



# Discussion of *Mandatory IFRS and Corporate Governance in Peruvian Corporations*

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# *Summary of the Paper*

- **A three-year comprehensive study on IFRS and corporate governance in Peru**
  - In response to the World Bank and internal Peruvian regulators' requests for improved corporate governance in Peru
- **Adoption of IFRS → Accounting quality (and corporate governance):** disclosure and transparency

# Strengths

- **Unique and interesting setting**
  - Investigates different stages of implementation of IFRS
- **Uses both primary (interviews and surveys) and secondary data** to examine the research question

# Weaknesses

- **Conceptual link**
  - Doesn't better financial reporting quality **necessarily imply** improvement in corporate governance mechanisms?
- **Weak empirical analyses**
- **Confounding events**
  - Are the results in financial reporting quality improvement attributed to the **adoption of IFRS** or the **improvement of corporate governance**?

# Clarifications

- **How does your study contribute to the international accounting literature?**
  - Other less developed or Latin American countries
- **Mongrut and Winkelried (2019):** The adoption of the IFRS is **insufficient** to guarantee transparency in Latin American countries
  - **Why do we need another study to demonstrate similar results** (e.g., limited effect of the adoption of IFRS on deterring earnings management behaviors)?

# Clarifications

- **Why are Peru results different?**
  - **Zegal et al. (2012):** Proponents of mandatory IFRS adoption note that conversion to IFRS **improves** information quality and thus enhances the comparability and transparency of financial reporting
  - **Rodriguez et al. (2017):** The change from local accounting regulations to internationally approved standards **increased value relevance**, and improved earnings timeliness in large firms

# Clarifications

- **What are the differences between First and Second Stage?**

- **First Stage** (p. 24)

CONASEV decided to **strongly force** companies to comply with IFRS... required companies under its control and supervision to comply with IFRS

- **Second Stage**

“ ...that companies under its control and supervision must **fully** comply with the IFRS issued by the IASB”

- **Provide a brief discussion of the key points about Third Stage**

- “**See Appendix 2 for an excerpt from an interview** with the Supervisor of the Superintendence of the Securities Market...”

# Other Clarifications

- In your interviews, you included key players such as universities, but the **role of universities in Peru** is unclear
- p. 15 Why are there **19 interviewees from 20 institutions/firms**? Adding a footnote for your reader
- **What's the percentage of institutional investors (domestic vs. foreign) in Peru?**
- p. 32 Some companies were unable to adopt IFRS by 2011... **any penalty for such an extension?**
- Panel D of Table 4: why mean and median and standard deviation **doubled from 2007 to 2008** (some explanation would be helpful)
- Latinoamericana de Gerencia (**top accounting firm**)?
- P. 9 What is **AFT**?





# *Suggestions-General*

- Develop a **figure** for historic milestones in the development of **Corporate Governance** in Peru, similar to the one for the adoption of IFRS
- Elaborate on findings of previous studies **to motivate the main hypothesis** rather than simply listing all related studies without sufficient discussion
- Provide the arguments for **why the adoption of IFRS can or cannot improve** accounting quality and corporate governance in Peru

# *Suggestions-Empirical*

- **Different stages of adoption of IFRS rather than one-time conversion**
  - Figure 1 shows that as early as 1999, CONASEV issued the manual for the preparation of financial information according to IFRS. Thus, the public firms in Peru may have anticipated the adoption of IFRS and thus changed their reporting behavior earlier than 2006
  - Examine the earnings management and value relevance **before 2006** (e.g., 1999-2006) and see **how it compares to later periods** (2006-2009 and **2011-2016**)

# *Suggestions-Empirical*

## **Robustness test:**

- The model seems to be estimated using the **pooled data**
- It seems not feasible to estimate **at industry-year level** because of the small sample size for each industry
- Run the estimation model by **year with the industry fixed effect** to estimate the discretionary accruals (The accounting standards used are different before and after the adoption of IFRS).

**Control for firm characteristics variables** (e.g., Dechow et al. 1995)

Use the **Index of Good Corporate Governance to** verify your results on corporate governance evolution

# *Suggestions-Interview Results*

- **Use interviews to shed some light** on why IFRS is ineffective in Peru
- **Topic 1: Peruvian GAAPs**
  - Significantly condense this section by incorporating some of the interviews into **4. Accounting in Peru** and also putting some representative transcripts in the **Appendix**
- **Topic 2: Benefits of the Implementation of IFRS**
  - Summary of interviews by **major points** and then complement it with the quotes

# *Suggestions-Others*

- **Figure 1 does not match with the descriptions** in the text (p. 7)
  - Did not mention the adoption of IAS in the 1980s
  - In 2000, with the promulgation of the law 27323, the SMV functions were modified (**SMV... not mentioned in Figure 1**)
- It is difficult to read **Table 6**. You can **use a company as an example** to go over the statistics, provide only summary statistics, and put the detailed firm-level information in an appendix

# *Suggestions-Others*

- Condense the paper by **combining/removing some tables and figures:**
  - **Combine Table 4, Panels B and C**
  - **Table 2.** Describing some key statistics in the text
  - **Figure 5.** Table 2 shows PwC highest and column 1 of Table 6 indicated auditors, sufficient information for your readers; add some statistics to the text
  - **Appendix 3.** Briefly mention these challenges in the text
  - **Appendix 4.** Adding a link for your reader rather than reproduce the table

# Suggestions-Others

- **Be consistent in providing information when you discuss prior studies**
  - **Specify the country settings for**
    - Yu and Zabihollah (2012) and Leung and Ilsever (2013)
    - Van Tendeloo and Vanstraelen (2006)
    - Iatridis and Rouvolis (2010)
  - **Specify measures**
    - Strength of governance (Verriest et al., 2013)
    - p. 12 Saenz and Garcia-Meca (2013)... concluded that the role of external directors is limited in the Latin American context.
    - p. 14. I&R (2010)... IFRS results in more value-relevant accounting measures
- In the text, you simply mentioned: "**On a scale of** 0 to 5, he obtained the following results (see Figure 2); some discussion would be helpful

# Suggestions-Others

- **Figure 1 does not match with the descriptions here (p. 7)**
  - 1974
  - Did not mention the adoption of IAS in 1980s
  - In 2000, with the promulgation of the law 27323, the SMV functions were modified. (SMV... not mentioned in Figure 1); better align the text with Fig. 1
- **Add limitations to the conclusion**
- p. 27 **Timm and Santana (2014)** was not listed in References
- p. 15 According to the table previously presented, the Big Four and BDO as well as other **minor** audit firms were selected (replace minor with **local**)
- p. 12 Wang and Campbell (2012).... In the **current** environment of China (**remove current**)





# Suggestions-Others

- **Typos**

- p. 16 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... (There must be a typo because **175+36=211**)
- p. 11: survey of **participant (participating)** companies...
- p. 27 Line 6: and again it slightly **ecreases** to 0.0571— should be **d**ecreases
- p. 30 Martinez, **P.** et al. (2012)—remove P
- P. 35 Append**eces** should be Append**ices**

- *Overall, the study examines an interesting and unique country setting*
- *I have learned a lot about accounting reporting standards and corporate governance development in Peru*

*Thank you!*