian GAAPs. Moreover, the following comments from the interviewees reinforce the idea that Peru did not have its own technical development, its own standards before adopting IFRS

Audit Firms

Deloitte: Speaking about the implementation of IFRS back in 2011, Peru had the advantage that historically it did not develop its own standards unlike Mexico, Argentina, Colombia and Brazil. In the four mentioned countries, the Accountants Associations developed their own standards; some called it technical bulletins, technical resolutions that generally took the international standards and made some changes. Nobody was very creative, but they changed, and when the full implementation of IFRS came to Mexico, Argentina, Colombia and Brazil, they all had the inconvenience of returning back to full IFRS, but that did not happen in Peru. In Peru it was the same as it was already in force.

Espinoza & Associates: Sometimes in the past we created our own standards, we regulated the adjustments for inflation in 1997 and it was the first Peruvian standard at the level of the CNC.

KPMG: Peru is a country that has a very poor accounting tradition. If we talk about important things, I can name Resolutions II and III of the CNC when talking about the adjustment for inflation that was a good pronouncement

Monzón, Valdivia, Falconí & Associates: In Peru there really were no accounting standards. In the Accounting Framework basic concepts like monetary unit assumption, economic entity, going concern, but actually not accounting standards. In that sense in the 90's in Peru there were no really Peruvian standards at least other countries Argentina, Mexico developed their own standards and had some bulletins. We basically followed what SUNAT (tax agency) said.

Other important Stakeholders

Latinger: Peru is one of the countries that did not have its own technical development, used the North American approach many times to solve accounting issues. While in other countries with own production as Argentina the adoption of IFRS was delayed, as well as Brazil and Mexico. And still Mexico but maintains its nationalism. They do not have IFRS, they have only Financial Reporting Standards. They took away the character of international when they put their own model of IFRS.

Therefore, it can be stated that (1) Peru did not have its own technical development of accounting standards (except for pronouncements regarding adjustment for inflation), and (2) the standards that were applied by listed Peruvian corporations in the new millennium just before the adoption of IFRS (Peruvian GAAPs) were actually the same as IFRS but with some exceptions, mainly related to taxation, labor and legal issues, related to the particular characteristics of Peru.

Topic 2: Benefits of the Implementation of IFRS

According to interviewees, the implementation of IFRS has been beneficial. Some of the interviewees' comments are presented below:

Regulators and other government institutions

CNC: The uniform presentation of Financial Statements using the standards favors comparability. I believe that both the user and the companies themselves, both have been beneficiated. I also believe that with audited financial statements, the information contributes to the fight in some way against corruption

SMV: It has been beneficial, because before we did not have a set of accounting standards. When the LGS refers to Peruvian GAAP, one can't find them nowhere. Then, how can the SMV demand from companies that their information is wrong, based on what the SMV can analyze it?

Audit Firms

BDO: I think IFRS has helped us to revise, to read more carefully, not to repeat things because they say so, but rather, to analyze. So, if it has helped us to improve the knowledge of accounting a lot

Deloitte: The implementation of IFRS has been very useful. Transparency globally is very important. Adopting the full IFRS gives greater tranquility to the international reader of financial statements of Peruvian companies. A client of ours just issued bonds. To issue a bond now it is much easier, in the past we had to make reconciliations, for example to US GAAP, including an annex. In the past, when you did roadshows you had explain reconciliation differences in accounting rules, and the fact of walking showing reconciliations scared a little.

The important thing is that it opens markets, lower costs and so on. Having the IFRS is already a facilitator to be able to go to international markets faster and transmit more easily.

EY: In general terms, I think IFRS has helped the country and the companies. The companies that have international relations, are listed in the foreign markets, because it has been easier "you translate the report into English and everyone understands it”. With IFRS the world sees you more global

What is certain is that for some companies it has been easier to issue debt internationally. Big companies are appreciating it, for small or very family companies, IFRS is a cost

Monzón, Valdivia, Falconí & Associates: Nowadays, accounting is different from what we used to have before the IFRS implementation. It has advanced not only the subject of accounting standards but also the tax rules have been organized better. I think that if there has been an important breakthrough with the implementation of the IFRS. I consider that it is unfortunate the fact that there is no IFRS compliance for the non-listed companies, because listed companies are 270 or 300 companies out of a million companies that exist in Peru

PWC: It has allowed us to sort the accounting a little, because the precedent of the IFRS (Peruvian GAAP that was based on IFRS but was not exactly IFRS). With the implementation of IFRS, many licenses that we had taken with the Peruvian GAAP, we began to clean.

The market has already started talking about IFRS. Some banks have already begun to say: I want you to give me the financial statements under IFRS and if it did not come under IFRS, why is it not under IFRS?

For companies, perhaps, the only benefit is that I better prepared for access to financing. It allows me for better chances to access the banking system “with a better photo, with a cleaner face". That translates into a decrease in the interest rate and a decrease in your financial risk

KPMG: I'm going to distinguish the companies that have done it just to get out of the way, the ones that have tried to do it in the cheapest and simplest way, and those that have realized that it useful for them. Currently, in Peru, not only the large companies are purchased, there are investment funds that invest in medium-sized companies. So the companies that have had IFRS investments have been able to produce strategic partners. However, the advantages have been more for the side of those who read the financial statements.

<u>Other important Stakeholders</u>

Latinger: IFRS have brought a number of benefits in terms of organize, order the accounting, and owners/shareholders are starting to use certain financial information to make decisions or to confirm them. Even that, the results are still to be seen. In terms of order because the accounting knowledge today is expanded, it is available to more accounting professionals. Currently, the auditor is not the only one who knows the accounting principles (as used to happen in the 70's, 80's and 90's when US GAAP were applied by the big audit firms). In those days, when supporting a position, the auditor used to say that it was because the FASB said so. Thus, the first advantage, international financial standards are more universal than any other model that has existed in Peru. Nowadays, the accountants discuss the standards among them. This discussion of the norms, sooner or later will end up helping to improve the accounting system in Peru.

Second advantage: the IFRS help to fill some gaps that exist, for instance, in our tax legislation, which is incomplete. For example, one of the greatest gaps in the tax legislation in Peru is the lack of definition of the concept of accrual. As there is no definition of the concept of accrual but simply it is mentioned that for tax issues the concept of accrual applies, the Tax Court of the tax agency, has turned their eyes to international standards to solve this gap. Thus, currently, we have more elements available to the taxpayer and the tax agents to solve tax matters, where tax legislation does not exist, accounting's concepts are used as a supplementary way.

Third advantage: The existence of a model helps in the generation of trust. Generation of trust is related to risk perception. Therefore, the existence of a model which is known by all the stakeholders gives the entrepreneur some advantages. Moreover, there will be some advantages for the country as soon as we add the advantages at the microeconomic level.

Rubio, Leguia & Normand (Lawyers buffet): There are gaps in law. If the law does not give me an explicit definition, accounting fills that gap

In sum, the most important benefit of the implementation of IFRS in Peru is that the country currently has a standardized set of accounting rules, and consequently the quality of accounting information has been improved.

8.2 Survey Results

Notable findings from the survey include the following:

- Regarding the main obstacle that surveyed companies faced in the implementation of IFRS, staff training was the most commonly reported.
- The main difficulty that companies had using IFRS was that the standards were not specific enough. This response reflects the "tradition" of Peruvian accountants who were used to complying with more rule-based standards such as US GAAPs or tax regulations.
- A positive point was that 45% of respondents reported that IFRS brought both advantages and disadvantages to their companies, while 55% answered that IFRS only brought advantages.
- 97% of the surveyed companies reported that using IFRS results in more accurate accounting information.
- 55% of respondents reported that they do not think that IFRS increases the volatility of profits. Similarly, 62% of respondents do not think that IFRS increases of share prices.
- Regarding the biggest issues encountered in the application of IFRS, respondents most commonly named the necessity of third parties' services for proper implementation.
- Among the benefits of IFRS, the most-selected answers were: greater credibility/transparency in financial information; globalization and access to international markets; improvement in the comparability of financial information; and higher perception that accounting information is useful for decision-making.

Overall, as the above shows, there is a positive perception among the surveyed companies of IFRS adoption in Peru, especially regarding the quality of the information, although a number of difficulties were noted, mainly related to the complexity of the new standards.

As an example of the complexity of applying IFRS in Peru, one auditing firm, in revising auditing reports on companies analyzed in the two secondary-data studies (explained later in this paper), had to request advisory services from IFRS in order to complete the conciliation from Peruvian GAAPs to IFRS.

Consequently, from the interviews and surveys it can be concluded that, according to the main stakeholders in Peru, financial reporting quality has been improved. This is in line with OECD (2015) statement that "transparency in financial reporting and disclosure practice is the prime corporate governance mechanism for reducing the information asymmetry that stems from the agency problem."

9. Complementary Analysis of Accounting Quality after Mandatory IFRS Adoption: Earnings Management and Value Relevance

Zeghal *et al.* (2012) posited that there are four earnings (or more generally, accounting) quality constructs that are widely used in the accounting literature: earnings management, timeliness, conservatism, and value relevance. In order to strengthen conclusions regarding the influence of IFRS on financial reporting quality and corporate governance, two studies regarding earnings management and value relevance were conducted. The rationale for these studies is that, as explained above, earnings management and value relevance are reflections of corporate governance. Earnings management weakens the credibility of financial reporting and is therefore an indication of weak corporate governance. High value relevance is an indication of strong corporate governance, while low value relevance is an indication of weak corporate governance.

The studies analyze changes in earnings management and value relevance using a sample of listed Peruvian companies legally required to use IFRS, over the period 2006 to 2016. The period under study is broken into three stages, according to legal regulations in Peru:

1. Early Adoption of IFRS: From 2006 to 2009
2. Actual Adoption of IFRS: From 2010 to 2011
3. Most Recent Compliance with IFRS: From 2012 to 2016

The following paragraphs explain the rationale for this classification.

As Figure 1 shows, Peru started adopting international accounting standards in the late 1980s. However, Peruvian companies actually did not fully comply with the IFRS. When annual reports and other financial data (for the years before 2010) are analyzed, it is mentioned that the financial statements comply with Peruvian GAAPs (a combination of IFRS and local tax regulations) in some cases, or standards from other countries such as Mexico, Chile, Argentina, and the US in other cases.

First Stage: Early Adoption (from 2006 to 2009)

In October 2005, CONASEV decided to strongly force companies to comply with IFRS. This came in the form of Resolution No. 092-2005-EF/94.0, which after January 1, 2006 required companies under its control and supervision to comply with IFRS.

This initial period of IFRS adoption ended in 2009.

Second Stage: Actual Adoption (from 2010 to 2011)

On October 14, 2010, CONASEV issued Resolution No. 102-2010, which decreed that companies under its control and supervision must fully comply with the IFRS issued by the IASB. Listed companies were required to submit audited annual financial information during this period up until December 31, 2011.

The years 2010 and 2011 were included in this second stage, as shown in the following paragraph from a revision of the "Auditor's Report and Financial Statements" of all companies included in the sample:

> The financial statements for the year ended December 31, 2011, are the first financial statements that the Company has prepared in accordance with the International Financial Reporting Standards (IFRS), for which it has been applied the IFRS 1 "First Time Adoption of International Financial Reporting Standards" in the opening balance sheets as of January 1, 2010, date of transition to IFRS. The application of IFRS 1 implies that all IFRS are applied retrospectively on the transition date, including certain mandatory exceptions and optional exemptions defined by the regulation.

Third Stage: Most Recent Compliance with IFRS (from 2012 to 2016)

See Appendix 2 for an excerpt from an interview with the Supervisor of the Superintendence of the Securities Market that explains the rationale for the periods selected for analysis.

This three-stage period was applied for both the Earnings Management and Value Relevance studies.

Study 1: IFRS and Earnings Management (EM)

The purpose of this study was to evaluate the effect of IFRS on accounting quality using earnings management as an earnings quality construct.

Hypotheses:

H1: Non-financial corporations listed on the Lima Stock Exchange engage in some degree of earnings management.

H2: DAC_{it} has decreased since the adoption of IFRS,

where DAC = discretionary accruals.

Model:

The study applied the modified version of the Jones (1991) model proposed by Dechow *et al.* (1996), which has been widely used in other studies. Consistent with Dechow *et al.* (1996), the accrual component of earnings is computed using the following formula:

Total Accruals $_{it}$ = (ΔCA_{it} - ΔCL_{it} – $\Delta Cash_{it}$ + $\Delta LDCL_{it}$ – Dep it) / A_{t-1}

where ΔCA_{it} = change in total current assets; ΔCashit = change in cash and cash equivalents; ΔCLit = change in total current liabilities; $\Delta LDCL_{it}$ = change in long-term debt included in current liabilities; Dep_{it} = depreciation and amortization expenses; A_{t-1} = Total Assets in period t-1.

In order to estimate the nondiscretionary component of total accruals (TAC), the following formula was applied:

$$\frac{TACC_t}{A_{t-1}} = \alpha_1 \frac{1}{A_{t-1}} + \alpha_2 \frac{(\Delta REV_t - \Delta REC_t)}{A_{t-1}} + \alpha_3 \frac{PPE_t}{A_{t-1}} + \varepsilon_t$$

Total accruals (TAC) are regressed on the change in revenues (ΔREV) and the level of gross property, plant and equipment (PPE_{it}), scaled by lagged total assets (A_{t-1}), in order to avoid problems of heteroscedasticity. Using the estimates for the regression parameters, ($\hat{}\alpha 0$; $\hat{}\alpha 1$; $\hat{}\alpha 2$), each sample firm's non-discretionary accruals (NDCA) were estimated by adjusting change in sales for change in accounts receivable (ΔAR) to allow for the possibility that firms could have manipulated sales by changing credit terms (Dechow *et al.* 1996).

Discretionary accruals (DCA_{it}) for firm i in year t was calculated as the difference between Total Accruals and Non-discretionary Accruals:

$$\mathrm{DAC}_{it} = \frac{\mathrm{TAC}_{it}}{A_{i,t-1}} - \mathrm{NDCA}_{it}$$

Finally, Dechow et al. (1995) state that to test for earnings management the estimated discretionary accruals are regressed on the portioning variable PART, whose coefficient $\beta_i\hat{}$ provides a point estimate of the magnitude of the earnings management:

$$\text{DAP it} = \alpha_i\hat{} + \beta_i\hat{}\ \text{PART}_{it} + \varepsilon_{it}$$

where PART is a dummy variable taking the value of one for the period of IFRS compliance.

Data:

For the financial data, the main source used was the Osiris database. This was complemented with data from the Lima Stock Exchange (BVL), the Superintendence of the Securities Market (SMV), annual reports and audited financial statements (in cases where the data was incomplete). Data from 81 listed Peruvian corporations for the period between 2006 and 2016 (a total of 891 firm-year observations) were analyzed.

Discussion:

Table 4 (Panel A) shows that the coefficient β_1 for the PART variable is negative, which implies a decrease in earnings management; however, the value is statistically insignificant.

Insert Table 4 about here

When the pooled data from the period 2006 to 2016 was analyzed the mean value of discretionary accrual was statistically different from zero, which implies that Peruvian listed companies engage in some kind of earnings management. This conclusion is consistent with the first hypothesis. (See Table 4, Panel A.)

Moreover, the Modified Jones model was applied to analyze the change in earnings management in the three stages (see Table 4, Panel B). The figures show that there is earnings management in Peruvian corporations, but that the magnitude has been decreasing since the adoption of IFRS. In the Early Adoption period (2006 to 2009), the mean of Dicretionary Accruals is 0.1190. It then decreases to 0.0577 for the period of Actual Adoption (2010 to 2011), and again it slightly ecreases to 0.0571 for the period of Most Recent Compliance (2012 to 2016).

Finally, when the data was analyzed year by year (from 2006 to 2016, as a reference also 2017 and 2018 figures were included) a clear decrease in EM could be observed (notice the decrease in mean of discretionary accruals in Table 4 - Panel C). It is important to mention that these conclusions are similar to those of Timm and Santana (2014); however, the methodology used is different (different number of years, the same companies used in the sample for consistency).

Conclusions:

The main conclusions of this earnings management study are:

1) Peruvian corporations engage in some degree of earnings management;
2) Although there is a slight positive effect on earnings management (a decrease, measured by level of discretionary accruals), this effect is not statistically significant enough to state that the impact of IFRS on earnings management in Peru has been significant. Thus, consistent with Houqe *et al.* (2012), we conclude that IFRS per se does not lead to improved quality of earnings reporting.

Study 2: Value Relevance

The purpose of this study was to evaluate the effect of the IFRS on accounting quality using value relevance as an earnings quality construct.

Model:

The Ohlson model (1995) is based on the traditional belief that company value is composed of two main parts: the net value of the investment made in the company (book value), and the present value of the period benefits (earnings) that together make up the “clean surplus” concept of the value of shareholders’ equity. More specifically, Ohlson (1995) motivates the adoption of the historical price model in value relevance studies, which expresses value as a function of earnings and book value.

Book value and earnings perform a central reference role in the company valuation process. However, the way that both variables impact price behavior in the market remains an unanswered question. In this study, a variation of the Ohlson model was applied.

Methodology

Accounting quality is most often measured using value relevance models by regressing stock prices (or returns) and accounting figures. The Ohlson Model is applied for the three stages:

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \varepsilon_{it} \qquad (0)$$

where P_{it} is the share Price of firm i (three months after the end of the Fiscal Year t), BVE_{it} is Book Value per Share of firm i at the end of year t, and EPS_{it} is Earnings per Share of firm i at the end of year t.

Additionally, the following formula was applied:

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 CF_{it} + \varepsilon_{it} \qquad (1)$$

where Cash Flow per share (CF) is also taken into consideration.

Following Liu *et al.* (2012), the value relevance difference between the first two stages (Early Adoption and Actual Adoption) and between the first and third stages (Early Adoption and Most Recent Compliance) are also tested, with coefficient estimates for the interaction terms, as suggested by Hope (2007). The equations are:

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Post_{it} + \beta_4 BVE_{it} * Post_{it} + \beta_5 EPS_{it} * Post_{it} + \varepsilon_{it} \qquad (2)$$

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Prior_{it} + \beta_4 BVE_{it} * Prior_{it} + \beta_5 EPS_{it} * Prior_{it} + \varepsilon_{it} \qquad (3)$$

Additionally, the following formulas were applied to take Cash Flow per Share into account:

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Post_{it} + \beta_4 BVE_{it} * Post_{it} + \beta_5 EPS_{it} * Post_{it} + \beta_6 CF_{it} + \beta_5 CF_{it} * Post_{it} + \varepsilon_{it} \quad (4)$$

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Prior_{it} + \beta_4 BVE_{it} * Prior_{it} + \beta_5 EPS_{it} * Prior_{it} + \beta_6 CF_{it} + \beta_5 CF_{it} * Prior_{it} + \varepsilon_{it} \quad (5)$$

where Post is a dummy variable taking the value of one for the period 2010–11 and zero for the period 2006–09 in comparing the first and second stages of IFRS). Prior is a dummy variable taking the value of one for the period 2010–11 in comparing the second and third stages of IFRS.

Data:

The sample selected was of Peruvian firms and covered the years 2006–2016. All necessary data were obtained from the Osiris database, complemented with data from the Lima Stock Exchange, the companies' annual reports, and other financial data. Consistent with Easton and Sommers (2003), in order to avoid scale effect in the regression of price per share, "per share" financial statement variables were used (cash per share, earnings per share, and book value of equity per share).

The same companies used for the Earnings Management study were analyzed in this Value Relevance study, except for firms which didn't have a quoted market price. This reduced the number of companies from 81 to 69. Thus, a total of 759 firm-years were covered for this research. All Peruvian companies in the S&P/BVL Peru General Index were included in the analysis.

Discussion

Table 5, Panels A to D, provides the empirical results of the value relevance comparison. The findings reveal that IFRS adoption had no significant impact on value relevance.

Panel A of Table 5 shows the results of the Value Relevance analysis comparing the Early Adoption and Actual Adoption periods. None of the parameters are statistically significant and the R^2 is very low, implying that IFRS adoption had no significant impact on value relevance.

Panel B of Table 5 shows the results of the Value Relevance analysis comparing the Actual Adoption and Most Recent Compliance periods. There is a significant increase of the coefficient β_5 for BVE_{it} x $PRIOR_{it}$, implying that Book Value per Share has a stronger positive explanation power for stock price. However, the results for all the variables are still not statistically significant.

Panels C and D of Table 5 show the results of the Value Relevance analysis including the variable Cash Flow per Share (CF). In Panel C we see that although the coefficients β_4 for BVE_{it} x $POST_{it}$ and β_7 for CF_{it} x $POST_{it}$ show a positive explanation power for stock price, implying an increase in Value Relevance from the Early Adoption to the Actual Adoption period, still these figures are not statistically significant. Panel D shows the results of the Value

Relevance analysis (including Cash Flow per Share) from the Actual Adoption period to the Most Recent Compliance period; again the results are not statistically significant.

Finally, Panels E and F of Table 5 show the results for the entire period of analysis (from 2006 to 2016). As the R^2 and the coefficients are not statistically significant, no strong conclusions can be reached.

Insert Table 5 about here

Conclusions:

This study complements previous studies by Ndubizu and Sanchez (2006), Liu et al. (2012), and Martínez, P. *et al.* (2012), which cover different periods (1994 to 1999, 2002 to 2009, and 1999 to 2007, respectively). It reaches a different conclusion from Liu *et al.* (2012) regarding the value relevance of accounting numbers in the period following the early adoption of IFRS in Peru: this study's results suggest that mandatory IFRS adoption in Peru had no significant impact on value relvance.

10. Discussion and Analysis

The interviews of main stakeholders and surveys of listed companies carried out in this research project strongly suggest that the mandatory adoption of IFRS has contributed to improving accounting quality and corporate governance in Peruvian corporations. However, the two studies using secondary data from the Osiris database and other sources do not find that IFRS adoption had a significant impact on either earnings management or value relevance, and consequently, on corporate governance, in Peru.

In order to understand the low coefficients of the Post variable, which imply that the implementation of the IFRS had no effect on earnings management or value relevance in accounting data, the following analysis was performed.

For all of the companies in the sample, annual reports and other financial information, including the Auditors Report, were examined in order to ascertain exactly when each company adopted IFRS and which firm issued the audit opinion.

As can be seen in Figure 5, more than 95% of the companies (77 corporations) adopted IFRS in 2011, the year it was mandated in CONASEV Resolution No. 102-2010.

Moreover, as Figure 5 shows, although the Big Four accounting firms (in the Peruvian case, the Big Five, as BDO also has a significant market share) did most of the auditing, a number of smaller local firms also provided auditing services to some listed companies. It should be noted that those smaller auditing firms provided their services to relatively smaller Peruvian companies.

Insert Figure 5 about here

Using the data from each of the sample companies, an analysis of the effect of the transition from Peruvian GAAPs to IFRS (conciliation between Peruvian GAAPs and IFRS) was also performed, measuring the difference using two key accounting figures: Shareholders' Equity and Net Income (see Table 6)

Insert Table 6 about here

As can be seen in Table 6, the majority of the companies—52 out of 80, or 65% for Shareholders' Equity; 55 out of 80, or 69% for Net Income—changed the values of Shareholders' Equity and/or Net Income by less than 15% as a result of transitioning from Peruvian GAAPs to IFRS. Some companies, such as Empresa Siderurgica del Peru, Michell, and Perubar, did not change these values at all since they were already fully complying with IFRS at the time of CONASEV Resolution No. 102-2010.

At first sight it might be wrongly inferred that there is little difference between Peruvian GAAPs and IFRS since some companies didn't change their values for these two accounting measurements by very much.

However, a deeper look reveals that—as per the interview with the Supervisor from the SMV (formerly CONASEV, see Appendix 2)—Peruvian companies started compliance with IFRS after 2005, but compliance was neither full nor uniform. Some companies, especially those that were audited by Big Four / Big Five firms, started applying IFRS in 2005, or earlier, but compliance was not complete. For example, the consolidated financial statements as of December 31, 2011 for Austral Group SAA, audited by PWC, state:

> In 2005, the parent of the group instructed its subsidiaries to prepare the statement of financial position of opening of conversion to IFRS as of January 1, 2004 in order to

prepare their first consolidated financial statements in accordance with IFRS. Because of the adoption of IFRS for the first time by its parent company, Austral adjusted its accounting records to IFRS. In this regard, Austral issued financial statements for local purposes incorporating the IFRS adjustments since January 2004, which the company denominated "prepared in accordance with Peruvian GAAPs" disclosing in the notes to the financial statements the information that did not fully comply with the requirements of IFRS. In this respect, in compliance with IFRS 1 - First-time Adoption of International Financial Reporting Standards, Paragraph 3, a.1, the financial statements as of December 31, 2011 are the first financial statements prepared in accordance with the IFRS due to the fact that the Group has recently made an explicit and unqualified declaration of compliance with those standards in the preparation of their individual financial statements as of December 31, 2011.

Many companies complied with IFRS but with key exceptions for some specific accounts, such as PP&E and income taxes (specifically, deferred taxes). This indicates that there were some significant differences between Peruvian GAAPs and IFRS. Because some IFRS standards were difficult to comply with or compliance would severely affect the company’s financial situation, some companies applied tax regulation or other rules that were not consistent with IFRS.

The following conclusions can be reached from analyzing Table 6:

1) The adoption of IFRS substantially affected the financial and economic position of some listed Peruvian companies. The effect can clearly be observed in the cases of Immobiliaria Milenia and SEDAPAL. Table 6 shows a large change in the values for Equity and Net Income due to the change from Peruvian GAAPs to IFRS for companies such as SEDAPAL (Servicio de Agua Potable y Alcantarillado de Lima), which was not able to adopt IFRS in 2011 as legally prescribed: the transition to IFRS increased SEDAPAL’s Equity by more than 80% and its Net Income by 4,750%.

2) The effect of full IFRS adoption was recognized in different years by different Peruvian companies. Some companies gradually recognized the effect from 2006, or as late as 2011. Some companies were unable to adopt IFRS by 2011, for example, SEDAPAL recognized the effect in 2012 and Empresa Regional de Servicio Publico de Electricidad de Puno in 2013.

3) The Peruvian GAAPs that Peruvian companies were complying with prior to IFRS were not uniform or standardized across companies. For example, biological assets were measured

according to their fair value, but there were a number of different criteria used in the industry to determine fair value. Regarding PP&E, many companies depreciated their fixed assets using their useful life according to the tax regulations or did not separate depreciation according to asset category. However, these “rules” were not uniform across companies.

Consequently, the Peruvian case is peculiar because the accounting standards used before adoption of IFRS in 2011 (Peruvian GAAPs) were a mixture of IFRS and tax regulations, and while some companies, especially those that were audited by Big Four / Big Five firms, complied with most of the IFRS before 2006, many other companies were audited by smaller firms and complied much later. Moreover, many companies that were complying in some degree with IFRS prior to 2006 began to strengthen their IFRS compliance in the period between 2006 and 2010.

This situation—especially the fact that the exact year and degree of IFRS adoption varied from company to company (see Table 6) and precisely determining the year and degree of compliance is not straightforward—presents difficulties for statistical analysis. If, as in the case of Germany for example, pre-IFRS accounting practices had been standardized and IFRS adoption had been uniform, statistical analysis could be applied more easily. But because of the complexity of the Peruvian case, the models utilized in this study to research accounting quality in the form of Earnings Management and Value Relevance will not provide clear evidence of the actual effect of the IFRS adoption on accounting quality.

Moreover, the IFRS “hard law”—use of IFRS is mandatory for listed companies in Peru—has been complemented with a “soft law”—as it is called by Aguilera and Jackson (2010) —mechanism related to corporate governance, exemplified by the Principles of Good Governance for Peruvian Companies issued in 2002 and its successor, the 2013 Code of Good Corporate Governance for Peruvian Companies. Compliance with the Code is not mandatory (although listed companies are required to report their *level* of compliance). Thus, although companies must include a Report on Compliance with the Code of Good Corporate Governance for Peruvian companies when they submit their financial statements (as required by IFRS), good corporate governance remains optional, as the SMV cannot apply sanctions to companies that fail to comply with the Code (Tavara, 2016). This is a very important issue related to the quality of corporate governance in Peru.

In connection with this, the superintendent of the SMV stated in an interview: “There are issues around good corporate governance that have given us headaches. I would say that they seriously make us reflect on whether it is correct to have a good but optional corporate governance code, or if, as in other countries, we should take out the whip and make compliance mandatory by law so that there are no cases reported in the press of the rights of minority shareholders or other types of shareholders being trampled upon."

Regretfully, although improvement has been made in corporate governance in Peru through the preparation of the financial statements in compliance with IFRS and the mandatory filling of the Report on Compliance with the Code of Good Corporate Governance for Peruvian Companies, corporate governance in Peru is still in an early stage. When compared with the Chile, Colombia, and Mexico—which together with Peru make up the Pacific Alliance, a Latin American trade bloc—Peru ranks lowest in good corporate governance (EY Peru, 2017).

EY and the Lima Stock Exchange (BVL) have since 2014 conducted an annual survey called *"La Voz del Mercado"* (The Market's Voice), a unique tool that enables capital market agents to assess the quality of the corporate governance of stock and debt issuers in Peru. This tool earned public recognition from the OECD in its recent publication, Strengthening Corporate Governance Codes in Latin America (September 2016). The survey has identified deficiencies in regulatory requirements for three levels of governance in Peruvian companies: general shareholders' meetings, boards of directors, and general manager's offices (EY Peru, 2017).

Consequently, Peruvian regulators and authorities should work to further improve corporate governance practices of corporations, as there is plenty of evidence of their benefits. For example, on the Lima Stock Exchange (BVL), as of the end of 2016, the Good Corporate Governance Index (GCGI), which reflects the behavior of securities issued by firms that adequately comply with the Good Corporate Governance Principles, outperformed the S&P/BVL Peru General Index (which groups the most liquid companies listed on the exchange) by 30%.

Insert Figure 6 about here

On the other hand, although a number of measures have been taken in recent years by regulatory authorities to promote good corporate governance—these include approval of the

Corporate Sustainability Report, which complements the information contained in the Code of Good Corporate Governance (2015); publication of new regulations on Indirect Property, Related Companies, and Economic Groups (2015); the enactment of regulations concerning Comprehensive Risk Management and Operational Risk (2016); and new SBS regulations on Corporate Governance and Comprehensive Risk Management (2017)—a number of challenges remain (EY Peru, 2017). To address these, Peru's regulatory authorities should focus on the following: quality of information; quality and independence of boards of directors; respect for minority rights; and conflicts of interest of related parties. (See Appendeces 3 and 4 for a summary of conclusions based on the EY and Lima Stock Exchange survey).

Finally, making compliance with the Code mandatory for listed companies should be seriously considered.

11. Conclusions

The key conclusions from this research are as follows. Primary data analysis provides evidence that the official implementation of IFRS has helped to improve the quality of accounting data in Peru. This is because IFRS adoption clarified and standardized accounting standards, which had previously not been well-defined. On the other hand, secondary research suggests that IFRS adoption had no significant impact on either earnings management or value relevance, and consequently no significant impact on corporate governance.

Finally, although a number of mechanisms have been implemented to enhance corporate governance in Peru, there are still opportunities for improvement, especially considering Peru's low corporate governance ranking compared with other Pacific Alliance members. A number of proposals have been made with this in mind, including mandatory compliance with the Code of Good Corporate Governance for Peruvian Companies by listed companies and corresponding penalties for non-adherence to the Code's principles.

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Table 1: Accounting Standards in Peru

Type of company	Institution that sets/makes official the standards	Accounting standards
Financial company	SBS	SBS own accounting standards
Non-financial listed company	IASB	IFRS
Private company	CNC	IFRS approved by the CNC
SME	CNC	IFRS for SMEs

Note: A group of financial companies (including Credicorp, Interbank, etc.) who are under the supervision the SMV follow the IFRS as the accounting standards

Table 2: Accounting Firms and Listed Clients (Number and Percentage) in 2018

Row Labels	Number of companies	Percentage
PAREDES, ZALDIVAR, BURGA & ASOCIADOS S.CIVIL.DE R.L./EY	39	37.86%
GAVEGLIO APARICIO Y ASOCIADOS / PWC	32	31.07%
DELOITTE BELTRAN GRIS Y ASOCIADOS S. CIVIL.DE R.L.	8	7.77%
PAZOS LOPEZ DE ROMANA RODRIGUEZ /BDO	5	4.85%
KPMG	4	3.88%
GRANT THORNTON /DEMICHELLI SARRIO & ASOCIADOS S.C	2	1.94%
H.OLANO & ASOCIADOS SOCIADAD CIVIL	2	1.94%
SALAS Y SALAS ASOCIADOS S.C AUDITORES Y CONSULTORES	1	0.97%
DALL'ORSO MERTZ ASOCIADOS CONTADORES PUBLICOS S.C.	1	0.97%
GALVEZ, GARCIA GODOS, AUDITORES & ASOCIADOS	1	0.97%
BAKER TILLY INTERNATIONAL	1	0.97%
RAMIREZ ENRIQUE Y ASOCIADOS	1	0.97%
FERNANDEZ & FARFAN ASOCIADOS AUDITORES YCONSULTORES S.C.	1	0.97%
VICTOR VARGAS & ASOCIADOS S.C.	1	0.97%
OTERO, CARBO & ASOCIADOS S.C.	1	0.97%
GOVEA VILLENA	1	0.97%
FLORES KONJA, FLORES Y ASOCIADOS S. CIVIL DE R.L.	1	0.97%
PORTAL VEGA Y ASOCIADOS	1	0.97%
Grand Total	**103**	**100.00%**

Table 3: List of the Interviewees

#	Institution	Position
	Regulators and other institutions	
1	Accounting Standards Council / General Direction of Public Accounting	President / General Director
2	Superentendency of Securities Markets	Supervisor
3	SUNAT (Peru's Tax Agency)	Manager - Division of Virtual Formation
4	Lima's Professional Accounting Associations (CCPL)	Dean
	Auditing Firms	
#	**Institution**	**Position**
5	EY	Leader Partner
6	PWC	Partner
7	Deloitte	Partner
	Deloitte	Partner
8	BDO	Partner
9	KPMG	Director, Accounting Advisory Sevices
10	Espinoza & Associates	Partner
11	Monzon, Valdivia, Falconi & Associates	Partner
	Universities	
#	**Institution**	**Position**
12	Pontifical Catholic University of Peru - School of Accounting Sciences	Dean
13	Pontifical Catholic University of Peru - Department of Managerial Sciences	Head
14	National University of San Marcos	Dean
15	University of the Pacific	Professors
16	National University of Callao	Dean
17	University Ricardo Palma	Dean
	Other Relevant Stakeholders	
#	**Institution**	**Position**
18	Rubio, Leguia & Normand (Top law firm)	Partner
19	Latinoamericana de Gerencia (Top accounting firm)	Socio Director

Table 4: Discretionary Accruals

Panel A: Earnings Management estimation for the whole research period

$$DAP_{it} = \alpha_i\hat{} + \beta_i\hat{}\ PART_{it} + \varepsilon_{it}$$

	Parameter	SE	t value	p
Intercept	0.09953	0.006526528	15.25011705	<.0001
PART	-0.03294	0.0088552	-3.719726559	0.000211947
Adjusted R^2	0.0153			
N	891			

Panel B: DAC

Modified Jones Model: Descriptive Statistics	Pooled Data 2006-2016	
	Mean	**Standard Deviation**
ABS [DAC]	0.0816	0.1326

Sample Size: N = 81 companies per year

Panel C: DAC

Modified Jones Model: Descriptive Statistics	2006-2009 EarlyAdoption		2010-2011 Actual Adoption		2012-2016 Most Recent Compliance	
	Mean	**Standard Deviation**	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**
ABS [DAC]	0.1190	0.1967	0.0577	0.0641	0.0571	0.0594

Sample Size: N = 81 companies per year

Panel D: Annual DAC

ABS [DAC]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Mean	0.148	0.115	0.251	0.100	0.104	0.067	0.071	0.064	0.054	0.060	0.066	0.086	0.075
Median	0.106	0.064	0.196	0.082	0.087	0.041	0.055	0.054	0.032	0.048	0.043	0.051	0.061
Standard Deviation	0.182	0.170	0.274	0.106	0.091	0.068	0.063	0.049	0.062	0.053	0.060	0.099	0.063

Table 5. Value Relevance Regression Results

Panel A: Price model: First and Second Stage (From Early Adoption to Actual Adoption)

$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Post_{it} + \beta_4 BVE_{it} * Post_{it} + \beta_5 EPS_{it} * Post_{it} + \varepsilon_{it}$ (2)

	Parameter	SE	t value	p
Intercept	1.9225	0.3710	5.1823	<.0001
BVE	0.1979	0.0346	5.7213	<.0001
EPS	0.0571	0.2696	0.2117	0.8324
POST	(0.1356)	0.9181	(0.1477)	0.8826
BVE X POST	0.2101	0.0939	2.2381	0.0258
EPS X POST	(0.1017)	0.8601	(0.1182)	0.9059
Adjusted R^2	0.2975			
N	414			

Panel B: Price model: Second and Third Stage (From Actual Adoption to Most Recent Compliance)

${}_2EPS_{it} + \beta_3 Prior_{it} + \beta_4 BVE_{it} * Prior_{it} + \beta_5 EPS_{it} * Prior_{it} + \varepsilon_{it}$ (3)

	Parameter	SE	t value	p
Intercept	1.8711	0.8043	2.3264	<.0001
BVE	0.4140	0.0649	6.3795	<.0001
EPS	(0.5032)	0.5773	(0.8716)	0.3839
PRIOR	(0.5853)	0.8660	(0.6758)	0.4995
BVE X PRIOR	(0.2446)	0.0700	(3.4956)	0.0005
EPS X PRIOR	0.8590	0.6347	1.3534	0.1766
Adjusted R^2	0.3146			
N	483			

Panel C: Price model: First and Second Stage (From Early Adoption to Actual Adoption) with CF

$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Post_{it} + \beta_4 BVE_{it} * Post_{it} + \beta_5 EPS_{it} * Post_{it} + \beta_6 CF_{it} + \beta_7 CF_{it} * Post_{it} + \varepsilon_{it}$ (4)

	Parameter	SE	t value	p
Intercept	1.9145	0.3701	5.1726	<.0001
BVE	0.1976	0.0345	5.7289	<.0001
EPS	0.0265	0.2732	0.0972	0.9226
POST	0.0054	0.9180	0.0058	0.9953
BVE X POST	0.2113	0.0936	2.2568	0.0246
EPS X POST	(0.4341)	0.8781	(0.4944)	0.6213
CF	0.0194	0.0310	0.6251	0.5323
CF X POST	0.3127	0.1696	1.8436	0.0660
Adjusted R^2	0.3049			
N	414			

Panel D: Price model: Second and Third Stage (From Actual Adoption to Most Recent Compliance) with CF

$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Prior_{it} + \beta_4\ BVE_{it} * Prior_{it} + \beta_5\ EPS_{it} * Prior_{it} + \beta_6 CF_{it} + \beta_7\ CF_{it} * Prior_{it} + \varepsilon_{it}$ (5)

	Parameter	SE	t value	p
Intercept	1.8674	0.7992	2.3367	0.0199
BVE	0.4169	0.0657	6.3402	<.0001
EPS	(0.5812)	0.6741	(0.8623)	0.3890
PRIOR	(0.5869)	0.8604	(0.6821)	0.4955
BVE X PRIOR	(0.2545)	0.0708	(3.5967)	0.0004
EPS X PRIOR	0.5789	0.7338	0.7889	0.4306
CF	0.0229	0.1037	0.2204	0.8256
CF X PRIOR	0.3853	0.1753	2.1985	0.0284
Adjusted R^2	0.3265			
N	483			

Panel E: Price model: Whole research period (From 2006 to 2016)

$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Post_{it} + \beta_4\ BVE_{it} * Post_{it} + \beta_5\ EPS_{it} * Post_{it} + \varepsilon_{it}$ (2)

	Parameter	SE	t value	p
Intercept	1.9225	0.3319	5.7924	<.0001
BVE	0.1979	0.0310	6.3948	<.0001
EPS	0.0571	0.2412	0.2366	0.8130
POST	(0.6366)	0.4515	(1.4101)	0.1589
BVE X POST	(0.0286)	0.0398	(0.7183)	0.4728
EPS X POST	0.2988	0.3485	0.8574	0.3915
Adjusted R^2	0.2461			
N	759			

Panel F: Price model: Whole research period (From 2006 to 2016) with CF

$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \beta_3 Prior_{it} + \beta_4\ BVE_{it} * Prior_{it} + \beta_5\ EPS_{it} * Prior_{it} + \beta_6 CF_{it} + \beta_7\ CF_{it} * Prior_{it} + \varepsilon_{it}$ (4)

	Parameter	SE	t value	p
Intercept	1.9145	0.3304	5.7940	<.0001
BVE	0.1976	0.0308	6.4173	<.0001
EPS	0.0265	0.2439	0.1089	0.9133
POST	(0.6340)	0.4493	(1.4109)	0.1587
BVE X POST	(0.0353)	0.0396	(0.8897)	0.3739
EPS X POST	(0.0289)	0.3690	(0.0783)	0.9376
CF	0.0194	0.0277	0.7002	0.4840
CF X POST	0.3888	0.1377	2.8227	0.0049
Adjusted R^2	0.2557			
N	759			

Table 6

Effect Transition from Peruvian GAAPs to IFRS on the Net Income

IFRS officially adopted in	Company name	Peruvian GAAPs	Effect Transition to IFRS	IFRS	% Change	Absolute Value %	Auditing Firm
2011	ADMINISTRADORA DEL COMERCIO S.A.	-6,165	-505	-6,670	8.2%	8.2%	BDO
2011	AGRO INDUSTRIAL PARAMONGA S.A.A.	57,213	9,224	66,437	16.1%	16.1%	PWC
2011	ALICORP S.A.A.	289,040	-4,129	284,911	-1.4%	1.4%	Deloitte
2011	AUSTRAL GROUP S A A (PERU)	43,056	0	43,056	0.0%	0.0%	PWC
2011	BAYER S. A. (PERU)	27,941	0	27,941	0.0%	0.0%	PWC
2011	CARTAVIO S.A.A.	80,895	15,956	96,851	19.7%	19.7%	PWC
2011	CASA GRANDE S.A.A.	235,639	47,624	283,263	20.2%	20.2%	PWC
2011	CEMENTOS PACASMAYO S.A.A.	207,577	-59,642	147,935	-28.7%	28.7%	EY
2011	CENTRAL AZUCARERA CHUCARAPI - PAMPA BLANCA S.A.	-2,955	-119	-3,074	4.0%	4.0%	Gomez, Diaz, Rios & Asociados
2011	CERVECERIA SAN JUAN S.A.	521,605	-33,121	488,484	-6.3%	6.3%	PWC
2011	COMPANIA DE MINAS BUENAVENTURA S.A.	727,373	-2,484	724,889	-0.3%	0.3%	EY
2011	COMPANIA GOODYEAR DEL PERU S.A.	38,204	-62	38,142	-0.2%	0.2%	PWC
2011	COMPANIA MINERA ATACOCHA S.A.	-21,264	-4,212	-25,476	19.8%	19.8%	PWC
2011	COMPANIA MINERA MILPO S A A (NEXA)	141,913	-20,366	121,547	-14.4%	14.4%	PWC
2011	COMPANIA MINERA PODEROSA S.A.	80,270	4,052	84,322	5.0%	5.0%	PWC
2011	COMPAÑIA MINERA SAN IGNACIO DE MOROCOCHA S.A.A.	5,773	-6,423	-650	-111.3%	111.3%	PWC
2011	COMPANIA MINERA SANTA LUISA S.A.	21,906	1,056	22,962	4.8%	4.8%	Govea Millena
2011	COMPANIA UNIVERSAL TEXTIL S.A.	1,240	116	1,356	9.4%	9.4%	KPMG
2011	CORPORACION ACEROS AREQUIPA S.A.	149,493	14,273	163,766	9.5%	9.5%	PWC
2011	CORPORACION CERAMICA S.A.	77,761	-2,805	74,956	-3.6%	3.6%	EY
2011	CORPORACION CERVESUR S.A.A.	35,672	1,199	36,871	3.4%	3.4%	EY
2011	CORPORACION LINDLEY S.A.	37,658	6,453	44,111	17.1%	17.1%	EY
2011	ELECTRO DUNAS S.A.A.	8,373	-2,015	6,358	-24.1%	24.1%	Deloitte
2011	EMPRESA AGRARIA CHIQUITOY S.A.	1,768	21,011	22,779	1188.4%	1188.4%	PWC
2011	EMPRESA AGRICOLA SAN JUAN S.A.	4,557	524	5,081	11.5%	11.5%	PWC
2011	EMPRESA AGRICOLA SINTUCO S.A.	4,439	5,478	9,917	123.4%	123.4%	PWC
2011	EMPRESA AGROINDUSTRIAL CAYALTI S.A.A.	2,738	96	2,834	3.5%	3.5%	EY
2011	EMPRESA AGROINDUSTRIAL LAREDO S.A.A	31,543	23,882	55,425	75.7%	75.7%	Deloitte
2011	EMPRESA AGROINDUSTRIAL POMALCA S.A.A.	9,673	728	10,401	7.5%	7.5%	Baker Tilly Peru
2011	EMPRESA AZUCARERA 'EL INGENIO' S.A.	1,731	0	1,731	0.0%	0.0%	Flores, Konja & Asociados
2011	EMPRESA DE DISTRIBUCION ELECTRICA DE LIMA NORTE S.A.A. - EDELNOR S.A.A. - ENEL	191,316	544	191,860	0.3%	0.3%	EY
2011	EMPRESA DE ELECTRICIDAD DEL PERU - ELECTROPERU SA	206,325	3,154	209,479	1.5%	1.5%	PFK
2011	EMPRESA DE GENERACION ELECTRICA SAN GABAN S.A.	12,736	-671	12,065	-5.3%	5.3%	Vigo & Asociados
2011	EMPRESA EDITORA EL COMERCIO S.A.	112,418	51,017	163,435	45.4%	45.4%	PWC
2013	EMPRESA REGIONAL DE SERVICIO PUBLICO DE ELECTRICIDAD DE PUNO SOCIEDAD ANONIMA DE ABIERTA	11,974	-3,454	8,520	-28.8%	28.8%	EY
2011	EMPRESA REGIONAL DE SERVICIO PUBLICO DE ELECTRICIDAD ELECTRONORTE MEDIO S.A.- HIDRANDINA	38,133	-5,203	32,930	-13.6%	13.6%	Espinoza $ Asociados
2011	EMPRESA SIDERURGICA DEL PERU S.A.A.	67,826	0	67,826	0.0%	0.0%	Deloitte
2011	ENEL GENERACION PERU SAA	206,140	-4,565	201,575	-2.2%	2.2%	KPMG
2011	ENERGIA DEL SUR S.A. (ENGIE)	81,055	-444	80,611	-0.5%	0.5%	Deloitte
2011	EXSA S.A.	21,783	3,089	24,872	14.2%	14.2%	EY
2011	FABRICA PERUANA ETERNIT S.A.	19,108	528	19,636	2.8%	2.8%	EY
2011	FALABELLA PERU S.A.A.	356,029	5,763	361,792	1.6%	1.6%	EY
2011	FERREYCORP S.A.A.	138,950	-17,583	121,367	-12.7%	12.7%	EY
2011	FILAMENTOS INDUSTRIALES S.A.	16,078	-5,713	10,365	-35.5%	35.5%	EY
2011	GR HOLDING S.A.	-20,906	-11,930	-32,836	57.1%	57.1%	BDO
2011	GRANA Y MONTERO S.A.A.	273,542	-20,740	252,802	-7.6%	7.6%	PWC
2011	HIDROSTAL S.A.	6,683	37	6,720	0.6%	0.6%	BDO
2011	INDECO S.A.	12,994	-45	12,949	-0.3%	0.3%	PWC
2011	INDUSTRIAS DEL ENVASE S.A.	9,000	-505	8,495	-5.6%	5.6%	PWC
2011	INDUSTRIAS ELECTRO QUIMICAS S.A. IEQSA	9,628	1,829	11,457	19.0%	19.0%	PWC
2011	INMOBILIARIA MILENIA S.A.	4,178	4,646	8,824	111.2%	111.2%	EY
2011	INTRADEVCO INDUSTRIAL S.A.	31,347	6,944	24,403	22.2%	22.2%	Otero, Carbo & Asociados S.C.
2011	INVERSIONES CENTENARIO S.A.A.	70,501	72,962	143,463	103.5%	103.5%	PWC
2011	INVERSIONES EN TURISMO S.A. INVERTUR	654	59	713	9.0%	9.0%	Victor Vargas & Asociados
2011	INVERSIONES NACIONALES DE TURISMO S.A.	-28,226	2,984	-25,242	-10.6%	10.6%	EY
2011	LECHE GLORIA S.A.	180,919	15,508	196,427	8.6%	8.6%	PWC
2011	LIMA CAUCHO S.A.	4,404	0	4,404	0.0%	0.0%	BDO
2011	LOS PORTALES S.A.	30,657	6,841	37,498	22.3%	22.3%	PWC
2011	LUZ DEL SUR S.A.C	292,923	-165	292,758	-0.1%	0.1%	Deloitte
2011	MANUFACTURA DE METALES Y ALUMINIO RECORD S.A.	2,352	-407	1,945	-17.3%	17.3%	Grant Thornton
2011	METALURGICA PERUANA S.A - MEPSA	10,632	1,130	11,762	10.6%	10.6%	BDO
2011	MICHELL Y CIA. S.A.	13,314	0	13,314	0.0%	0.0%	IGAF Polaris
2011	MINSUR S.A.	12,227	0	12,227	0.0%	0.0%	EY
2011	MOTORES DIESEL ANDINOS SA	58,912	462	59,374	0.8%	0.8%	PWC
2011	PERUBAR S.A.	6,301	0	6,301	0.0%	0.0%	Deloitte
2011	QUIMPAC S.A.	80,195	1,636	81,831	2.0%	2.0%	PWC
2011	RED BICOLOR DE COMUNICACIONES S.A.A.	815	-204	611	-25.0%	25.0%	Mendoza, Luque y Asociados
2011	REFINERIA LA PAMPILLA S.A.A.	43,981	0	43,981	0.0%	0.0%	Deloitte
2012	SERVICIO DE AGUA POTABLE Y ALCANTARILLADO DE LIMA	59,510	2,830,012	2,889,522	4755.5%	4755.5%	Gutierrez, Rios y Asociados
2011	SHOUGANG GENERACION ELECTRICA S.A.A.	5,023	857	5,880	17.1%	17.1%	PWC
2011	SHOUGANG HIERRO PERU SAA	818,483	24,554	843,037	3.0%	3.0%	PWC
2011	SOCIEDAD ELECTRICA DEL SUR OESTE S.A.	25,258	1,116	26,374	4.4%	4.4%	Vigo & Asociados
2011	SOCIEDAD MINERA CERRO VERDE S.A.	1,054,423	19,970	1,074,393	1.9%	1.9%	EY
2010	SOCIEDAD MINERA EL BROCAL S.A.A.	80,228	1,718	81,946	2.1%	2.1%	EY
2011	SOUTHERN PERU COPPER CORPORATION - SUCURSAL DEL PERU	1,207,969	-7,264	1,200,705	-0.6%	0.6%	Deloitte
2011	SUPERMERCADOS PERUANOS S.A.	53,235	997	54,232	1.9%	1.9%	EY
2011	TELEFONICA DEL PERU S.A.A.	856,933	-83,487	773,446	-9.7%	9.7%	EY
N/A	TRANSACCIONES FINANCIERAS SA	N/A	N/A	N/A	N/A	N/A	N/A
2011	UNION ANDINA DE CEMENTOS S.A.A. - UNACEM S.A.A.	177,782	43,725	221,507	24.6%	24.6%	EY
2011	UNION DE CERVECERIAS PERUANAS BACKUS Y JOHNSTON S.A.A	521,605	-33,121	488,484	-6.3%	6.3%	PWC
2011	VOLCAN, COMPANIA MINERA S.A.A.	272,240	-18,826	253,414	-6.9%	6.9%	BDO
	Number of companies with variations < 15%			55		**Companies < 10%**	48
	Number of companies with variations > 15%			25		**Companies >10%**	32

Effect Transition to IFRS on the Shareholders' Equity

Company name	Peruvian GAAPs	Effect Transition to IFRS	IFRS	% Change	Absolute Value %	Currency	Main Assets and Liabilities affected in the Conciliation Peruvian GAAPs - IFRS
ADMINISTRADORA DEL COMERCIO S.A.	12,457	1,145	13,602	9.2%	9.2%	S/.1,000	Accounts Receivables, Inventory
AGRO INDUSTRIAL PARAMONGA S.A.A.	347,596	164,414	512,010	47.3%	47.3%	S/.1,000	PP&E, Biological Assets, Deferred Taxes
ALICORP S.A.A.	1,699,068	73,542	1,772,610	4.3%	4.3%	S/.1,000	PP&E, Accounts Receivables, Inventory
AUSTRAL GROUP S A A (PERU)	610,096	0	610,096	0.0%	0.0%	S/.1,000	
BAYER S. A. (PERU)	180,008	0	180,008	0.0%	0.0%	S/.1,000	
CARTAVIO S.A.A.	394,090	32,139	426,229	8.2%	8.2%	S/.1,000	PP&E, Investments, Deferred Taxes
CASA GRANDE S.A.A.	993,153	-18,372	974,781	-1.8%	1.8%	S/.1,000	PP&E, Biological Assets, Deferred Taxes
CEMENTOS PACASMAYO S.A.A.	782,475	79,195	861,670	10.1%	10.1%	S/.1,000	PP&E, Investments, Deferred Taxes
CENTRAL AZUCARERA CHUCARAPI - PAMPA BLANCA S.A.	67,020	-3,198	63,822	-4.8%	4.8%	S/.1,000	PP&E, Investments, Deferred Taxes
CERVECERIA SAN JUAN S.A.	1,821,758	157,628	1,979,386	8.7%	8.7%	S/.1,000	PP&E, Deferred Taxes
COMPANIA DE MINAS BUENAVENTURA S.A.	2,844,086	1,251	2,845,337	0.0%	0.0%	US$1,000	Investments in Associated. Other Investments
COMPANIA GOODYEAR DEL PERU S.A.	272,487	70,310	342,797	25.8%	25.8%	S/.1,000	PP&E, Deferred Taxes
COMPANIA MINERA ATACOCHA S.A.	179,748	-22,553	157,195	-12.5%	12.5%	US$1,000	PP&E, Deferred Taxes
COMPANIA MINERA MILPO S A A (NEXA)	546,012	-91,327	454,685	-16.7%	16.7%	US$1,000	PP&E, Intangibles, Deferred Taxes
COMPANIA MINERA PODEROSA S.A.	232,262	8,548	240,810	3.7%	3.7%	S/.1,000	PP&E, Intangibles, Deferred Taxes
COMPAÑIA MINERA SAN IGNACIO DE MOROCOCHA S.A.A.	115,658	31,011	146,669	26.8%	26.8%	S/.1,000	PP&E, Deferred Taxes
COMPANIA MINERA SANTA LUISA S.A.	192,701	11,348	204,049	5.9%	5.9%	S/.1,000	PP&E, Deferred Taxes
COMPANIA UNIVERSAL TEXTIL S.A.	121,433	26,612	148,045	21.9%	21.9%	S/.1,000	PP&E, Deferred Taxes
CORPORACION ACEROS AREQUIPA S.A.	1,004,389	154,441	1,158,830	15.4%	15.4%	S/.1,000	PP&E, Deferred Taxes
CORPORACION CERAMICA S.A.	375,119	305,503	680,622	81.4%	81.4%	S/.1,000	PP&E, Deferred Taxes
CORPORACION CERVESUR S.A.A.	767,430	63,838	831,268	8.3%	8.3%	S/.1,000	Inventory, Investments, Investments in Associates, Deferred Taxes
CORPORACION LINDLEY S.A.	586,182	102,660	688,842	17.5%	17.5%	S/.1,000	PP&E, Intangible, Deferred Taxes
ELECTRO DUNAS S.A.A.	244,968	1,038	246,006	0.4%	0.4%	S/.1,000	PP&E, Intangibles, Deferred Taxes, Provisions
EMPRESA AGRARIA CHIQUITOY S.A.	23,061	-7	23,054	0.0%	0.0%	S/.1,000	PP&E, Intangibles, Other Accounts Payables, Provisions
EMPRESA AGRICOLA SAN JUAN S.A.	72,794	-915	71,880	-1.3%	1.3%	S/.1,000	PP&E, Biological Assets, Inventory, Accounts Receivables, Deferred Taxes
EMPRESA AGRICOLA SINTUCO S.A.	41,306	15,695	57,001	38.0%	38.0%	S/.1,000	PP&E, Deferred Taxes
EMPRESA AGROINDUSTRIAL CAYALTI S.A.A.	36,428	3,396	39,824	9.3%	9.3%	S/.1,000	PP&E, Inventory
EMPRESA AGROINDUSTRIAL LAREDO S.A.A	321,408	179,332	500,740	55.8%	55.8%	S/.1,000	PP&E, Biological Assets, Inventory, Prepaid Expenses, Deferred Taxes
EMPRESA AGROINDUSTRIAL POMALCA S.A.A.	338,878	-239	338,639	-0.1%	0.1%	S/.1,000	Other Accounts Receivables
EMPRESA AZUCARERA 'EL INGENIO' S.A.	41,949	-46	41,903	-0.1%	0.1%	S/.1,000	Biological Assets, Deferred Taxes
EMPRESA DE DISTRIBUCION ELECTRICA DE LIMA NORTE S.A.A. - EDELNOR S.A.A. - ENEL	930,484	-2,697	927,787	-0.3%	0.3%	S/.1,000	PP&E, Intangibles, Inventry, Deferred Taxes
EMPRESA DE ELECTRICIDAD DE PERU - ELECTROPERU SA	2,186,966	324,257	2,511,223	14.8%	14.8%	S/.1,000	PP&E, Deferred Taxes
EMPRESA DE GENERACION ELECTRICA SAN GABAN S.A.	322,988	145	323,133	0.0%	0.0%	S/.1,000	Provisions, Deferred Taxes
EMPRESA EDITORA EL COMERCIO S.A.	302,633	327,850	630,483	108.3%	108.3%	S/.1,000	Investments, PP&E, Business Combinations, Deferred Taxes
EMPRESA REGIONAL DE SERVICIO PUBLICO DE ELECTRICIDAD DE PUNO SOCIEDAD ANONIMA DE ABIERTA	258,306	34,663	292,969	13.4%	13.4%	S/.1,000	PP&E, Inventory, Deferred Taxes, Provisions
EMPRESA REGIONAL DE SERVICIO PUBLICO DE ELECTRICIDAD ELECTRONORTE MEDIO S.A.-HIDRANDINA	898,111	-6,622	891,489	-0.7%	0.7%	S/.1,000	PP&E, Reclassification of Aditional Capital, Deferred Taxes, Provisions
EMPRESA SIDERURGICA DEL PERU S.A.A.	996,743	0	996,743	0.0%	0.0%	S/.1,000	
ENEL GENERACION PERU SAA	2,219,233	-32,134	2,187,099	-1.4%	1.4%	S/.1,000	PP&E, Investments. Deferred Taxes
ENERGIA DEL SUR S.A. (ENGIE)	250,944	7,671	258,615	3.1%	3.1%	$ 1,000	PP&E, Other Liabilities Deferred Taxes
EXSA S.A.	146,707	7,836	154,543	5.3%	5.3%	S/.1,000	PP&E, Intangibles
FABRICA PERUANA ETERNIT S.A.	48,993	92,124	141,117	188.0%	188.0%	S/.1,000	PP&E
FALABELLA PERU S.A.A.	1,722,991	143,508	1,866,499	8.3%	8.3%	S/.1,000	PP&E, Investments. Deferred Taxes
FERREYCORP S.A.A.	766,342	46,673	813,015	6.1%	6.1%	S/.1,000	PP&E, Inventory, Investments, Deferred Taxes
FILAMENTOS INDUSTRIALES S.A.	51,628	64,621	116,249	125.2%	125.2%	S/.1,000	PP&E, Investments. Deferred Taxes
GR HOLDING S.A.	156,628	-25,186	131,442	-16.1%	16.1%	S/.1,000	Accounts Receivables, Inventory
GRANA Y MONTERO S.A.A.	1,069,556	79,352	1,148,908	7.4%	7.4%	S/.1,000	PP&E, Inventory, Intangibles
HIDROSTAL S.A.	71,155	17,243	88,398	24.2%	24.2%	S/.1,000	PP&E, Deferred Taxes
INDECO S.A.	78,471	805	79,276	1.0%	1.0%	$ 1,000	PP&E, Deferred Taxes
INDUSTRIAS DEL ENVASE S.A.	99,270	14,022	113,292	14.1%	14.1%	S/.1,000	PP&E, Inventory, Deferred Taxes
INDUSTRIAS ELECTRO QUIMICAS S.A. IEQSA	104,939	11,013	115,952	10.5%	10.5%	S/.1,000	PP&E, Investements, Other Accounts Receivables
INMOBILIARIA MILENIA S.A.	33,567	115,637	149,204	344.5%	344.5%	S/.1,000	Investments, Deferred Taxes
INTRADEVCO INDUSTRIAL S.A.	183,582	89,978	273,560	49.0%	49.0%	S/.1,000	PP&E, Inventory, Deferred Taxes
INVERSIONES CENTENARIO S.A.A.	362,310	167,525	529,835	46.2%	46.2%	S/.1,000	Investments, Other Accounts Receivables, Inventory, Deferred Taxes
INVERSIONES EN TURISMO S.A. INVERTUR	29,007	1,277	30,283	4.4%	4.4%	S/.1,000	PP&E, Deferred Taxes
INVERSIONES NACIONALES DE TURISMO S.A.	585,318	53,617	638,935	9.2%	9.2%	S/.1,000	PP&E, Intangibles, Deferred Taxes
LECHE GLORIA S.A.	1,469,691	79,180	1,548,871	5.4%	5.4%	S/.1,000	PP&E, Investments, Inventory,Deferred Taxes
LIMA CAUCHO S.A.	156,271	-36,271	120,000	-23.2%	23.2%	S/.1,000	Deferred Taxes
LOS PORTALES S.A.	156,628	-25,186	131,442	-16.1%	16.1%	S/.1,000	PP&E, Accounts Receivables, Inventory, Deferred Taxes
LUZ DEL SUR S.A.C	1,149,032	87,646	1,236,678	7.6%	7.6%	S/.1,000	PP&E, Investments, Deferred Taxes
MANUFACTURA DE METALES Y ALUMINIO RECORD S.A.	37,640	66,951	104,591	177.9%	177.9%	S/.1,000	PP&E, Deferred Taxes
METALURGICA PERUANA S.A - MEPSA	85,367	714	86,081	0.8%	0.8%	S/.1,000	PP&E, Other Accounts Receivables, Deferred Taxes
MICHELL Y CIA. S.A.	141,635	0	141,635	0.0%	0.0%	S/.1,000	
MINSUR S.A.	1,737,652	72,730	1,810,382	4.2%	4.2%	$ 1,000	PP&E, Inventory, Investments, Deferred Taxes
MOTORES DIESEL ANDINOS SA	132,771	38,170	170,941	28.7%	28.7%	S/.1,000	PP&E, Deferred Taxes
PERUBAR S.A.	59,732	0	59,732	0.0%	0.0%	S/.1,000	
QUIMPAC S.A.	482,433	213,255	695,688	44.2%	44.2%	S/.1,000	PP&E, Deferred Taxes
RED BICOLOR DE COMUNICACIONES S.A.A.	8,973	-204	8,769	-2.3%	2.3%	S/.1,000	Investments
REFINERIA LA PAMPILLA S.A.	302,723	115,689	418,412	38.2%	38.2%	$ 1,000	PP&E, Deferred Taxes
SERVICIO DE AGUA POTABLE Y ALCANTARILLADO DE LIMA	3,721,023	2,986,543	6,707,566	80.3%	80.3%	S/.1,000	Accounts Receivables, Inventory. Other Accounts Receivables, Deferred Taxes
SHOUGANG GENERACION ELECTRICA S.A.A.	87,057	8,836	95,893	10.1%	10.1%	S/.1,000	PP&E, Inventory, Deferred Taxes, Provisions
SHOUGANG HIERRO PERU SAA	1,018,925	276,834	1,295,759	27.2%	27.2%	S/.1,000	PP&E, Inventory, Deferred Taxes,
SOCIEDAD ELECTRICA DEL SUR OESTE S.A.	264,051	100,387	364,438	38.0%	38.0%	S/.1,000	Other Accounts Receivables, PP&E, Deferred Taxes
SOCIEDAD MINERA CERRO VERDE S.A.	1,550,517	48,722	1,599,239	3.1%	3.1%	$ 1,000	Inventory, Provisions
SOCIEDAD MINERA EL BROCAL S.A.A.	307,375	6,108	313,483	2.0%	2.0%	$ 1,000	PP&E, Deferred Taxes
SOUTHERN PERU COPPER CORPORATION - SUCURSAL DEL PERU	2,118,078	71,110	2,189,188	3.4%	3.4%	$ 1,000	PP&E, Intangibles
SUPERMERCADOS PERUANOS S.A.	404,815	39,112	443,927	9.7%	9.7%	S/.1,000	PP&E, Intangibles
TELEFONICA DEL PERU S.A.A.	3,557,575	14,675	3,572,250	0.4%	0.4%	S/.1,000	Accounts Receivables. Accounts Payables
TRANSACCIONES FINANCIERAS SA	N/A	N/A	N/A	N/A	N/A	S/.1,000	
UNION ANDINA DE CEMENTOS S.A.A. - UNACEM S.A.A.	1,232,445	569,013	1,801,458	46.2%	46.2%	S/.1,000	Other Accounts Receivables, PP&E, Deferred Taxes
UNION DE CERVECERIAS PERUANAS BACKUS Y JOHNSTON S.A.A	1,821,758	157,628	1,979,386	8.7%	8.7%	S/.1,000	PP&E, Deferred Taxes
VOLCAN, COMPANIA MINERA S.A.A.	1,075,555	54,799	1,130,354	5.1%	5.1%	S/.1,000	PP&E, Deferred Taxes

Number of companies with variations < 15% 52 Companies < 10% 50

Number of companies with variations > 15% 28 Companies >10% 30

Figure 1: Historic Milestones in the Adoption of IFRS in Peru

1980's

Before the 80's
"Peruvian GAAPs" are a combination of US GAAPs and tax rules

1986
X National Congress of Public Accountants

Adoption of IAS (international Accounting Standards) 1-13

1988
XI National Congress of Public Accountants

Adoption of IAS (international Accounting Standards) 14-23

1990
XII National Congress of Public Accountants

Adoption of IAS (international Accounting Standards) 24-29

1990's

1994
CNC Resolutions Nº 005-94-EF/93.01; Nº 007-96-EF/93.0; Nº 011-97-EF/93.0; Nº 014-98-EF/93.01

From 1994 to 1998 the CNC (Peru's Accounting Standards Council) **made official** the International Accounting Standards (IAS) gradually

1998
Resolution number 013-98-EF/93.01

The CNC specified that GAAPs to which the Companies Act refers comprise essentially IFRS Standards.

1999
Resolución CONASEV Nº 103-99-EF/94.10

Manual for the Preparation of Financial Information according to IFRS

2000's

2002
Supreme decree No. 093-2002-EF

CONASEV is in charge of setting the standards for the preparation of the financial statements for the companies under its control and supervision

2005
CONASEV (Peru's SEC) Resolution No. 092-2005-EF / 94.10

Since January 1st 2006, the companies under CONASEV's control and supervision must comply with the IFRS

2008
CONASEV Resolution No. 010-2008-EF / 94.01.2

The CONASEV issued the Manual for the Preparation of Financial Information.

2010
CONASEV Resolution No. 102-2010

Companies under CONASEV's control and supervision must **fully** comply with the IFRS issued by the **IASB. Those companies must submit** audited annual financial information since the year finished on December 31, 2011.

2010's

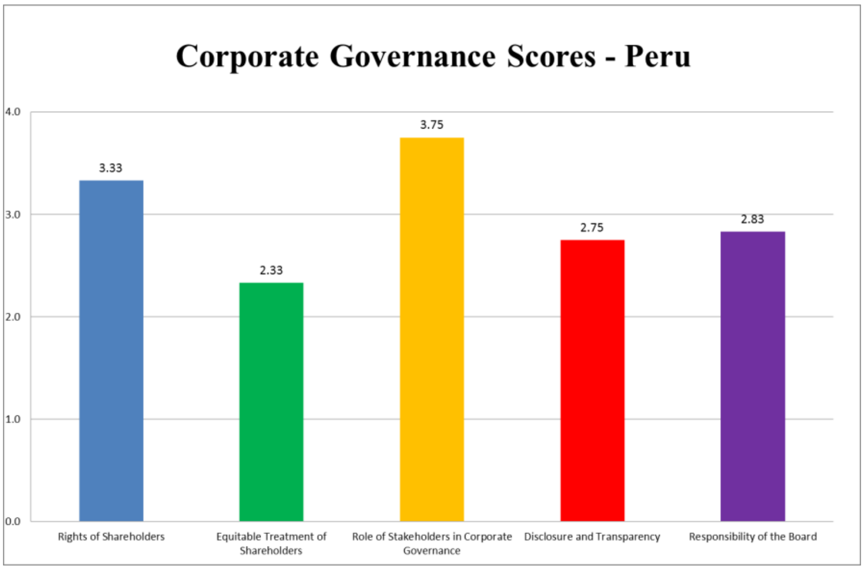
2011
Law 29720 (Art 5)

Big companies (including those not under the supervision of the CONASEV) must comply with IFRS

2016
Constitutional Court Exp. 0009-2014-PI/TC

The Constitutional Court declared unconstitutional the rule that forced companies that are not under the supervision of CONASEV to publish their accounting information.

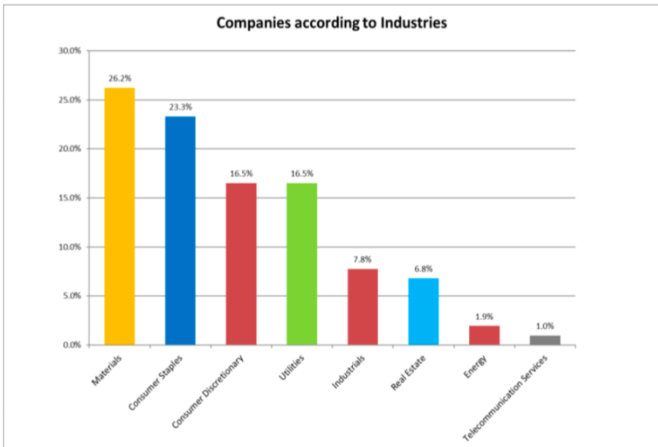
Figure 2: Corporate Governance Scores



Source: McGee (2010)

Figure 3: Non-Financial Listed Companies

Industry	Number of companies	Percentage of Total
Materials	27	26.2%
Consumer Staples	24	23.3%
Consumer Discretionary	17	16.5%
Utilities	17	16.5%
Industrials	8	7.8%
Real Estate	7	6.8%
Energy	2	1.9%
Telecommunication Services	1	1.0%
Grand Total	**103**	**100.0%**



Net Income	Number of companies	Percentage
<0	17	16.5%
0-24999	37	35.9%
25000-49999	10	9.7%
50000-74999	9	8.7%
75000-99999	5	4.9%
100000-124999	7	6.8%
125000-150000	3	2.9%
>150000	15	14.6%
Grand Total	**103**	**100.0%**

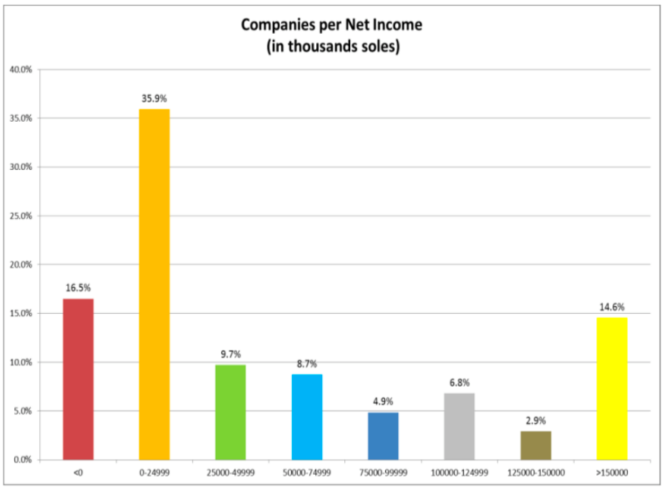
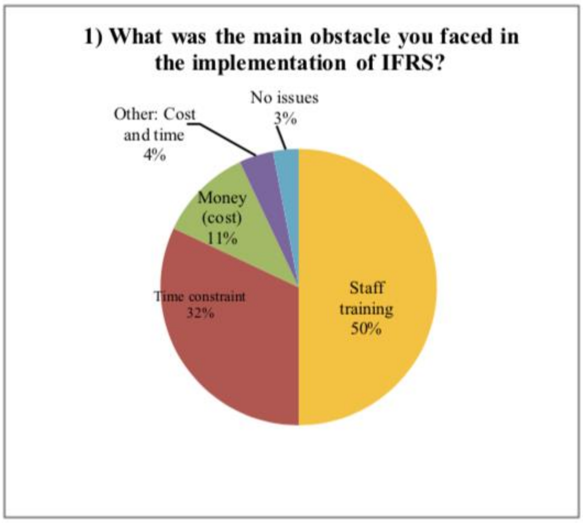
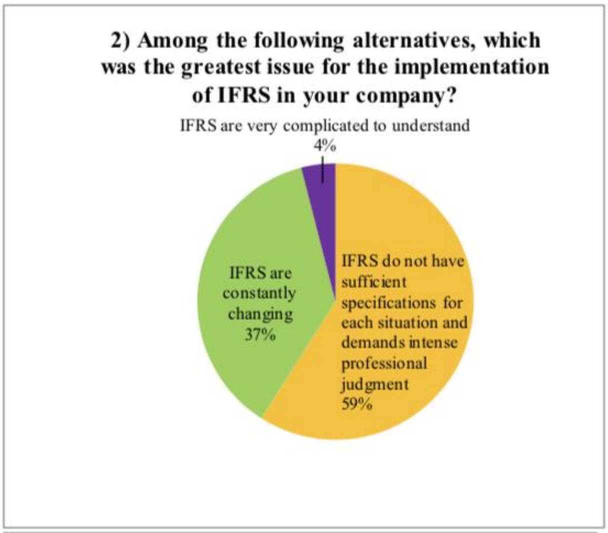
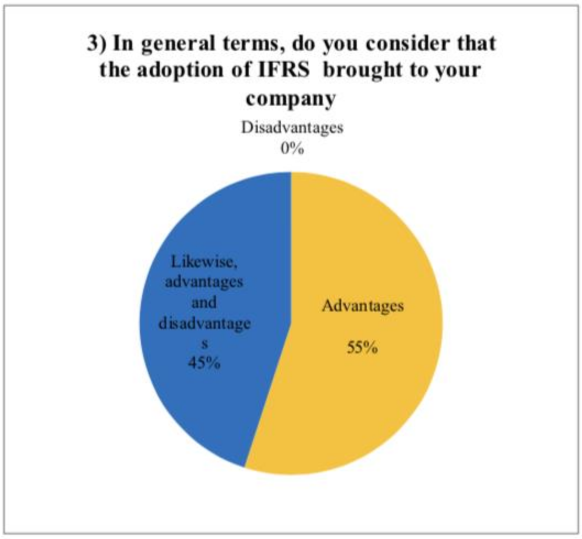


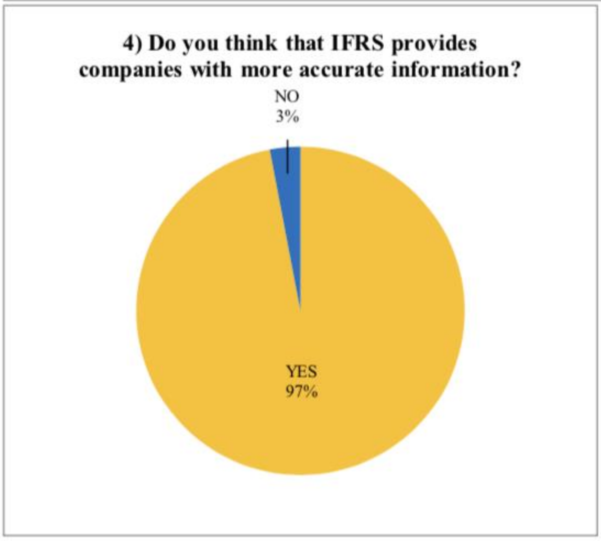
Figure 4: Summary of the Results:

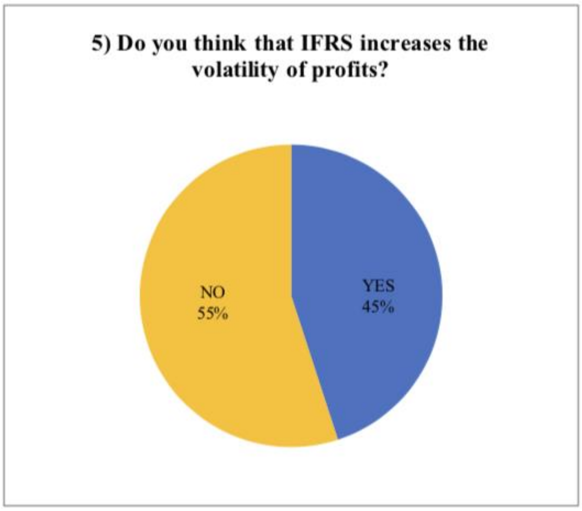
Survey to Non-Financial Listed Companies

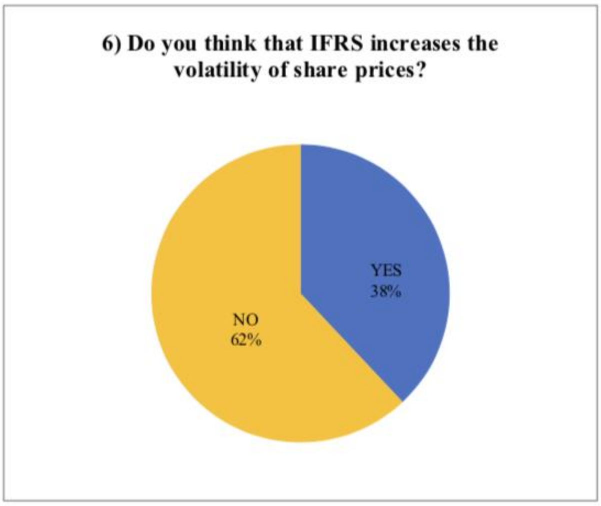






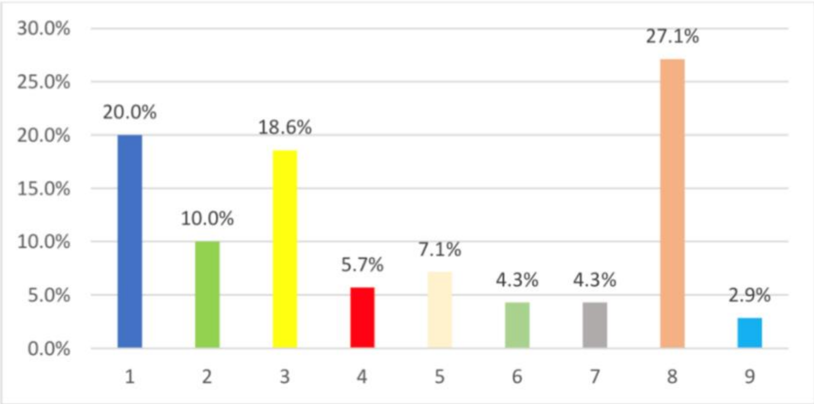






7)

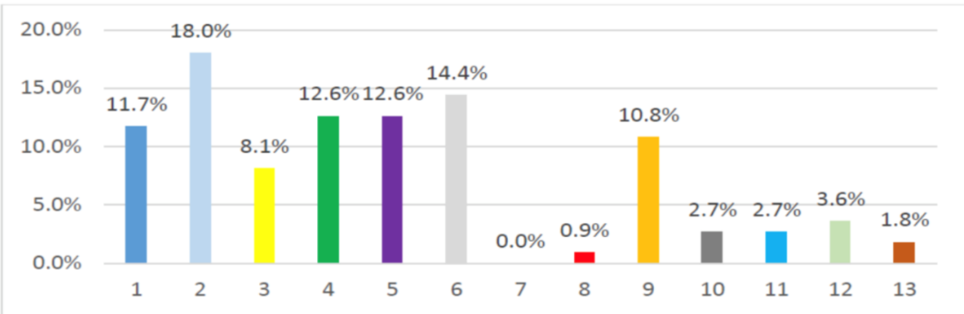
Select which are the three biggest issues encountered in the application of IFRS:



1=> Increase in the workload in the accounting department with the corresponding increment in costs
2=> Difficulty in understanding financial information
3=> Increase in the burden related to the preparation of Notes to the Financial Statements
4=> Difficulty in comparison of information
5=> Higher risk of arbitrary accounting treatment
6=> Increase in the excessive interference by organizations
7=> Excess of information reported in the financial statements
8=> Necessity of third parties' services for the proper implementation of some IFRS
9=> Other (specify)

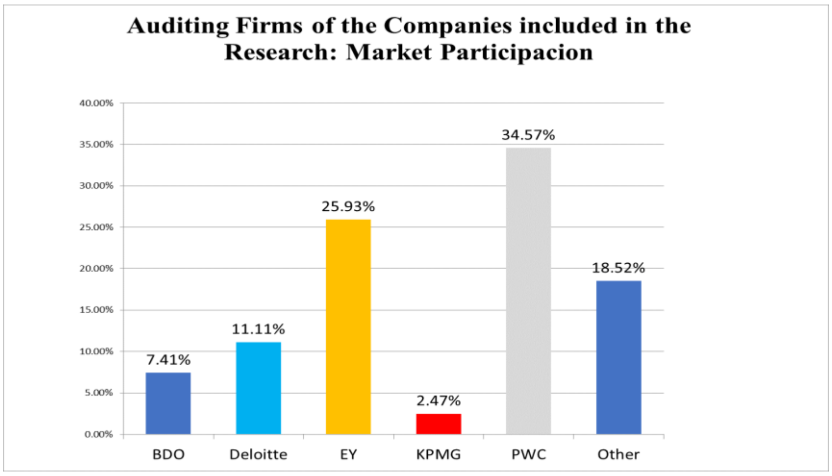
8)

Select which are the five biggest benefits obtained by the application of IFRS?



1=> Improvement in the evaluation and control of business activities
2=> Greater credibility/transparency in the financial information
3=> Advantages derived from the measurement of fair value in substitution of historic cost
4=> Higher perception that accounting information is useful for decision making
5=> Improvement in the comparability of financial information
6=> Globalization and access to international markets
7=> Reduction in the cost of capital
8=> Increase in discretionary accounting treatment
9=> Improved disclosures in Notes to the Financial Statements
10=> Reduction in costs related to the double preparation of EEFF when entering foreign markets
11=> Facilitate decisions related to Mergers and Acquisitions, as it allows a better assessment of the financial situation of other companies
12=> Improve Corporate Governance and internal audit
13=> Others

Figure 5:



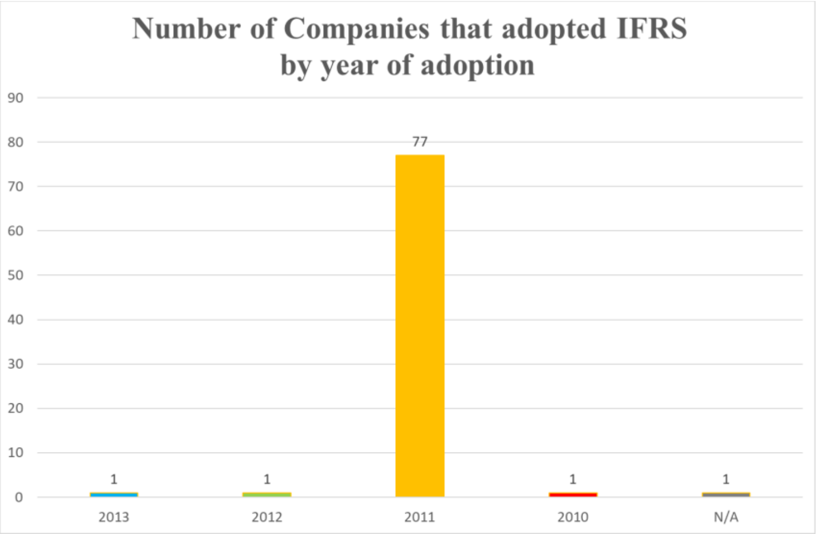
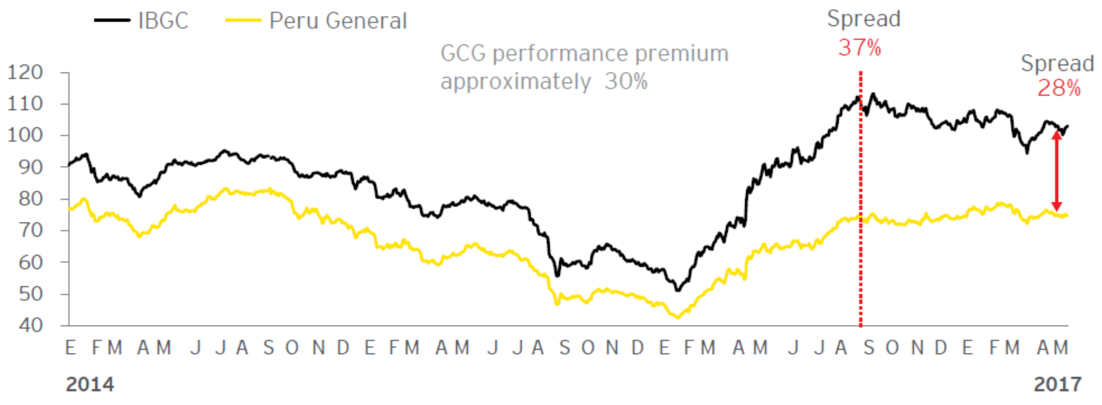


Figure 6

Performance in the Peruvian Stock Market



Source: Bloomberg

Appendices

Appendix 1: List of Acronyms

APB	Accounting Principles Board
CNC	Accounting Standards Council in Peru
CONASEV (current SMV)	National Supervisory Commission of Enterprises and Securities
FAS	Financial Accounting Standards
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretation Committee
IPAI	Institute of Independent Auditors of Peru
Latinger	Latinoamericana de Gerencia S. Civil de R.L. (a top consulting company on financial accounting issues in Peru)
LGS	Company Law
PCGE	Business Standardized Chart of Accounts
PUCP	Pontifical Catholic University of Peru
SBS	Superintendence of Bank, Insurance and Pension Funds
SMV (former CONASEV)	Superintendence of the Securities Market
SUNAT	Tax Agency in Peru

Appendix 2: Excerpt from interview with the Supervisor of the SMV (Superintendence of the Securities Market, former CONASEV)

"Until November 1999, when CANASEV issued the Manual for the Preparation of Financial Information (prepared according to IFRS), the IFRS standards were not complied with by Peruvian companies, despite a number of attempts by the Peruvian authorities to make companies fully comply with IFRS.

"It was in the year 2005 that we [CONASEV] resolved to strengthen the obligation of companies to comply with IFRS [issuing Resolution 092-2005-EF]. Then, a group of large companies—those included in the IGBVL [Bolsa de Valores de Lima General Sector] Index—came to us saying that their auditors wanted to comply with IFRS but that they couldn't because of inconsistencies; for example, the application of IAS 12 [income taxes, specifically deferred taxes], which would involve companies' records of expenses in the hundreds of millions that had not been revealed yet.

"In another meeting, CONASEV requested companies to quantify the amount the companies would have been required to reveal in the case of full compliance with IFRS. Then there was a period of requests for information, and revision of that information, and finally the CONASEV board said it was not possible for a company to recognize a loss of, for example, 200 million in a single quarter. So CONASEV decided to allowed a gradual recognition of IFRS-related expenses, over a period of 13 years, until 2018. CONASEV requested that during that period companies include Notes explaining the fact that some IFRS-related expenses were not yet included.

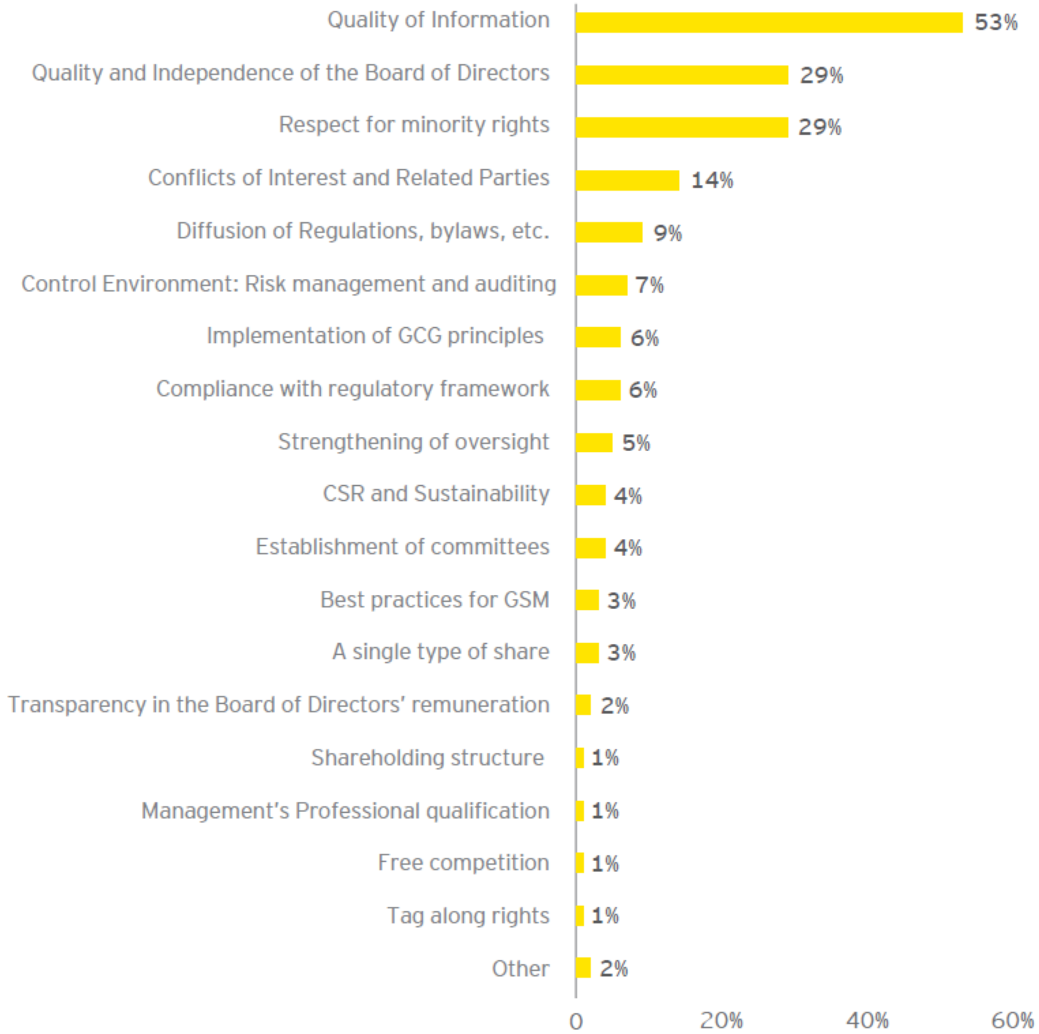
"In 2010, there were a series of meetings with listed companies, by sectors and according to their participation in the market. Then a plan and schedule were made, indicating what the listed companies had to do, what they had to register, and what the effects would be for the companies in terms of their equity.

"Finally, by 2011, most of the companies reported that they had recorded all expenses related to the full compliance with IFRS in 2009 and 2010, and that if CONASEV authorized it, they would correct their reports with the information submitted in 2011 in full compliance with IFRS."

Appendix 3 - Challenges of Corporate Governance in Peru

Source: Corporate Governance Challenges in Peru towards the Pacific Alliance (EY Peru, 2016)

Appendix 4: Challenges that regulator must face in Peru



Source: 2016 *La Voz del Mercado* Survey, EY - BVL

Note: To compile this ranking, the 325 comments received were categorized. Comments that referred to more than one challenge were taken as multiple answers, which is why they do not add up to 100%.