

# THE EFFECT OF IFRS ON CORPORATE GOVERNANCE IN PERUVIAN CORPORATIONS

## EL EFECTO DE LAS NIIF EN EL GOBIERNO CORPORATIVO DE LAS CORPORACIONES PERUANAS



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### RESUMEN

El propósito de este trabajo es, principalmente, analizar el efecto de la implementación obligatoria de las NIIFs en el Perú sobre la calidad contable y, posteriormente, el control corporativo (ya que la transparencia y la comparabilidad en la información financiera y las prácticas de divulgación son los mecanismos principales de gobierno corporativo para reducir la asimetría informacional) y, en segundo lugar, revisar la evolución del gobierno corporativo y dar propuestas para mejorar la situación del mismo en el Perú. Para alcanzar estos propósitos, se analizaron datos primarios y secundarios. Los datos primarios se obtuvieron a través de entrevistas a las partes interesadas relevantes y encuestas a las empresas no-financieras que cotizan en bolsa de valores. Los datos secundarios se obtuvieron de fuentes oficiales del gobierno, así como de bases de datos, como Osiris y Thomson. Para complementar el análisis del impacto de la adopción obligatoria de las NIIFs, se revisaron dos estudios: gestión de ganancias y relevancia del valor. La conclusión más importante de esta investigación es que la implementación de las NIIFs ha ayudado a mejorar la calidad de los datos contables y, en consecuencia, el gobierno

corporativo, puesto que antes de la adopción de las NIIFs se aplicó un conjunto de normas contables no bien definido en el Perú (una combinación de normas fiscales y US GAAPs). Aunque se han implementado varios mecanismos para mejorar el gobierno corporativo en el Perú, la situación aún es incipiente, por lo que se dan varias propuestas, incluida la obligación de cumplimiento de las empresas listadas con el "Código de Buen Gobierno Corporativo para las empresas peruanas" y las sanciones correspondientes en caso de incumplimiento de los principios.

**Palabras clave:** NIIFs, control corporativo.

### ABSTRACT

The purpose of this paper is primarily to analyze the effect of the mandatory implementation of IFRS in Peru on the accounting quality and subsequently, corporate governance (since transparency and comparability in financial reporting and disclosure practice are prime corporate governance mechanisms to reduce the information asymmetry), and secondarily, to review the

evolution of corporate governance and to suggest ways to improve the corporate governance situation in Peru. In order to reach those purposes, both primary and secondary data were analyzed. Primary data were gathered through interviews to relevant stakeholders and surveys to non-financial listed companies. Secondary data were obtained from government official sources as well as databases like Osiris and Thomson.

In order to complement the analysis of the impact of the mandatory adoption of IFRS, two studies were reviewed: earnings management and value relevance.

The most important conclusion from this research is that the implementation of the IFRS has helped to improve the quality of the accounting data and consequently, corporate governance, since before the adoption of the IFRS a not-well defined set of accounting standards was applied in Peru (a combination of tax rules and US GAAPs). Although a number of mechanisms have been implemented to improve the corporate governance in Peru, the situation is still incipient, a number of proposals are advanced, including the mandatory compliance of listed companies with the "Code of Good Corporate Governance for Peruvian Companies" and the corresponding penalties in case of no adherence to the principles.

**Keywords:** IFRS, corporate control.

## 1. INTRODUCTION

Peru complied with Peruvian GAAPs (mainly influenced by IFRS and taxation, and previously by US GAAPs – FAS and predecessor's APB), before the mandatory adoption of IFRS for listed companies in 2011—see Appendix 1 for a list of the acronyms.

On the other hand, the corporate governance concept started to expand in Peru -- as in other Latin America countries -- because of the OECD efforts to promote responsible corporate governance practices in the late '90s.

When researchers analyze corporate governance and accounting standards, most of them focus on the effect corporate governance has on accounting standards and

financial reporting quality. This paper takes a different approach, analyzing first, the effect of the mandatory implementation of IFRS in Peru on accounting quality (and consequently, corporate governance of Peruvian corporations), and then, the evolution of corporate governance itself in Peru. An explanation for this approach is that the definition of accounting standards that applied in Peru, before the adoption of IFRS (Peruvian GAAPs), is unclear (topic that will be explained in the following paragraphs). Finally, this paper concludes with some proposals to improve corporate governance in Peru.

This paper is a resulting part of a three-year comprehensive research about the implementation of the IFRS in Peru and its effects on education, corporate governance, taxation, and other fields, funded by the Japan Society for the Promotion of Science.

## 2. RELEVANT CONCEPTS

A number of definitions exist for corporate governance. Since this paper is oriented to analyze corporate governance in the Peruvian context, the relevant definition is that of CONASEV -- the National Supervisory Commission for Companies and Securities<sup>1</sup>. It is currently the Superintendence of the Securities Market (SMV). The SMV is a public institution in the Peruvian financial system, whose purpose is to promote and regulate stock market activity, ensure transparency, correct price formation, and investor protection.

CONASEV's definition is as follows: corporate governance explains the rules and procedures for making 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).

An important issue related to corporate governance is the agency problem, which occurs when a contractual agency relationship is established under which one or more principal(s) engage with another agent who agrees to

<sup>1</sup> All the abbreviations of the Peruvian institutions are from the original Spanish words in this paper.

perform certain service or duty on their behalf (Jensen and Meckling, 1976).

For other authors, corporate governance constitutes a system which includes procedures, activities (practices) and institutions (standards). This refers, primarily, to the relationship between the shareholders of the company (owners), and its management (board, and management) (Martinez, 2007).

Organisation for Economic Co-operation and Development (OECD, 2015) principles emphasize the importance of transparency in financial reporting and disclosure practice as the prime corporate governance mechanism to reduce the information asymmetry issue stemmed from the agency problem.

Zeghal et al. (2012), state that supporters of mandatory IFRS adoption argued that the conversion to IFRS would improve the information quality as it enhances the comparability and the transparency of financial reporting around the world, which, 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).

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

### 3. CORPORATE GOVERNANCE IN PERU

In the specific case of Peru, corporate governance has been evolving at a fast pace since 2000. Until the early 1990s, a concentrated shareholding structure, and a management model in the hands of family groups, characterized most Peruvian companies. Under that framework, there was no pressure from external stakeholders to introduce mechanisms of management control, minority shareholder protection of information to investors. However, the corporate legal framework had to be adapted to the new profile of companies operating the global economy. That is, local companies would be required to open their capital to domestic and foreign private investors and for doing so, they would need to provide minimum levels of control,

protection, and information to the investors and minority shareholders (Vigo, 2013).

Salazar and Washington point out that “creative accounting” (meaning the manipulation of legal rules and figures by taking advantage of legal gaps), allows forming a positive opinion to the stakeholders. Creative accounting has a significant effect on the value of firms, using permissibility, subjectivity, and ambiguity in the interpretation of legal rules and regulations. (Salazar & Washington 2018).

Recognizing the importance for the development of the capital market, greater corporate transparency has been fomented institutionally. Furthermore, the advantages of count-on-good corporate governance practices became clear and well defined. In 2002, a committee composed of eight public and private sector entities, chaired by the then CONASEV--currently the SMV-- was formed in order to establish principles for 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 those issued by the OECD, considering the particular characteristics of Peruvian companies, their ownership structure, and the local legal framework. These principles covered, among other relevant topics, matters relating to the rights and equitable treatment of shareholders; the role of the 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 stock market, was constituted.

In line with the issuance of these principles, and following the international trends, the CONASEV then took on the challenge of requiring companies, whose securities were offered to the public, to disclose the degree of adherence to these principles through their annual reports and prospectuses information. The companies provided information about their practices with no external auditing made to them. As a result, concerns were raised about the validity of the information provided by some companies. Thus, the CONASEV started analyzing the information given by the registered companies, and when inconsistencies or deficiencies were found, it requested faculty companies to amend their information deficiency and to also inform the

market of such amendments. The CONASEV had therefore taken a proactive approach to improve the “comply or explain” procedure in Peru.

Moreover, the Lima Stock Exchange (BVL), created in 2008 the Index of Good Corporate Governance (IBGC - Índice de Buen Gobierno Corporativo). To be acknowledged in IBGC, the corporate governance of a company must be evaluated by a validating entity that is accredited by the BVL (most of the accredited entities are auditing firms such as PWC, Deloitte, EY, KPMG, Grant Thornton, and PCR). Validation is based on a questionnaire, issued by the SMV. In addition, each principle has specific criteria defined to ensure that the evaluation is as objective as possible. If a company passes a minimum threshold (originally set at 60% of total potential points, and currently set at 70%), it becomes a candidate to be part of this index. In addition, in order to be included in the index, a candidate firm must pass minimum liquidity requirements. The accreditation process by the BVL implies, on the other hand, that the validating company has to present their credentials to the BVL for an evaluation under these two criteria: experience of the firm in corporate governance consulting or validating corporate governance, and the qualifications of the team that will do the validations. Currently there are ten companies in the IBGC.

At the Latin American Corporate Governance Roundtable meetings, that took place in Peru in 2010, the participants committed, via signature, to assume a set of ‘White Paper recommendations’, focused on the role of institutional investors in corporate governance. At these meetings, the most important suggestions made for Peru were: policies and good practices should be set in order to stimulate a more active involvement of institutional investors; and in order to facilitate more appropriate governance; the better-governed companies for investment purposes should be identified and distinguished; the functioning of Board of Directors should be improved; and finally, the scope of management should be clearly defined.

For over 10 years, companies submitted their surveys regarding the 26 Principles of Good Governance. Peruvian companies have been improving their corporate governance practices each year.

Although the Corporate Governance practices and compliance of Peruvian corporations have been improving every year since 2005, a comprehensive revision of those

principles was needed. Such revision started on February 23rd, 2012, and concluded in November 2013 with the approval of the Code of Good Corporate Governance. That revision took into account the development of the legal regulatory framework governing market activity, the institutional deficiencies and weaknesses that have been revealed in the 2007-2008 international crisis regarding transparency of information and internal control of companies; and progress on issues of corporate governance developed by the Corporación Andina de Fomento<sup>2</sup> (CAF) and the OECD.

On February 23, 2012, a Committee (consisting of 14 institutions under the chairmanship of the SMV, and with financial support from CAF), developed the Code of Good Corporate Governance for Peruvian Companies, the “Code” replaced the 26 Principles.

The Code presents a new structure in keeping with the needs and characteristics of the Peruvian stock market and Peruvian corporations. In its development, it addresses aspects related to corporate governance. The committee that is responsible for preparing the new Code collects input from public entities and the private sector. Thus, the document is expected to help boost the implementation of better corporate governance practices in Peruvian companies. The new Code of Good Corporate Governance for Peruvian Companies is composed by 31 principles and is 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. Moreover, the new Code (which includes two annexes on complementary principles, one for enterprises and the other for family businesses), is being applied since 2014.

On June 14th, 2014, the SMV issued the resolution N° 012-2014-SMV/O1 mandating that the companies that have securities registered at the Public Registry of the Securities Market are obliged to disseminate their good governance practices to the public corporate reporting their compliance with the Code of Good Corporate Governance for Peruvian Companies.

The SMV recognizes that the adoption of the Code of Good Corporate Governance for Peruvian Companies is voluntary. However, for those holders of securities, registered at the Public Registry of the Securities Market, it becomes mandatory, since it is relevant to know the degree of

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<sup>2</sup> Development Bank of Latin America

compliance with the Code. Each principle is evaluated based on the following parameters: a) "Comply or explain": if the company fully complies, then there is no need for additioned information. If it has not complied, the company must explain the reasons why it did not fully comply with the principles; and b) Information of supportive data/evidence: information is provided that allows to know with greater detail how the company has implemented the principles.

## 4. ACCOUNTING HISTORY IN PERU

### 4.1. Authorities and Standards

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 (MEF). Moreover, the SMV regulates, supervises, and controls the non-financial listed companies, while the financial companies are regulated by the SBS.

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

### 4.2 Accounting Standards across History in Peru

Historically, financial accounting in Peru was thought mainly as accounting following tax regulations, that is, accounting oriented to the calculation of taxes. Most of the companies prepared financial statements basically for their tax returns and the role of the accountant was basically to prepare the financial statements, in order to legally minimized tax payments.

In the early '70s, Peru had neither an institution in charge of setting accounting standards for companies to follow, nor a proper accounting system to record transactions. The common practice for most of the companies was just to follow the tax rules set by the tax authority. However, some companies, mainly subsidiaries of American corporations,

followed the US Generally Accepted Accounting Principles (GAAP), and accounting professors, mainly from auditing firms, used this as proper literature.

However, in 1974 an important event took place: the implementation of the General Chart of Accounts (PCG), itself 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 it now occurs with the fair value model.

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

As most 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 companies organized according to LGS (Company law or Corporate Code). The LGS requires that financial statements of corporations be prepared and presented in accordance with GAAP in Peru. On July 23rd, 1998, the CNC issued Resolution 013-98- EF/93.01, clearly specifying that the Peruvian GAAPs were the IAS.

The SMV mandated, until 2000, companies with certain levels of gross income and total assets to submit their annual audited financial statements, in accordance with its (SMV'S) established standards. These standards were, 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. Except for those companies that were supervised by the SBS, the companies that had those levels of income or assets had to submit their financial statements before 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) had to submit 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).

Currently, the CNC is main role is to make it official. That is, endorse the IFRS that apply to the large majority of Peruvian 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 with, according to their characteristics.

**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.

## 5. LITERATURE REVIEW

### 5.1 Corporate Governance

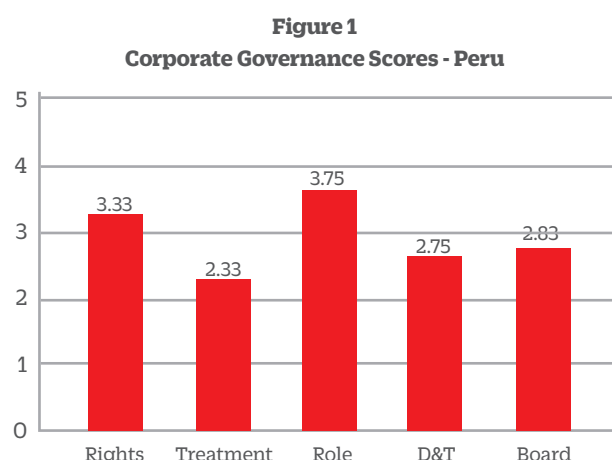
In Peru, as far as corporate governance, there is limited research to date. Eyzaguirre (2009), analyzes the role of institutional investors in promoting good corporate governance practices in Peru, emphasizing the role of pension funds (AFPs in Peru) in promoting good governance and posits that although listed companies have to reveal their degree of compliance with the "26 Principles of Good Corporate Governance for Peruvian Corporations," the improvement in the quality of disclosure has been rather slow. Furthermore, in order for Peruvian companies to improve their contribution to AFPs to improving corporate governance, as well as improving their own corporate governance, Eyzaguirre recommends the following: (1) Improve legislation/regulation; (2) Improve enforcement; (3) improve institutional investors' accountability to their stakeholders; (4) develop proxy rules; (5) improve the

dialogue between the companies and the investors via conference calls; and (6) improve the board of directors composition of the pension funds.

Doidge et al. (2007), include Peru in a cross-national study about the influences of country characteristics on corporate governance. They conclude that in developing countries, such as Peru, it is costly to improve investor protection because there is a weak institutional infrastructure and good governance tends to be politically costly. Further more, in such countries the benefit from improving governance is smaller because capital markets lack depth. Finally, in such countries there is some evidence of the complementarity between country-level investor protection and firm-level governance.

McGee (2010), refers 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, McGee 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. In a scale from 0 to 5, McGee obtained the following results (see figure 1):



Source: McGee (2010)

Eyzaguirre and Blume (2012), studied the role of the 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 amount of available suitable investments. 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; and (3) Task Force participants should seek to maintain a working and consulting relationship among them.

Tanaka (2014), concluded that Peru has been developing regulations regarding corporate governance at a good pace, and that Peruvian corporations have improved their compliance to these rules consistently. Starting in 2014, a new regulations code for CG is applied by Peruvian corporations: the Code of Good Corporate Governance for Peruvian Companies. This code is composed of 31 principles and is 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. Moreover, the new code includes two complementary principles annexes, one for enterprises, and the other for family businesses. On the other hand, in order to determine the relationship between CGP and CFP in Peruvian corporations, Tanaka (2015) conducted a comprehensive research using financial and corporate governance data<sup>3</sup>. The findings of Tanaka (2014) demonstrate that good corporate governance is correlated with good financial performance.

Mongrut et al. (2018) analyzed the impact of adopting the Corporate Governance Code over the dividend payout ratio in 111 companies listed on the Lima Stock Exchange (LSE), from 2007 to 2015, and concluded that companies that have adopted a corporate governance code, and especially those with a high quality in it, pay more dividends despite the fact that the dividend payout always presents a negative relation with the ownership concentration

## 5.2 IFRS

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 that these statements should be made available to the public" (World Bank, 2004. p.22). Unfortunately, as mentioned above, this recommendation was implemented, but after a couple of years it was declared unconstitutional. No advantage was, in general, identified by those non listed companies, in adopting IFRS. In addition, the cost of implementation, mainly conducted by external auditing firms and independent accountants, was considered extremely expensive.

A number of papers that followed the World Bank research is noteworthy. Lam (2010), for instance, analyzes the implementation of the new plan of accounts in Peru (PCGE), which was prepared in concordance with the IFRS. Molina et al. (2014), briefly review the process of implementation of international standards in Peru.

<sup>3</sup> The financial data was obtained from the OSIRIS database and annual reports. The corporate governance data was obtained from a survey on the compliance to the 26 Principles

of Good Governance for Peruvian Companies.

Tanaka (2014) analyzes the convergence of accounting standards in Peru. Regarding to the effects of implementing the IFRS in Peru, Diaz (2014) analyzes the effects on the financial statements of Peruvian companies after the adoption of IFRS in 2011.

### 5.3 Mandatory IFRS, Accounting Quality and Corporate Governance

A number of researchers have investigated the relationship between IFRS, accounting quality and corporate governance.

Ball (2006) stated that IFRS offers 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 known from other sources, this should lead to a more-informed valuation in the equity markets, and hence lower risk to investors.

Leung and Ilsever (2013), posit that the 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 the levels of corporate disclosure, including financial reporting.

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

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

Lian and Shan (2016), finally, found that firms in Germany and the U.K., with better corporate governance, and, therefore, less earnings management incentive, are associated with higher accounting quality, that is smaller

sizes of discretionary accruals and lower volatilities of accrual residuals.

## 6. RESEARCH OBJECTIVE AND METHODOLOGY

The objective of this paper is to show that the mandatory implementation of IFRS in Peru has had a positive effect on the quality of accounting information and, consequently, in the corporate governance in Peru, for prior to the mandatory adoption of IFRS, a not-well-defined set of standards had been followed by listed, non-financial companies.

In order to pursue this objective, primary and secondary data are analyzed. Primary data include interviews and surveys with key stakeholders; secondary data are analyzed for a stronger analysis.

### 6.1 Interviews

The interviews were conducted in Lima during the month of September 2017. 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 19 interviewees (from 20 institutions/firms) are presented in Table 2 below. Eventually the opinion of some other important stakeholders (not included in the list) were taken into account, in terms of which the effective number of interviewees became larger than 20. 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. Accordingly, some of these interviewees were, 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 Professionals Accounting Association of Lima (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:



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

Row Labels	Number of Companies	Percentage
Paredes, Saldivar, Burga & Asociados S. Civil. De R. L./EY	39	37.86%
Gaveglío Aparicio y Asociados / PWC	32	31.07%
Deloitte Beltrán Gris & Asociados S. Civil. De R. L.	8	7.77%
Pazos López de Romaña Rodríguez / BDO	5	4.85%
KPMG	4	3.88%
Grant Thornton / Demichelli Sarrio & Asociados S. C.	2	1.94%
H. Olano & Asociados Sociedad Civil	2	1.94%
Salas y Salas Asociados S. C. Auditores y Consultores	1	0.97%
Dall'Orso Mertz Asociados Contadores Públicos	1	0.97%
Gálvez, García Godos, Auditores & Asociados	1	0.97%
Baker Tilly International	1	0.97%
Ramírez Enríques y Asociados	1	0.97%
Fernández & Farfán Asociados Auditores y Consultores S. C.	1	0.97%
Víctor 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%
<b>Grand Total</b>	<b>103</b>	<b>100.00%</b>

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:

**Table 3: List of the Interviewees**

Regulators and other institutions		
#	Institution	Position
1	Accounting Standards Council / General Direction of Public Accounting	President / General Director
2	Superintendency of Securities Market	Supervisor
3	SUNAT (Perú's Tax Agency)	Manager - Division of Virtual Formation
4	Lima's Professional Accounting Associations (CCPL)	Dean
Auditing Firms		
#	Institution	Position
5	EY	Lead Partner
6	PWC	Partner
7	Deloitte	Partner
	Deloitte	Partner
8	BDO	Partner
9	KPMG	Director Accounting Advisory Services
10	Espinoza & Associates	Partner
11	Monzón, 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	Professor
16	National University of Callao	Dean
17	University Ricardo Palma	Dean
Other Relevant Stakeholders		
#	Institution	Position
8	Rubio, Leguía & Normand (Top Law Firm)	Dean
8	Latinoamericana de Gerencia (Top accounting Firm)	Socio Director

## 6.2 Company Surveys

### 6.2.1. Data Selection

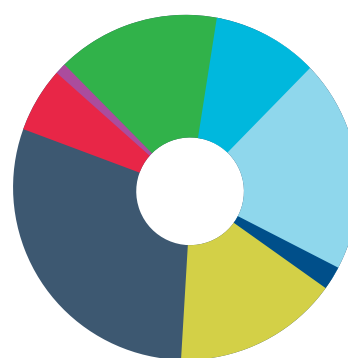
To date, there are 201 listed companies that are under the supervision of the SMV. From that list, 36 companies are financial corporations that must

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.

**Figure 2: Non-Financial Listed Companies**

Row Labels	Number of Companies	Percentage of Total
Materials	27	26.21%
Consumer Staples	24	23.30%
Utilities	17	16.50%
Consumer Discretionary	16	16.50%
Real Estate	8	7.77%
Industrials	8	7.77%
Energy	2	1.94%
Telecommunication Services	1	0.97%
<b>Grand Total</b>	<b>103</b>	<b>100.00%</b>

**Companies According to industries**



Materials 26, 27%   Industrials 8, 8%   Energy 2, 2%  
 Consumer Staples 24, 24%   Consumer Discretionary 8, 8%  
 Utilities 17, 16%   Telecommunication Services 1, 1%  
 Real Estate 8, 8%

Net Income	Number of Companies	Percentage of Total
<0	17	16.50%
0-24999	37	35.92%
25000-49999	10	9.71%
50000-74999	9	8.74%
75000-99999	5	4.85%
100000-124999	7	6.80%
125000-150000	3	2.91%
>150000	15	14.56%
<b>Grand Total</b>	<b>103</b>	<b>100.00%</b>

**Companies per Net Income  
(In Thousand soles)**



<0   0-24999   25000-49999   50000-74999   75000-99999   100000-124999   125000-150000   >150000  
 37, 36%   17, 16%   15, 14%   3, 3%  
 7, 7%   5, 5%   9, 9%   10, 10%

The distribution of the companies (in industries and size), that responded to the survey was similar to the distribution found via 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.

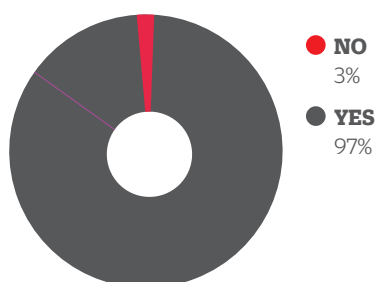
### 6.2.2. Summary of the Results

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 the questionnaire. As previously

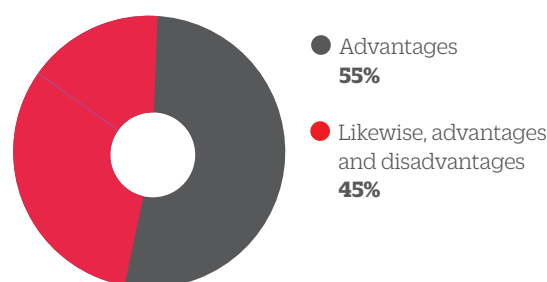
mentioned, this paper is part of a comprehensive research regarding the implementation of IFRS in Peru, so only the relevant questions to IFRS and corporate governance of the survey are included in this paper.

**Figure 3: Summary of the Results: Survey to Non-Financial Listed Companies**

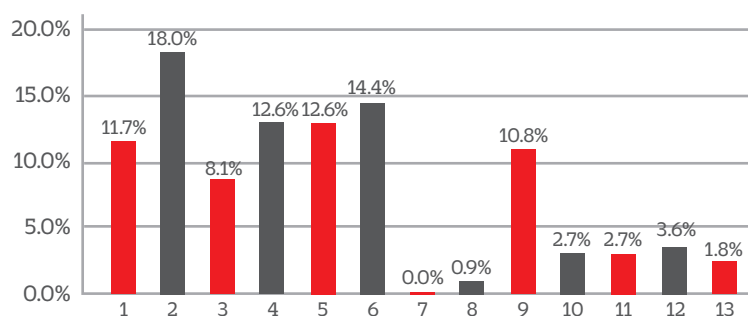
1. In general terms, you consider that the adoption of IFRS brought to your company:



2. Do you think that IFRS provides companies with more accurate information:



3. Select 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 market

11=> Facilitate decisions related to Mergers and Acquisitions, as it allows a better assessment of the financial situation of other companies

12=> Improved Corporate Governance and internal audit

13=> Others

According to the responses, the majority of companies consider that there are benefits of implementing the IFRS directly (alternative #12, Improve Corporate Governance and internal audit) or indirectly (alternative #2=> Greater credibility/transparency in the financial information, alternative #4=> Higher perception that accounting information is useful for decision making or #5 Improvement in the comparability of financial information).

## 7. ANALYSIS OF THE RESULTS

### 7.1 Interviews

#### Topic 1: Peruvian GAAPs

After the literature review an issue was found regarding the accounting standards followed by Peruvian companies before the adoption of IFRS (Peruvian GAAPs): the exact definition of Peruvian GAAPs. Actually, there is not an exact definition of Peruvian GAAPs. When one reviews the annual reports of the Peruvian listed companies, one finds that before 2011, the financial statements were prepared "in conformity with accounting principles generally accepted in Peru". However, what are the Peruvian GAAPs? There is no formal definition; no formal manual; and no formal book of those standards. Thus, in order to find a clear definition of Peruvian GAAPs, a question on two subject was asked. Some of the responses to this question are summarized below:

#### Regulators and other government institutions

**CGN:** Before 1994, companies that were supervised by CONASEV (current SMV) were obliged to submit audited financial statements. Some of those companies applied US GAAPs, as their accounting standards. However, the vast majority of accounting companies 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.

#### Auditing Firms

**BDO:** Accountants followed tax regulations 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 was a problem because in theory we always used IFRS; but, we depreciated the assets with tax rates. They were the Peruvian GAAPs. There were some other exceptions, as well, but the main distinction between IFRS and Peruvian GAAPs were related to P.P.& E.

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

**PWC:** Under the umbrella of Peruvian GAAPs, we took many licenses related, for example, to the depreciation of fixed assets.

#### 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 over them but with an important difference: the standards were available to preparers in their own language. What are Peruvian GAAPs? we don't know. Everyone makes up his or her own definition.

**PUCP:** Here, in the country, many companies, without considering what the SMV states, and aside of having to keep electronic accounting book for commercial transactions, as imposed by SUNAT, continue to apply accounting principles based on taxation.

**Other interviewee:** when one talks about Peruvian GAAPs and IFRS it 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.

#### Auditing 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 Accountant's Associations developed their own standards; some called it technical bulletins, technical resolutions that generally took the international standards to set the stage; and made some changes. When the full implementation of IFRS came to Mexico, Argentina, Colombia and Brazil, they all had the inconvenience of returning back to full IFRS. This, of course, 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 the monetary unit assumption, the economic entity, were ongoing concerns; but there was no accounting standards. In that sense, in the '90s, in Peru, there were no Peruvian standards. At least other countries like Argentina and Mexico, developed their own standards and had some bulletins. We basically followed what SUNAT said.

### Other important Stakeholders

**Latinger:** Peru is one of the countries that did not have its own technical development. It often used the North American approach to solve its accounting issues, while in other countries, like Argentina, the adoption of IFRS was delayed, as it was Brazil and Mexico. Also in countries like Mexico still maintain its original system out of nationalism. They do not have IFRS; they have only Financial Reporting Standards. By adopting their own system, they kept away the international character of these norms.

Therefore, it can be stated that 1) Peru didn't have its own technical development of accounting standards (except for the pronouncement regarding adjustment for inflation); and 2) the standards that were applied by Peruvian listed

corporations in the new millennium just before the adoption of IFRS (Peruvian GAAPs) were actually the same IFRS but with some exceptions, mainly related to taxation, labor, and legal issues, related to the own characteristics of the country.

### Topic 2: Benefits of Implementing of IFRS

According to the interviewees, the implementation of the IFRS has been beneficial. Below, we show some of the supporting comments of the interviewees to these effect.

### 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 benefited. I also believe that with audited financial statements, the information contributes to fighting in some way corruption.

**SMV:** It has been beneficial because before, we did not have a set of accounting standards. When the LGS refers to Peruvian GAAPs, one can't find them anywhere.

### Audit Firms

**BDO:** I think IFRS has helped us revise and read more carefully; not to repeat things, because it is said so, but rather, to analyze. It has helped us improve the accounting knowledge considerably.

**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 to explain reconciliation differences in accounting rules, which was a bit of a scare. The important thing is that it opens markets, lower costs and so on. Having the IFRS is already a facilitator for international markets; and it transmits more easily.

**EY:** In general terms, I think IFRS has helped the country, and the companies. With IFRS, the world sees you as more global.

What is certain is that for some companies it has been easier to issue debt internationally. Big companies are appreciating it; though for small or family-based companies, IFRS is yet more of a cost

**Monzón, Valdivia, Falconí & Associates:** Nowadays, accounting is different from what we used to have before the IFRS' implementation. It has advanced forward not only the subject of accounting standards but also tax rules have been organized better. I think that 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. With the implementation of IFRS, many licenses that we had taken with the Peruvian GAAP had to be cleaned away.

The market has already started talking about IFRS. Some banks, for example, have already begun ask firms for their statements under IFRS; and when these statements are not presented in such ways, they (the banks) complain against it.

For companies, perhaps, the only benefit of complying with IFRS is having a better chance for accessing to financing. It allows the firm for a better chance 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, from the ones that have tried to do it in the cheapest and simplest way, and from those that have realized that it is 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 on the side of those who read the financial statements.

#### Other important Stakeholders

**Latinger:** IFRS have brought a number of benefits in terms of organizing, accounting ordering, and owners/shareholders

are starting to use certain financial information to make decisions or to confirm them. Of course, 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 accounting principles (as it used to happen in the '70s, '80s and '90s, when US GAAP were applied by the big auditing firms). Back in those days, in order support to a position, the auditor used to say that it was because the FASB said so. Thus, the first advantage has to be that international financial standards are more universal than any other model that has existed in Peru. Nowadays, the accountants discuss the standards among themselves. This discussion of norms, sooner or later will end up helping to improve the accounting system in Peru.

A 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. For there is no definition of the concept of accrual but simply it is mentioned that for tax purposes the concept of accrual just applies, the Tax Court of the Tax Agency, has turned their eyes to international standards to solve this gap. Hence, we currently, have more elements available for 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.

And there is a third advantage: the existence of a model helps in the generation of trust. Generation of trust is related to perception on risk. Therefore, the existence of a model which is known by all 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 (A law firm):** There are gaps in the Law. If the Law does not give me an explicit definition, accounting fills that gap.

Therefore, the most important benefit of the implementation of the IFRS is that currently Peru now has standardized accounting rules, and consequently the quality of the accounting information has been improved.

## 7.2 Surveys - Analysis of the Results

In order to complement the analysis, we list the most important findings of the surveys.

A 55% of the surveyed companies considered that, in general terms, the adoption of IFRS brought advantages to their companies. A 45% indicated that IFRS brought both advantages and disadvantages to their corporations. None of the respondents selected the choice of "disadvantages".

- A 97% of the respondents think that IFRS provide companies with more accurate information.
- Among the benefits of IFRS, the most-selected answers were: Greater credibility/transparency in the 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.

Consequently, according to the interviews and surveys, it can be concluded that for the main stakeholders in Peru, the financial reporting quality has been improved. This is in line with what is stated by the OECD (2015): the transparency in financial reporting; and the disclosure practice constitute prime corporate governance mechanism to reduce information asymmetries stemmed from the agency problem.

## 8. COMPLEMENTARY ANALYSIS OF ACCOUNTING QUALITY AFTER IFRS MANDATORY ADOPTION: EARNINGS MANAGEMENT AND VALUE RELEVANCE

Zeghal et al. (2012) posit that there are four earnings (or in general terms, accounting) quality constructs that are widely used in the accounting literature, i.e., earnings management, timeliness, conservatism, and value relevance. In order to make a conclusion stronger regarding the influence of IFRS on financial reporting quality, two studies on earnings management, and value relevance, were conducted.

### Study 1: IFRS and Earnings Management

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

#### Hypotheses:

- H1:** Listed non-financial corporations in the Lima Stock Exchange engage in some degree of Earnings Management;  
**H2:**  $DAC_{it}$  decreased since the adoption of IFRS,

where DAC is 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:

$$Total\ Accruals_{it} = (\Delta CA_{it} - \Delta CL_{it} - \Delta Cash_{it} + \Delta LDCL_{it} - Dep_{it}) / A_{t-1} \quad (1)$$

where  $\Delta CA_{it}$  is the change in total current assets;  $\Delta Cash_{it}$  is change in cash and cash equivalents;  $\Delta CL_{it}$  is the change in total current liabilities;  $\Delta LDCL_{it}$  is change in long-term debt included in current liabilities;  $Dep_{it}$  is the depreciation and amortization expenses; and  $A_{t-1}$  is the total assets in the  $t-1$  period.

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

$$\frac{TAC_{it}}{A_{i,t-1}} = \beta_0 + \beta_1 \frac{\Delta REV_{it}}{A_{i,t-1}} + \beta_2 \frac{PPE_{it}}{A_{i,t-1}} + \varepsilon_{it} \quad (2)$$

Total accruals (TAC) are regressed on the change in revenues ( $\Delta REV$ ) and the level of gross property, plant and equipment ( $PPE_{it}$ ), scaled by lagged total assets ( $A_{it}$ ), in order to avoid problems of heteroscedasticity. Using the estimates for the regression parameters,  $(\hat{\beta}_0; \hat{\beta}_1; \hat{\beta}_2)$ , we estimated each sample firm's non-discretionary accruals (NDCA) by adjusting the change in sales for the change in accounts receivable ( $\Delta AR$ ), to allow for the possibility that firms could have manipulated sales by changing credit terms (Dechow et al. 1996).

Moreover, discretionary accruals ( $DCA_{it}$ ) for firm  $i$  in year  $t$

was calculated as the difference between TAC and NDCA:

$$DAC_{it} = \frac{TAC_{it}}{A_{it-1}} - NDAC_{it} \quad (3)$$

**Data:** Data: For the financial figures, the main source used was the Osiris database, which was complemented with data from the Lima Stock Exchange (BVL), the Superintendence of the Securities Market (SMV), and the annual reports of companies (in cases where the data was incomplete). Data from 84 Peruvian listed corporations (a total of 504 firm-year observations), for the period between 2007 and 2013, were analyzed <sup>4</sup>.

**Findings:** The main conclusions of this earnings management research are: 1) Peruvian corporations engage in some degree of earnings management; 2) the mandatory compliance of IFRS has a positive effect on accounting quality, more specifically on earnings management (measured by the level of discretionary accruals).

## Study 2: Value Relevance

The purpose of this part of our research is to evaluate the effect of the IFRS on the accounting quality, using value relevance as an earnings quality construct.

### Hypotheses:

H1: Earnings per share are value relevant relative to stock price:

$$P_t = \alpha + \beta_1 EPS_{t-1} + \epsilon_t$$

H2: Book value of equity per share is value relevant relative to stock price.

$$P_t = \alpha + \beta_1 BV_{t-1} + \epsilon_t$$

H3: Cash per share is value relevant relative to stock price:

$$P_t = \alpha + \beta_1 CF_{t-1} + \epsilon_t$$

H4: Combined earnings per share and book value are value relevant relative to stock price.

$$P_t = \alpha + \beta_1 EPS_{t-1} + \beta_2 BV_{t-1} + \epsilon_t$$

H5: Combined earnings per share, cash per share and book value are value relevant relative to stock price.

$$P_t = \alpha + \beta_1 EPS_{t-1} + \beta_2 CF_{t-1} + \beta_3 BV_{t-1} + \epsilon_t$$

where:

$P_t$ : Stock price 1 month after the end of fiscal year  $t-1$ , where year  $t-1$  is the event year

$BV_{t-1}$ : Book value at the end of year  $t-1$ ;

$EPS_{t-1}$ : Earnings per share in period  $t-1$ ;

$CF_{t-1}$ : Operating Cash Flows in period  $t-1$ ;

$\epsilon_t$ : a normally distributed error term.

**Model:** The Ohlson model (1995) underlies the traditional belief that the company value is composed of two main parts: the net value of the investment made in it (book value), and the present value of the period benefits (earnings) that together bring the “clean surplus” concept of the Shareholders’ equity value. More specifically, Ohlson motivates adopting the historical price model in value relevance studies, which expresses value as a function of earnings and book values.

Book value and earnings perform a central reference role in the companies’ valuation process. However, the way that both variables impact market price behavior remains a question to be answered. In this study, we use a variation of the Ohlson model.

**Data:** The sample is selected for Peruvian firms for the period 1994–2012. All necessary data were obtained from the Thomson database. 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 (i.e. cash per share, earnings per share, and book value of equity per share). A total of 2,858 firm-years were taken into consideration for this research. From them, 792 (27.7%) observations were discharged for a number of reasons (incomplete data, outliers, etc.), leaving us only with 2,066 (72.3%) observations.

**Findings:** This paper studied the value relevance of accounting figures in the Lima Stock Exchange between 1994 and 2012. On one hand, it complements previous studies by Ndubizu and Sanchez (2006), Liu et al. (2012), and Martínez, P. et al. (2012), which covered different periods (from 1994 to 1999 for the first one, 2002 to 2009 for the second, and from 1999 to 2007 for the latter). On the other hand,

<sup>4</sup> These data are available from the authors upon request

contrary to the research by Liu et al. (2012), this paper reaches a different conclusion regarding the value relevance of accounting numbers in the period following the early adoption of IFRS in Peru: there is high value relevance not only in the early IFRS adoption period, but also in the period after 2004.

When analyzing value relevance of different variables, the combined effect of *EPS*, *BV* "per share" and *CF* "per share" proved to have the most value relevance. At the same time, when analyzing each variable independently, *BV* was shown to be the most effective variable as a predictor for price per share, followed by *CF* per share and *EPS*.

## 9. DISCUSSION AND ANALYSIS

Considering both the interviews to the main stakeholders and the surveys to the listed companies, as well as the two studies, related to the implementation of IFRS in Peru and its impact on the accounting/financial reporting quality (earnings management and value relevance), it can be concluded that the mandatory adoption of IFRS have contributed to the improvement on the accounting quality and consequently, on the corporate governance in Peruvian corporations.

However, this imposition (IFRS is mandatory for the listed companies in Peru) has been complemented with a imposition --in the spirit of Aguilera and Jackson (2010)-- mechanism related to Corporate Governance, like the Principles of Good Governance for Peruvian Companies, issued in 2002, and then modified in 2013 (Code of Good Corporate Governance for Peruvian companies). However, the compliance with the Code is not mandatory (although the listed companies must report the level of compliance obligatorily). Thus, although the companies have the obligation to include their Report on Compliance with the Code of Good Corporate Governance for Peruvian companies when they submit their financial statements (in compliance with IFRS), good corporate governance would result optional, since the SMV cannot apply sanctions to those who disrespect it (Tavara, 2016). This is a very important issue related to the quality of the corporate governance in Peru.

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

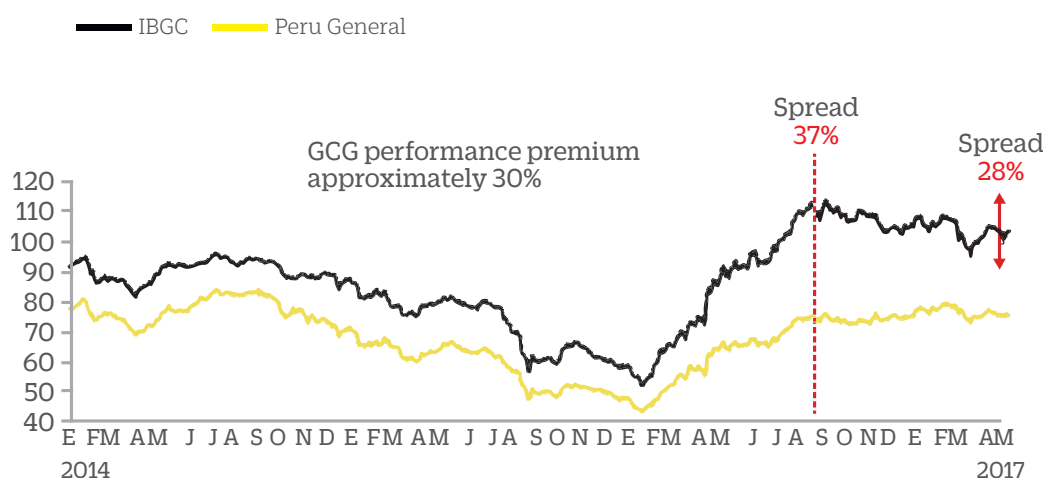
Regretfully, in spite of the improvement in corporate governance in Peru, through the preparation of financial statements, in compliance with the IFRS, and the mandatory filing of the "Report on Compliance with the Code of Good Corporate Governance for Peruvian companies", corporate governance in Peru is still incipient. When compared to other Latin American countries, such as Chile, Colombia or Mexico, all members of the "Pacific Alliance" (a Latin American trade bloc conformed by those countries and Peru), Peru has the lowest good corporate governance ranking (EY Peru, 2017).

EY and the Lima Stock Exchange (BVL), have been conducting since 2014 an annual survey called "*La Voz del Mercado*" (The Market's Voice), a novel tool, which enables capital market agents to assess the quality of the stock and debt issuers' corporate governance in Peru. This tool is unique in the region and it has even earned public recognition from the OECD in its recent publication, Strengthening Corporate Governance Codes in Latin America (OECD, 2016). Deficiencies in regulatory requirements for the three levels of governance in Peruvian companies: General Shareholders' Meeting, Board of Directors and General Manager's Office were found in the survey (EY Peru, 2017).

Consequently, Peruvian regulators, and authorities, should try to foster even more corporate governance practice, for there is plenty of evidence on how beneficial it is. For example, regarding the stock market, as of the closing of 2016, the Good Corporate Governance Index (GCGI) of the Lima Stock Exchange (BVL), which reflects the behavior of securities pertaining to issuers that adequately comply with the Good Corporate Governance Principles, recorded a 30% difference in its favor, versus the S&P/BVL Peru General Index, an index which groups the most liquid companies of the BVL (see Figure 4).



**Figure 4: Performance in the Peruvian Stock Market**



Fuente: Bloomberg

On the other hand, despite the adoption of a number of measures on good corporate governance by regulatory authorities (the approval of the Corporate Sustainability Report, which complements the information contained in the Code of Good Corporate Governance (2015) report; the publication of the new regulations on Indirect Property, Related Companies and Economic Groups (2015); the launching of the regulations concerning Comprehensive Risk Management and Operational Risk (2016); and the new SBS regulations on Corporate Governance and Comprehensive Risk Management (2017)), Peruvian regulators face a number of challenges (EY Peru, 2017). In this regard, the Peruvian regulator should focus on the following: quality of information; quality and independence of the Board of Directors; respect for minority rights and conflicts of interest and related parties (Appendix 2 and Appendix 3 show the summary of conclusions based on EY and the Lima Stock Exchange authorities' survey).

Finally, another proposal for improving corporate governance in Peru would be a mandatory compliance of listed companies with the Code.

## 10. CONCLUSIONS

The most important conclusion from this research is that the implementation of the IFRS has helped to improve the quality of the accounting data and subsequently, the corporate governance since before the adoption of the IFRS a not-well defined set of accounting standards was applied in Peru (a combination of tax rules and US GAAPs).

Finally, although a number of mechanisms have been implemented to improve corporate governance in Peru, the situation is still incipient so a number of proposals are given, including the mandatory the compliance of listed companies with the Code and the corresponding penalties in case of not adherence to the principles.

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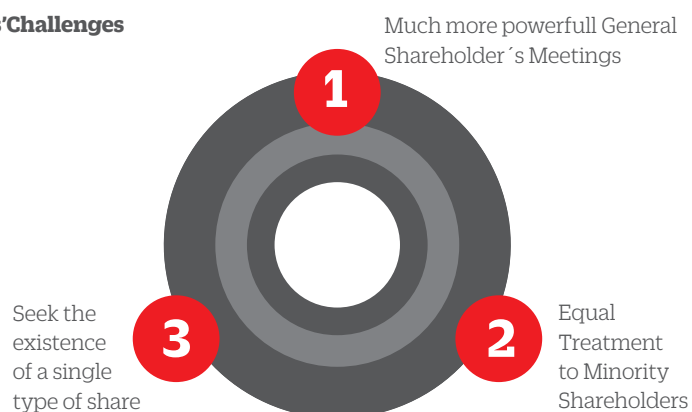
## APPENDIXES

### Appendix 1: List of Acronyms

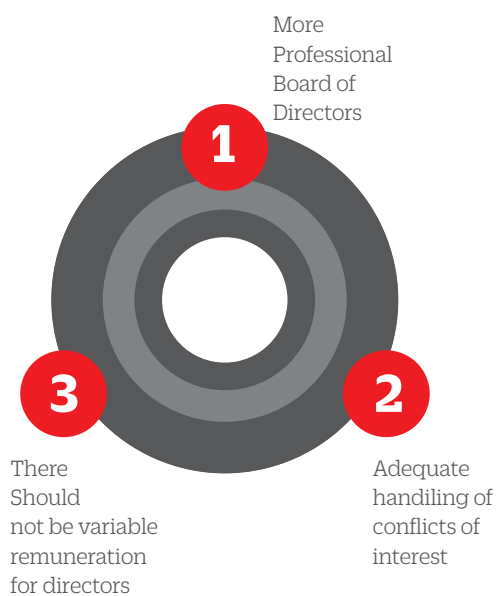
<b>APB</b>	Accounting Principles Board
<b>CNC</b>	Accounting Standards Council in Peru
<b>CONASEV (current SMV)</b>	National Supervisory Commission of Enterprises and Securities
<b>FAS</b>	Financial Accounting Standards
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IAS</b>	International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

## Appendix 2: Challenges of Corporate Governance in Peru

### I. Shareholders' Challenges



### II. Board of Directors' Challenges



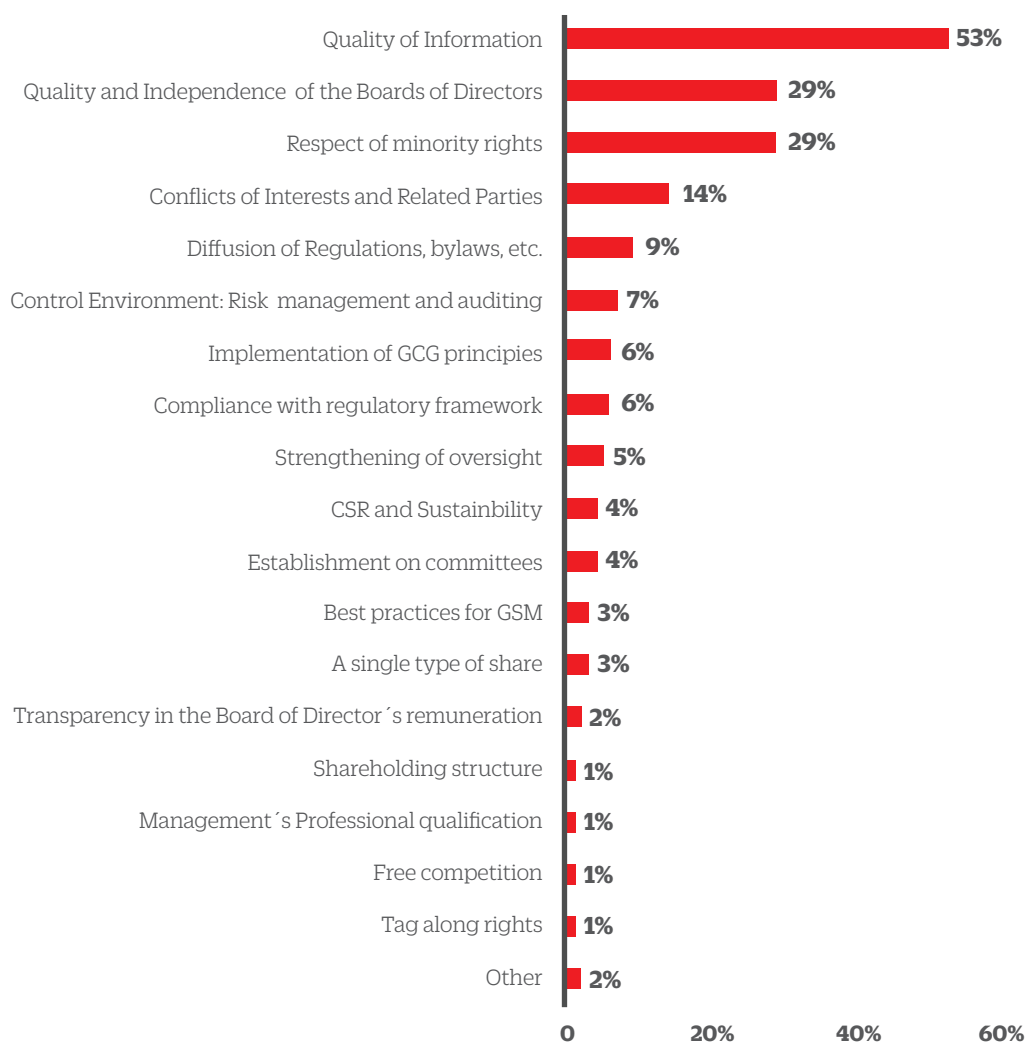
### III. Management's Challenges



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



### Appendix 3: 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 systematized. To the extent that several of the comments have referred to more than one aspect, they have been taken as multiple answers, that is why they do not add up to 100%