

Mandatory IFRS and Corporate Governance in Peruvian Corporations

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1. Purpose

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).

2. Introduction

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 is unclear.

3. Relevant Concepts

- 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.
- 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).

4. Corporate Governance in Peru

- 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.
- In 2008 the Lima Stock Exchange (BVL) issued the Index of Good Corporate Governance.
- On June 14, 2014, the SMV issued Resolution No. 012-2014-SMV/01, which requires listed companies **disclose their good governance practices to the public when they report their compliance with the Code of Good Corporate Governance for Peruvian Companies.**

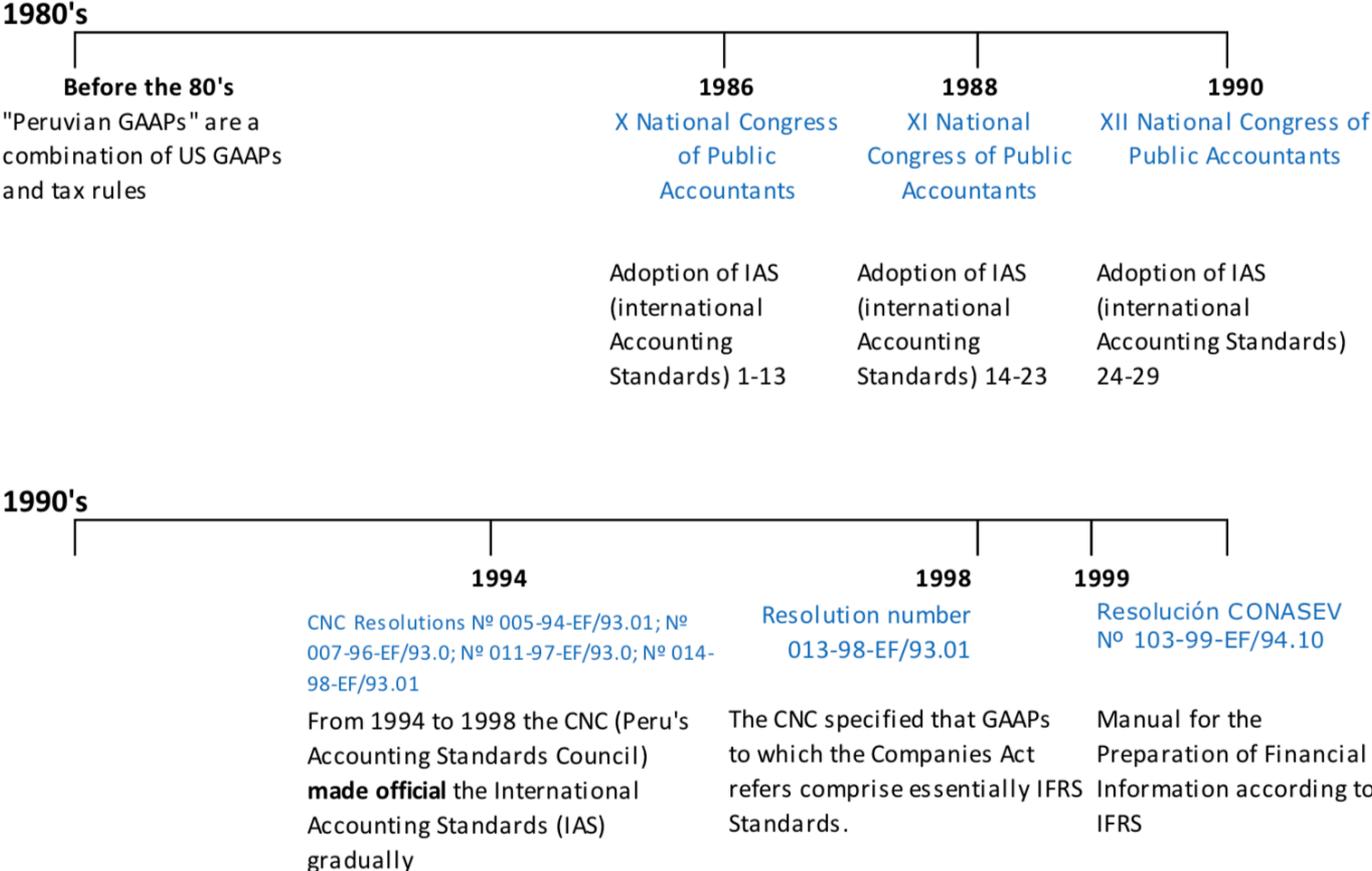
5. Accounting in Peru: Authorities and Standards

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).

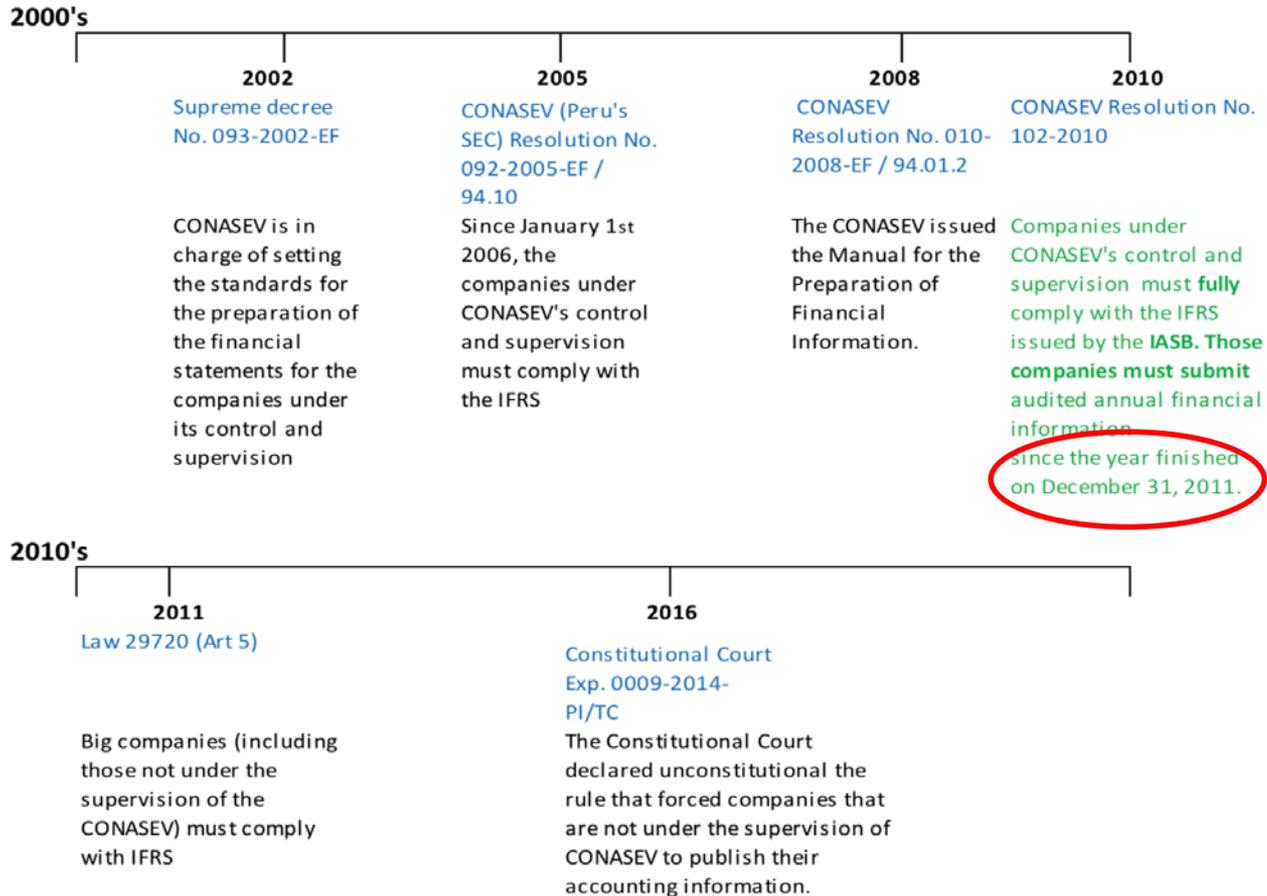
Table 1: Accounting Standards in Peru

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

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



Historic Milestones in the Adoption of IFRS in Peru cont.



6. Literature Review

6.1 Corporate Governance in Peru

- 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).
- 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, it is costly to improve investor protection because the institutional infrastructure is lacking and good governance has political costs.
- Tanaka (2015) concluded that good corporate governance is correlated with good financial performance.
- Mongrut *et al.* (2018) concluded that companies that have adopted a corporate governance code pay more dividends, despite the fact that dividend payout is usually negatively correlated with ownership concentration.

6.2 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. 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).
- A number of papers that followed the World Bank report should be mentioned. Lam (2010), 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.

7. Hypothesis Development

As previously mentioned, 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.
- Yu and Zabiollah (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 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.**

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 potential advantages, including more accurate, comprehensive, and timely financial statement information.**
- 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.
- 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.

- Van Tendeloo and Vanstraelen (2006) posit 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.
- 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 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.

7. Hypothesis Development cont.

- 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.

8. 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.

8.1 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/positions of the interviewees are not mentioned.

Table 2: 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 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
8	Deloitte	Partner
8	BDO	Partner
9	KPMG	Director, Accounting Advisory Services
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

8.2 Surveys of companies

- 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.**
 - 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.**
- see Appendix 1: Summary of the Surveys Results-**

9. Analysis of the Results

9.1 Interview Results

Topic 1: Peruvian GAAPs

After analyzing the results of the interviews, 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.

9.1 Interview Results cont.

Topic 2: Benefits of the Implementation of IFRS

After reviewing the results of the interviews, 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.

9.2 Survey Results

- 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.

9.2 Survey Results cont.

- 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.

Conclusions – Primary data

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.”

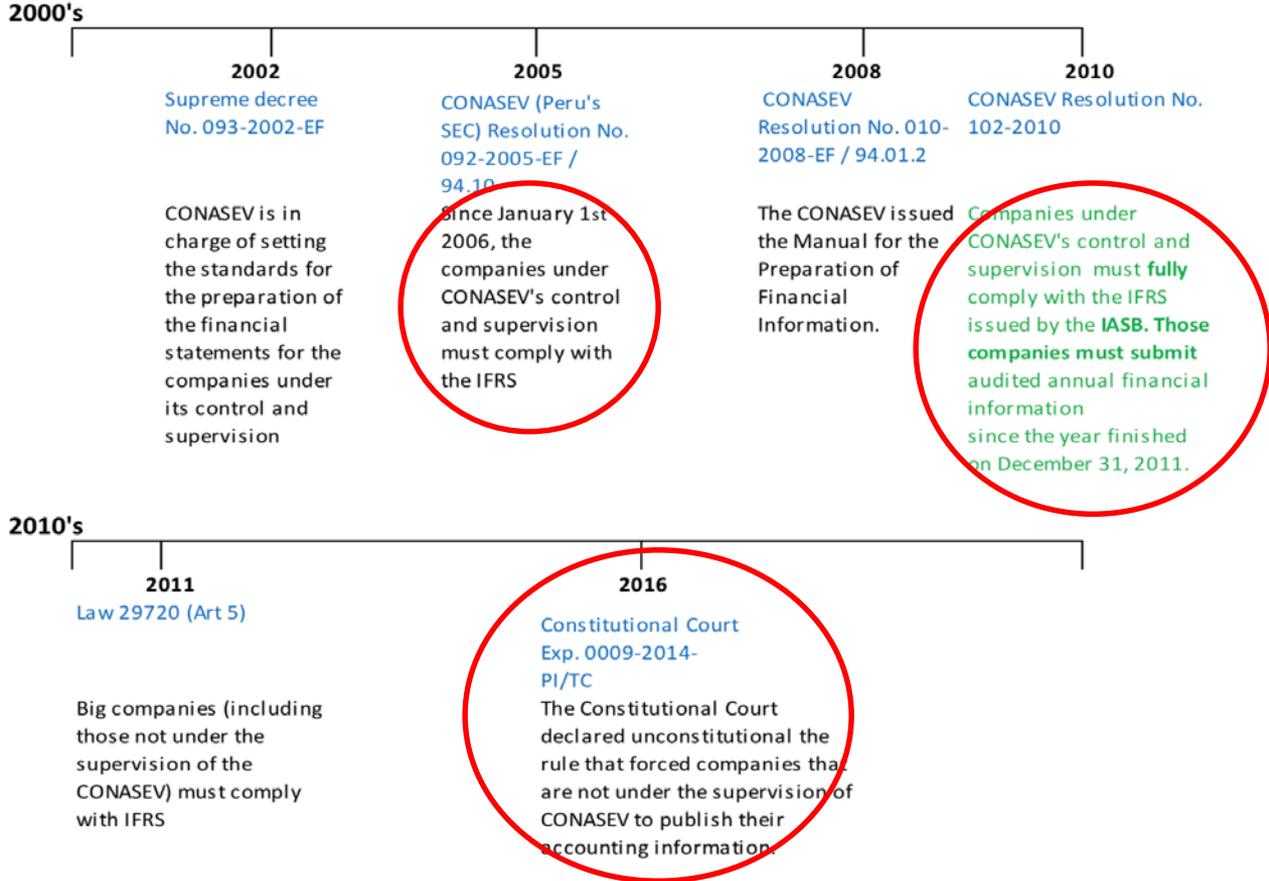
10. Complementary Analysis of Accounting Quality after Mandatory IFRS Adoption: Earnings Management and Value Relevance

- 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**. Considering this, in order to strengthen conclusions regarding the influence of IFRS on financial reporting quality, **two studies regarding earnings management and value relevance were conducted**.

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

- 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

Figure 2: Historic Milestones in the Adoption of IFRS in Peru



10.1 Study 1: IFRS and Earnings Management

Purpose: 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.

10.1 Study 1: IFRS - Earnings Management cont.

Model: The study applied the **modified version of the Jones (1991)**, which has been widely used in other studies.

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

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

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 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. **Data from 81 listed Peruvian corporations for the period between 2006 and 2016 (a total of 891 firm-year observations) were analyzed**

10.1 Study 1: IFRS - Earnings Management cont.

Conclusions:

- 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 Houque *et al.* (2012), we conclude that IFRS per se does not lead to improved quality of earnings reporting.

-see Appendix 2: Summary of the Earnings Management Results-

10.2 Study 2: Value Relevance

Purpose: To evaluate the effect of the IFRS on accounting quality using value relevance as an earnings quality construct.

Model: The Ohlson Model 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.

$$P_{it} = \beta + \beta_1 BVE_{it} + \beta_2 EPS_{it} + \varepsilon_{it}$$

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

ε_t = a normally distributed error term

10.2 Study 2: Value Relevance cont.

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.

10.2 Study 2: Value Relevance cont.

Conclusions: This study complements previous studies by Ndubizu and Sanchez (2006), Liu *et al.* (2012), and Martínez *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 relevance.**

11. 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.

11. Discussion and Analysis cont.

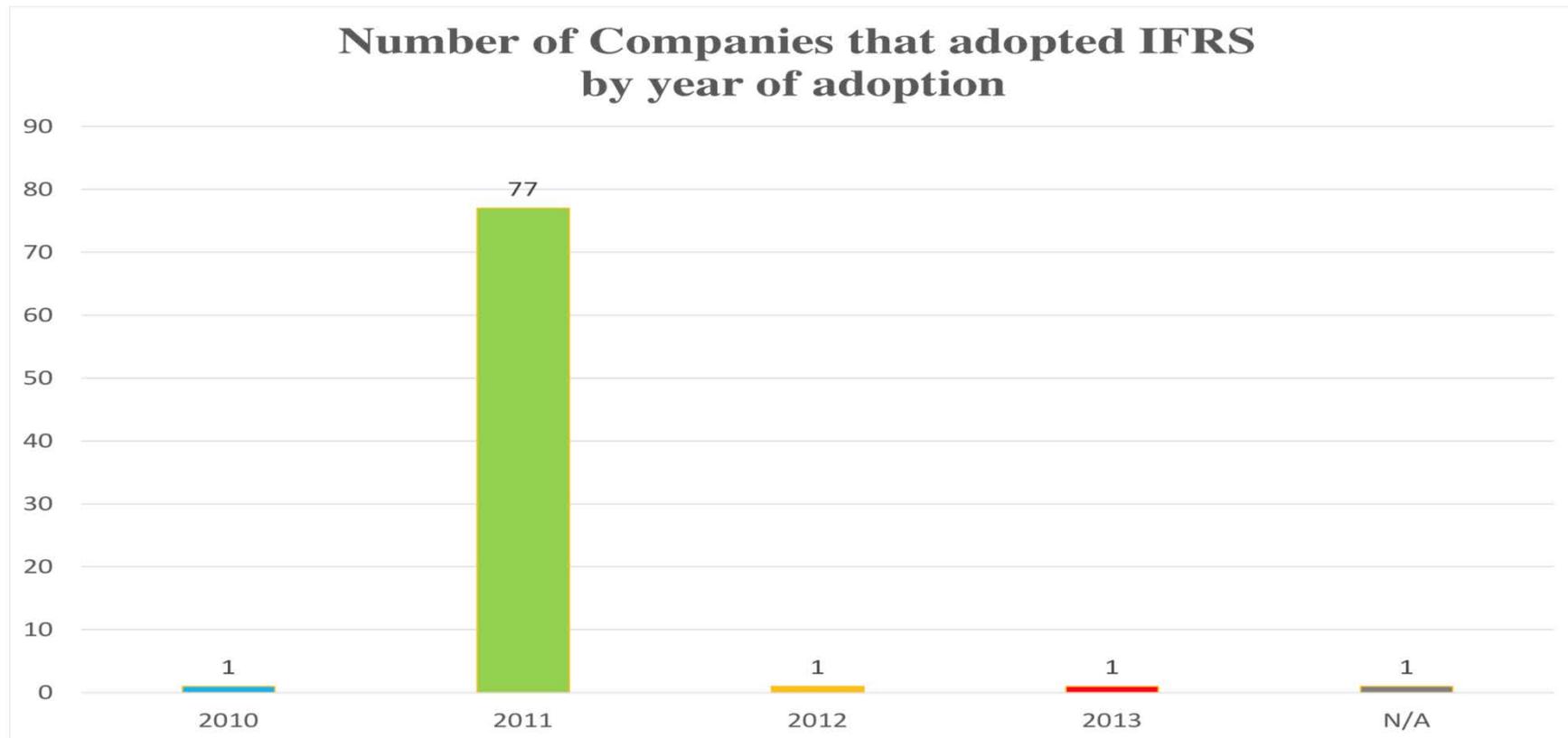
- Since the conclusions of the primary data (interviews and surveys) and secondary data (value relevance and earnings management) studies diverge, **an additional analysis** using secondary data was carried out to find out some explanations for the results of the secondary data research.
- **In order to understand the low coefficients of the Part/Post variables, which imply that the implementation of the IFRS had no significant 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 Auditor's Reports, were examined in order to ascertain 1) the timeline (exactly when each company adopted IFRS based on the audit opinion) and 2) the magnitude (the change in the amount) of the effect on the financial statements.
- The rationale for this analysis is that in both Accounting Quality studies -Earnings Management (modified Jones model) and Value Relevance (Ohlson model)- the timeline and magnitude of the accounting figures are decisive in the statistical results.

Timeline

As can be seen in Figure 3, more than 95% of the companies (77 corporations) adopted IFRS in 2011 (consistent with the year it was mandated in CONASEV Resolution No. 102-2010).

Figure 3
Companies in this research: Auditing Firms and IFRS Adoption Year



- However, a deeper analysis reveals that—as per the interview with the Supervisor from the SMV (see below)—**Peruvian companies started compliance with IFRS after 2005, but compliance was neither full nor uniform.**

“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.”

“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.**”

See Appendix 4: Excerpt from interview with the Supervisor of the SMV

- 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.”

- Consequently, although companies state a specific year (for example, 2011 for IFRS adoption in the case of Austral), they started adopting IFRS before (Austral started adopting IFRS in 2004) gradually.
- Therefore, when analyzing the IFRS effect on the Accounting Quality using the models previously mentioned, **the conclusions on the stated year of adoption can not be definitive.**

Magnitude

- Using the data from each of the sample companies, an analysis of the effect of the transition from Peruvian GAAPs to IFRS was also performed, measuring the difference using two key accounting figures: Shareholders' Equity and Net Income.
- As can be seen in Table 3, 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.

Table 3:
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 ATACOCCHA 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
COMPANIA 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, Inventory, 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 Additional 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

Effect Transition
to IFRS on the
Shareholders'
Equity cont.

Company name	Peruvian GAAPs	Effect Transition to IFRS	IFRS	% Change	Absolute Value %	Currency	Main Assets and Liabilities affected in the Conciliation Peruvian GAAPs - IFRS
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, Investments, Other Accounts Receivables
INMOBILIARIA MILENIA S.A.	33,567	115,637	149,204	344.5%	344.5%	S/1,000	Investments, Deferred Taxes
INTRAVECO 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 CORPORATON - 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

**Effect of the
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 ATACOCCHA 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	COMPANIA 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 DE 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

**Effect of the
Transition
from Peruvian
GAAPs to IFRS
on the Net
Income cont.**

IFRS officially adopted in	Company name	Peruvian GAAPs	Effect Transition to IFRS	IFRS	% Change	Absolute Value %	Auditing Firm
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.	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	(18,836)	253,404	-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

- 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, in reality, the adoption of IFRS substantially affected the financial position of some listed Peruvian companies. The effect can clearly be observed in the cases of **Immobiliaria Milenia** and **SEDAPAL**. Table 4 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, which was not able to adopt IFRS in 2011 as legally prescribed.

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	COMPANIA MINERA SAN IGNACIO DE MOROCCHA 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 DUÑAS 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 DE 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 PUÑO 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 S 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

Table 4:
Effect of the
Transition
from
Peruvian
GAAPs to
IFRS

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.	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 ATACOCCHA 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
COMPANIA 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, Inventory, 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 Additional 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, Investments, 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

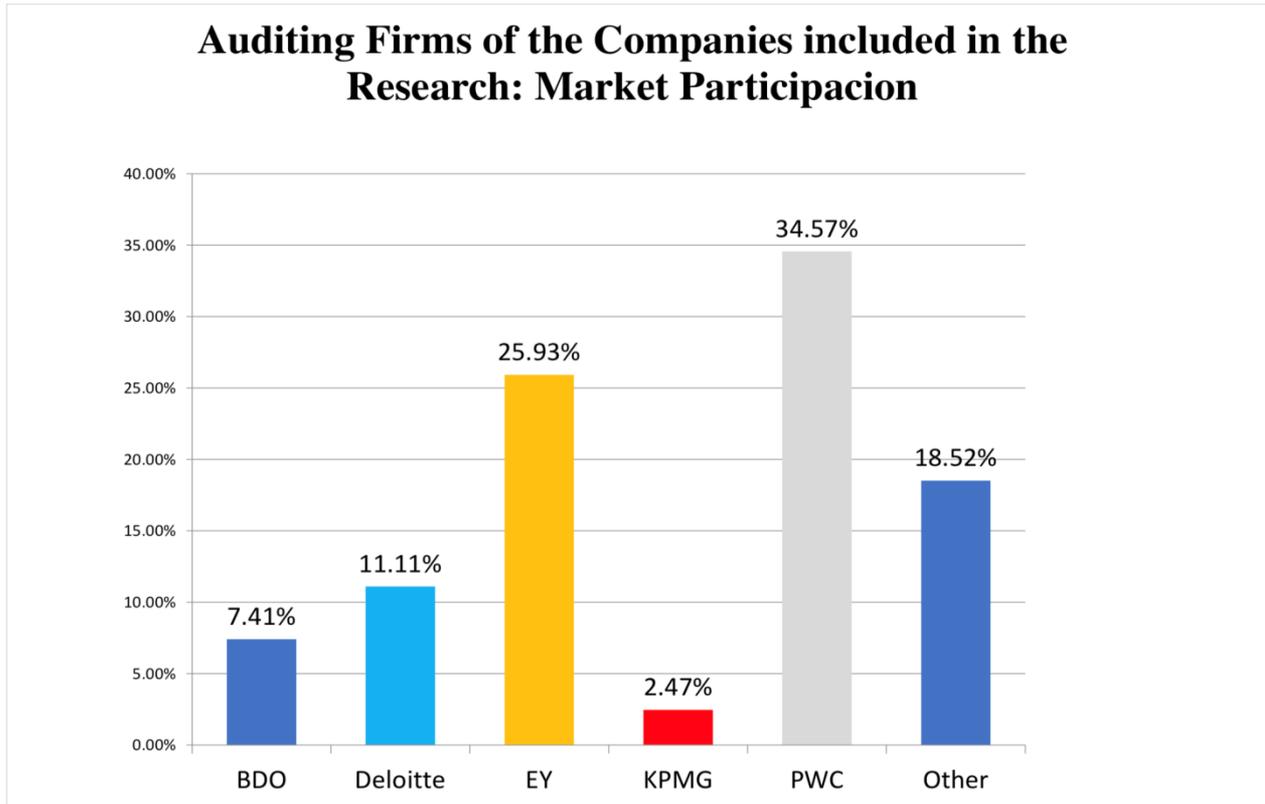
Number of companies with variations < 15% 52 Companies <10% 50

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

Other Issue

- As Figure 4 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.
- Since the **quality of the auditing could be affected by the audit firm's size and level** (Big Four compared to small audit firms), the **difference between the values of the accounting figures** (before and post IFRS adoption) **of the companies audited by small firms could have been higher.**

Figure 4
Companies in this research: Auditing Firms and IFRS Adoption Year



Some conclusions of the Additional Analysis

1. 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. Since these “rules” were not uniform across companies, the IFRS adoption improved the quality of the accounting quality and subsequently on corporate governance.
2. The IFRS adoption had a significant impact in the values of the accounting figures, however, since the effect of full IFRS adoption was recognized in different years by Peruvian companies, it is impossible to quantify statistically the effects in only a single year. For example, some companies gradually recognized the effect from 2006, or as late as 2011.

Some conclusions of the Additional Analysis cont.

3. As previously stated, the two studies using secondary data did not find that IFRS adoption had a significant impact on either earnings management or value relevance, and consequently, on corporate governance, in Peru. However, the apparent lack of significant impact of IFRS adoption can be explained by the fact that IFRS was not adopted in a single-year time period by Peruvian listed companies; they adopted IFRS gradually over a multi-year period, although companies designated a single year in which they achieved full adoption.

Other Issues in the Evolution of Corporate Governance in Peru

- 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)**. “Good corporate governance” remains optional, as the SMV cannot apply sanctions to companies that fail to comply with the Code (Tavara, 2016)

Other Issues in the Evolution of Corporate Governance in Peru cont.

- Although a number of measures have been taken in recent years 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).

Other Issues in the Evolution of Corporate Governance in Peru cont.

- 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.
- 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).

See Appendix 5: Corporate Governance in Peru – Other Issues

12. 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**.

12. Conclusions cont.

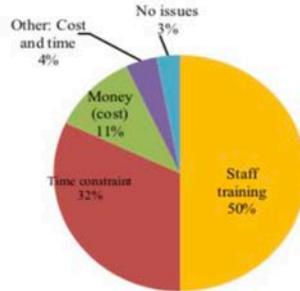
- Finally, although a number of mechanisms have been implemented to enhance corporate governance in Peru, there are still opportunities for improvement, especially considering Peru's low corporate governance ranking compared with other Pacific Alliance members. A number of proposals have been made with 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.

Appendices

Appendix 1: Summary of the Surveys Results

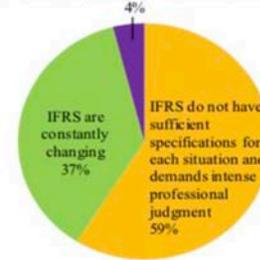
Survey to Non-Financial Listed Companies

1) What was the main obstacle you faced in the implementation of IFRS?

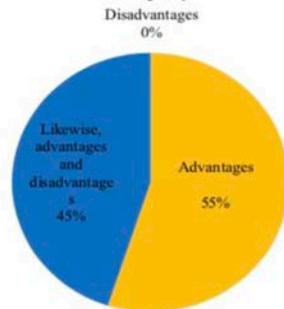


2) Among the following alternatives, which was the greatest issue for the implementation of IFRS in your company?

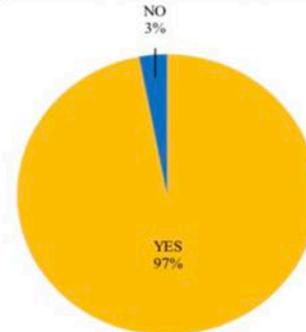
IFRS are very complicated to understand



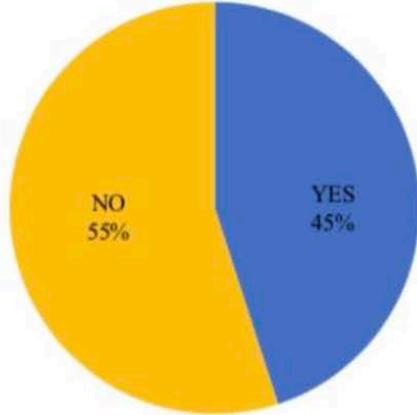
3) In general terms, do you consider that the adoption of IFRS brought to your company



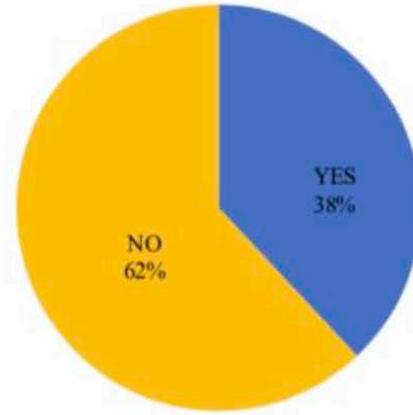
4) Do you think that IFRS provides companies with more accurate information?



5) Do you think that IFRS increases the volatility of profits?

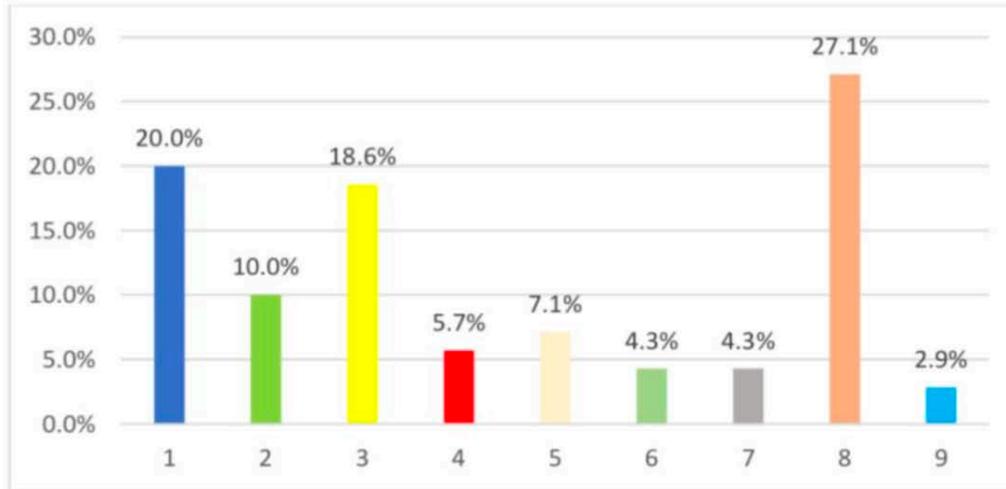


6) Do you think that IFRS increases the volatility of share prices?



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

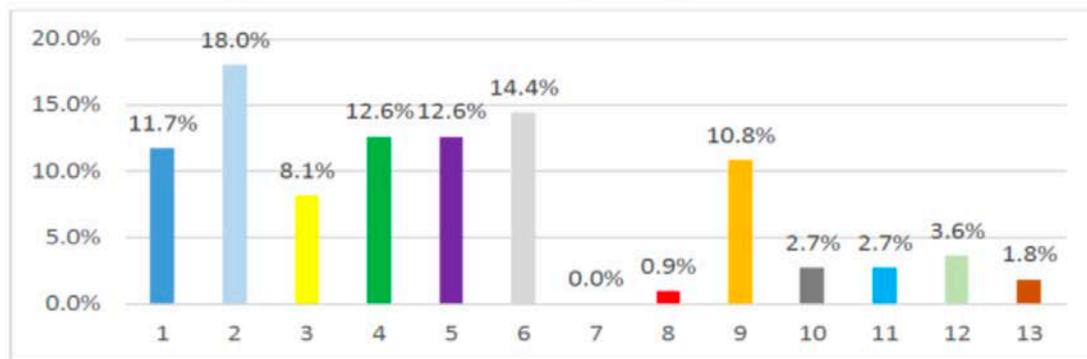
7=> Excess of information reported in the financial statements

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

Appendix 2: Summary of the Earnings Management Results

Discretionary Accruals

Panel A: Earnings Management estimation for the whole research period

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

	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

Discretionary Accruals cont.

Panel C: DAC

Modified Jones Model: Descriptive Statistics

	2006-2009		2010-2011		2012-2016	
	Early Adoption		Actual Adoption		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

Appendix 3:

Summary of the Value Relevance Results

Value Relevance Regression Results

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

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

	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)

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

	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			

Value Relevance Regression Results cont.

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

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

	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

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

	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			

Value Relevance Regression Results cont.

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

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

	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

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

	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			

Appendix 4:
Excerpt from interview with the Supervisor of the SMV
(Superintendence of the Securities Market, former CONASEV)

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 allow 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.

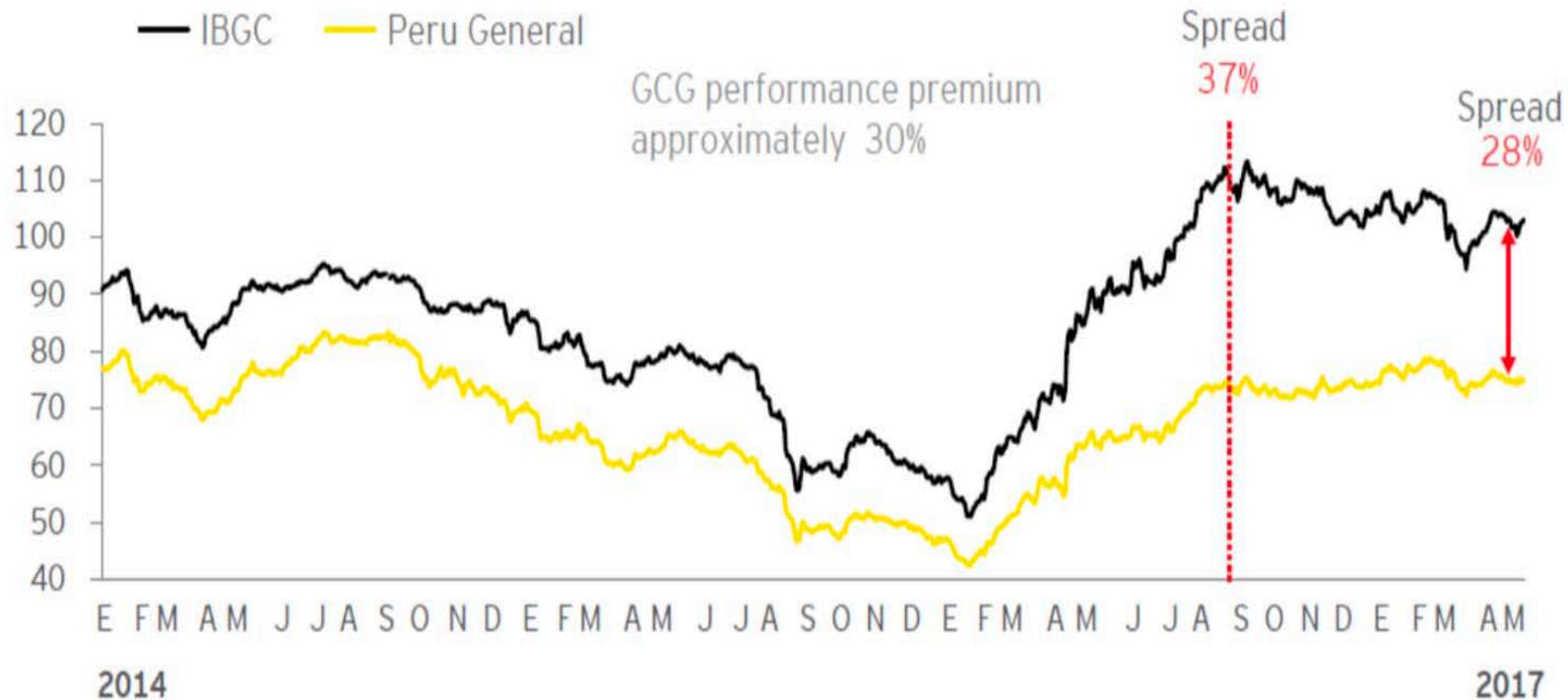
“In 2010, there were a series of meetings with listed companies, by sectors and according to their participation in the market. Then a plan and schedule were made, indicating what the listed companies had to do, what they had to register, and what the effects would be for the companies in terms of their 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 5:

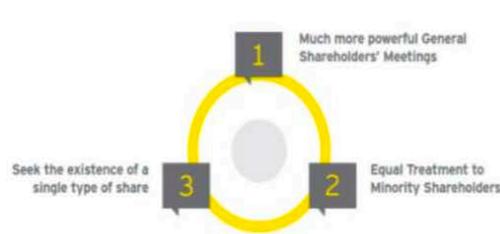
Corporate Governance in Peru – Other Issues

Performance in the Peruvian Stock Market

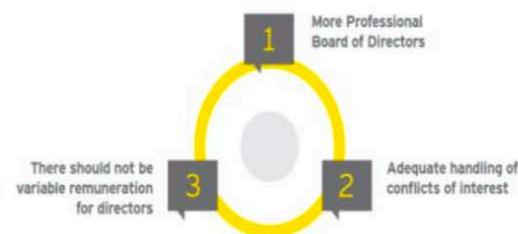


Challenges of Corporate Governance in Peru

I. Shareholders' Challenges



II. Board of Directors' Challenges

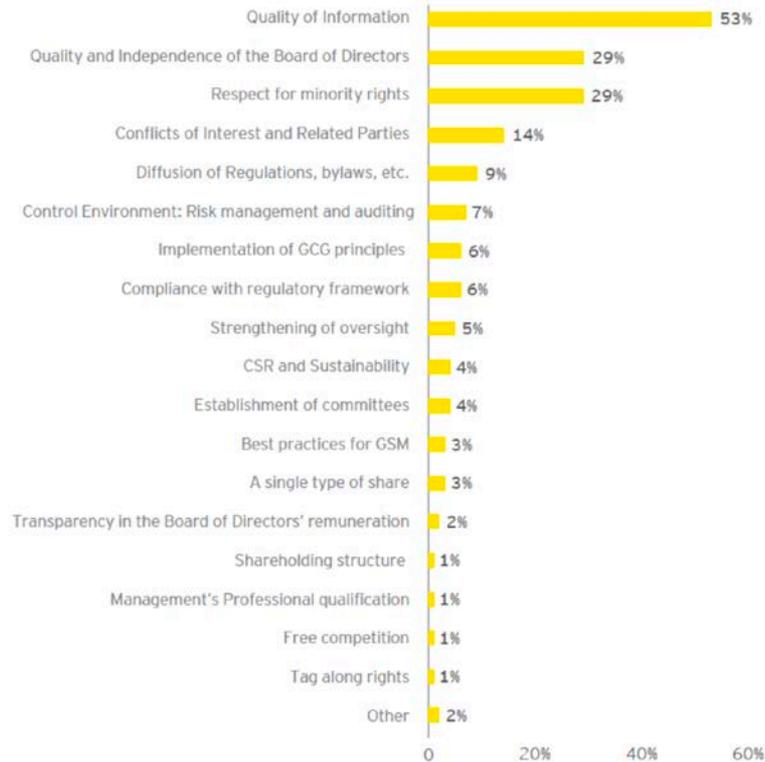


III. Management's Challenges



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

Challenges that regulator must face in Peru



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

Thank you!