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Effects of the Political Climate on IFRS Adoption in Latin America

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UNIVERSITY OF MIAMI

EFFECTS OF THE POLITICAL CLIMATE ON IFRS ADOPTION IN LATIN
AMERICA

By

Mailyn Fernandez

A THESIS

Submitted to the Faculty
of the University of Miami
in partial fulfillment of the requirements for
the degree of Master of Arts

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A thesis submitted in partial fulfillment of
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EFFECTS OF THE POLITICAL CLIMATE ON IFRS ADOPTION IN LATIN
AMERICA

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Effects of the Political Climate on IFRS Adoption
In Latin America

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The paper explores the variability of IFRS adoption in Latin America, attempts to identify regional implementation challenges, and provides suggestions for future research. It is unique in focusing on the IFRS experience of developing countries, specifically Latin America, and employs a multi-method approach to analyze the quality of IFRS adoption policies vis-à-vis the potential effects on the comparability of financial information. Moreover, case studies are used to study IFRS adoption and implementation in countries with varying macroeconomic and political climates. The paper suggests IFRS adoption policy quality may be affected by the national political climate, the depth of global economic integration—through international exposure of domestic financial markets and openness of domestic economies—and a country's ability to control inflation. The methodological limitations of these findings are noted and future research is recommended to test these potential relationships. The paper concludes with an assessment of the challenges facing successful IFRS implementation in Latin America specifically, and developing countries, broadly, also noting areas for further research.

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Chapter 1: Introduction

In a 2011 speech in Sao Paulo, Hans Hoogersvort, Chair of the International Accounting Standards Board (IASB), an international accounting standard setter, hailed Brazil as a model adopter of International Financial Reporting Standards (IFRS), the globally recognized standards issued by the private rule maker. Indeed, Brazil's adoption was the result of a serious and methodical project that resulted in domestic standards substantially converged with IFRS, a notable accomplishment by an important developing country.

As for the rest of Latin America, progress on IFRS adoption has also been impressive, and happened at a very rapid pace. According to the IFRS Foundation, nearly all countries in Latin America permit or require some version of IFRS for statutory reporting by domestic companies. Only Bolivia prohibits IFRS usage for domestic financial reporting. Around the world, 120 countries now permit or require the standards for reporting by domestic publicly listed companies (Pacter, 2015). Even the United States has embarked on a project to converge its generally accepted accounting principles (US GAAP) with IFRS, and the US Securities and Exchange Commission (SEC), securities regulator, now allows foreign companies listed on US exchanges to fulfill financial reporting requirements using IFRS without reconciling to US GAAP.

Financial reporting (a verb) refers to the provision of accurate, recurring, historical information on an entity's economic condition for specific time periods to its various internal and external stakeholders for timely and informed decision-making. Financial reporting information (a noun) is the product resulting from financial reporting and takes the form of a common set of four financial statements—Income Statement (reports revenues and expenses, profit or loss, for a given time period), Balance Sheet

(reports a firm's financial position—assets, liabilities, and net worth—at a given time), Cash Flow Statement (reports changes in a firm's cash balances), and Statement of Retained Earnings (reports the profits and capital retained in a firm or distributed to shareholders). While the presentation of financial statements may differ based on a jurisdiction's accounting rules and customs (national GAAP, discussed shortly), these four statements are almost universally understood to provide the financial information necessary to evaluate the economic condition of a firm.

Executives, managers, and employees in firms use financial reporting information internally to make important business decisions (e.g. evaluate capital investments, determine executive and/or employee bonus compensation) and to properly monitor and manage a firm's economic activities. External users of financial reporting information include regulators, tax authorities, creditors, investors, shareholders, and independent board directors. They might use this information to evaluate various business issues (e.g. whether a firm can properly repay its debts or a business makes an attractive investment opportunity, management efficiency, compliance with legal covenants or regulatory requirements). The importance of the quality of financial reporting (verb) and financial reporting information (noun) cannot be understated, as both serve as the common business language used to communicate a firm's economic condition.

In order to be useful to stakeholders, financial reporting information should be accurate, reliable, and recorded and presented consistently. Moreover, the information should be comparable to its own historical reporting and also comparable to that reported by similar entities. This paper is focused primarily on the financial reporting needs of

corporate stakeholders engaged in profit-driven commercial activities.¹ Financial reporting information is considered reliable and comparable if it is prepared in compliance with generally accepted accounting principles (GAAP).

GAAP refers to a common set of principles, standards, and procedures for the consistent presentation of financial reporting information, acceptable for financial reporting in a particular jurisdiction. A public or private entity may develop GAAP for a particular jurisdiction taking into consideration many factors (e.g. business culture and best practices, economic conditions, statutory requirements, regulatory environment, etc.). For example, in the United States, US GAAP are established by the Financial Accounting Standards Board (FASB), a private entity designated by the SEC to serve as the country's accounting rule maker. Given countries and jurisdictions develop GAAP endogenously, based on individual circumstances, the resulting differences in national GAAPs leads to financial reporting information that is not comparable across international borders, hence the need for international harmonization of accounting standards.

As mentioned previously, financial reporting is the language of business. If we think of financial reporting as the ability to communicate in a particular language, say Spanish, then GAAP would be Spanish, which is effectively communicated using the official edicts governing proper word usage, syntax, style, and grammar issued by the *Real Academia Española*. These rules are decreed by an independent entity run by technical experts in the language, i.e. standard setters. Analogously, in the US, financial reporting information (i.e. financial statements) are texts written (presented) using the

¹ Other entities with financial reporting needs include, but not limited to, individuals, cooperative associations, governments, non-governmental organizations (NGOs), public and private foundations, and non-profits.

official syntax, grammar, and style of US GAAP developed by the Financial Accounting Standards Board (FASB), the US standard setter. International differences in GAAPs develop similarly to the way languages evolve, resulting from many factors, mostly environmental, intended to effectively communicate ideas. However, as with all languages, unfamiliarity with another GAAP leads to misunderstanding and inability to communicate.

Comparability, then, refers to the ability to easily translate and accurately understand financial reporting information (texts) prepared (written) using a particular GAAP (language). A literature analyst might compare and analyze similar texts by the same author (an early Shakespearean play to one of the bard's later works) or by authors of the same genre or time period (poems by Robert Frost and Walt Whitman, two twentieth century American poets). Similarly, financial reporting information (texts) needs to be comparable to itself (to evaluate changes in a firm's economic performance over time) and comparable to other companies in its industry (compare Coca-Cola to its closest beverage-making competitor, PepsiCo). It also needs to be comparable across international borders.

A monolingual Spanish scholar could possibly analyze a text from her genre of expertise written in Brazilian Portuguese. Given the similarities between the two languages, the scholar's familiarity with the genre, and her knowledge of the context of the texts, she could possibly generate a meaningful analysis on the text written in a similar, albeit categorically different language. However, without first obtaining a reliable Spanish translation or learning Brazilian Portuguese, there also exists the very real possibility that she could miss something materially important rendering her

conclusions invalid. Much like the Spanish scholar interpreting a Portuguese text,² users relying on financial reporting information prepared under foreign GAAP to make decisions run very high risks of making misguided and costly mistakes due to their unfamiliarity with the conventions used in preparing the foreign financial information.

As a result of increasing global economic integration, much like developing countries might mandate English courses to encourage international competitiveness, some countries may rely on high quality GAAP developed elsewhere for domestic financial reporting to facilitate financial statement comparability. International companies based in non-US jurisdictions may report financial information using US GAAP (rather than or in addition to local GAAP) to facilitate cross listing on US markets and access international capital. Given the importance and the integration of US capital markets, like English, US GAAP often served as the de facto international GAAP, as investors and creditors around the world are usually familiar with US GAAP.

However, US accounting standards were never meant to be universally accepted global standards. US GAAP developed to support American corporate reporting needs, based on the US business, legal, regulatory, and tax environment, which developed pursuant to the needs of American internal and external stakeholders. Some of these stakeholders include the domestic accounting profession, corporate managers, shareholders, creditors, investors, journalists, analysts, tax authorities, and regulators at various levels of government.

² Indulging the language analogy further, it can be helpful to think of US GAAP and IFRS like Spanish and Portuguese. Both are so similar that anyone can meaningfully understand texts prepared in one knowing the other, but the differences are materially important, and failure to consider these differences can result in mistaken conclusions, unrealistic expectations, and unintended consequences.

As the process of globalization continues, the need for an international GAAP becomes apparent. Multinational companies operating in many countries with different accounting rules benefit from common global standards. Relatively large companies in developing countries with limited sources of domestic financing cannot easily access international capital using local GAAP because developed market analysts are unfamiliar with foreign accounting conventions. International Financial Reporting Standards, or IFRS, are explicitly developed to be universally accepted, principles-based accounting standards to meet the financial reporting needs of stakeholders in an international setting.

A notable distinction exists between the primarily rules-based US GAAP system and the principles-based IFRS. In theory, both systems are based on a set of conceptual objectives for the accurate presentation of financial information. In practice, a rules-based system requires compliance with specific and detailed rules to present financial information consistent with the system's objectives, while a principles-based system provides general objectives and limited guidance, relying on the judgment of managers and the accounting profession to report financial information consistent with its conceptual framework. Each system has its advantages and disadvantages.

Returning to the language analogy one final time, we can think of financial reporting information like poetry. If a text is meant to accurately express a poet's main idea, a "principles-based" poet would consider form, meter, rhyme, and word choice, among other factors, to best reflect his idea. If more than one "principles-based" poet wished to express the same idea, it's possible they could make different stylistic choices resulting in very different texts attempting to describe the same idea. Alternatively, a "rules-based" poet would only write haikus to express his ideas. Limited to the strict form

and specific rhyme scheme of these, the “rules-based” poet could write a text that accurately express his ideas, or he could write a text that approximates his ideas using the limited possible arrangement of words that conform to the strict rules. If more than one “rules-based” poets wished to express the same idea, given the strict limitations, their resulting texts likely would not differ much.

A rules-based system can ensure the consistent treatment of accounting transactions, in turn ensuring the comparability of reported information. However, this benefit may occur at the expense of accurate presentation, as incentives can encourage managers to structure transactions around accounting rules. At best, this can result in economic inefficiency due to the nature of transactions (e.g. contracting a new client in December to increase reported earnings for the year when the new client cannot reasonably expect service until after January). However, at worst, such behavior can mask systemic risk in the global financial system and irreparably tarnish the reputation of accounting professionals. Enron deceptively used accounting rules allowing it to conceal loss-generating assets from its balance sheet, which eventually led to its demise and the collapse of global auditing firm Arthur Andersen. Mark-to-market rules allowed banks to value illiquid securities with computer models based on faulty economic assumptions and led to the recent global economic crisis. These examples underscore how managers and accountants can simultaneously comply with accounting rules and misrepresent a firm’s economic condition.

On the other hand, a principles-based system like IFRS offers general guidance using common examples, but achieves fair presentation by largely relying on judgments by managers and accountants to ensure transactions are recorded in compliance with the

system's conceptual framework. This system encourages professionals to think critically about the effects of transactions on the presentation of a firm's economic position, but in relying so heavily on individual reasoning, it often results in the inconsistent treatment of accounting transactions, which can impair financial statement comparability.

Efforts to increase IFRS usage began in the late 1990s after the Asian financial crisis spread to developed capital markets. Global governance institutions developed a list of financial regulatory reforms that could potentially prevent another financial crisis. Harmonized international accounting standards, in the form of IFRS, were among these prescriptions. IFRS gained additional credibility after a number of significant events, including an agreement between FASB and the IASB to converge US GAAP with IFRS, the SEC's decision allowing foreign firms listed on US exchanges to report using IFRS without reconciling to US GAAP, and the European Union mandating IFRS reporting for publicly listed firms.

The task of spreading IFRS to developing countries fell on multilateral financial institutions, such as the World Bank and the IMF. Through their reports on observance of standards and codes (ROSCs), these institutions issued country case studies analyzing adherence to international accounting and auditing standards and invariably recommended countries adopt IFRS for domestic reporting. The multilaterals also supported IFRS adoption through grant facilities for technical assistance and capacity building (Fortin, Barros, & Cutler, 2010).

However, as the multilaterals were engaging developing countries in the relatively innocuous task of changing their accounting standards, a political phenomenon began sweeping through parts of the developing world, particularly in Latin America—the

election of leftist governments. These leaders ran on campaign platforms that railed against the evils of capitalism, globalization, and the neoliberal policy prescriptions of the multilateral financial institutions. In 2007, Venezuela severed ties with the IMF and World Bank and Ecuador expelled the World Bank's representative from the country. In 2013, Argentina was the first country to be censured by the IMF for providing faulty economic data (Rastello & Katz, 2013). So what explains Latin America's adoption of financial norms prescribed by institutions blamed for all that ails the region?

As it turns out, "IFRS adoption" is a loose term that describes an imprecise process. The standards were designed for use in a variety legal and business settings and as a result there is great variability in the way they are adopted and implemented. Some countries may opt to converge domestic standards to IFRS (Australia, Brazil), while other countries may replace national GAAP with IFRS and delegate standard setting to the IASB (Canada, Chile). Some countries may adopt IFRS with an endorsement process for subsequently issued standards (EU, Argentina), and others may adopt all existing IFRS without consideration for subsequent standards or amendments (Venezuela). According to the IFRS Foundation, the aforementioned are all examples of IFRS adoption, yet some of these methods can subject IFRS to meddling by domestic legislators or national standard-setters based on local politics, possibly resulting in inconsistent application of IFRS and reduced comparability of financial information (Zeff, 2007).

This paper studies two aspects of IFRS adoption in developing countries—the variability in IFRS adoption policy and the challenges of implementing IFRS—specifically in Latin America. Literature on the factors explaining IFRS adoption continues to grow in keeping with the rapid pace of IFRS proliferation. However, most of

this research uses a binary approach, viewing IFRS adoption as an all-in, yes-no proposition, asking do countries adopt and why? I argue this approach is incomplete, as there are many approaches for adopting and some of these can have important consequences on reporting quality and financial statement comparability. That is, the typical binary approach does not account for the qualitative differences available in adopting.

Additionally, a serious critique of IFRS is that they are written by the developed world, given developed world circumstances. Historically, participation by the developing world in the deliberative process of writing international accounting standards has been limited (Camfferman & Zeff, 2007). Notably, participation from Latin American countries in the international standards project initially involved only Mexico (and later Brazil). Not surprisingly, there is a general reluctance at the IASB to the idea that developing countries have different financial reporting needs (although it eventually conceded that smaller firms do have different requirements, resulting in IFRS for SMEs) (Camfferman & Zeff, 2007). Since developing countries had little voice in creating the standards, studying IFRS application after initial adoption policy choices is also important, so that we can begin to determine the success of these adoptions, whether IFRS is appropriate for developing country settings, and identify any consequences from the various approaches to adoption.

1.1 - Research Objectives, Scope & Methodological Approach

This paper engages in an exploratory analysis with three primary objectives:

- (1) Identify potential factors explaining the variance in IFRS adoption in Latin America
(i.e. variety in getting IFRS on the books at the national level)

- (2) Identify the challenges for successfully implementing IFRS in the region (i.e. problems actually applying the standards)
- (3) Develop an agenda for future research on IFRS in Latin America

Generally, when this paper refers to IFRS adoption, it refers to the deliberative or legislative process that led to incorporating the international standards into domestic rules. That is, IFRS adoption refers to how jurisdictions incorporate IFRS into their laws. For instance, Chile's national accounting standard setter is empowered by law to set GAAP for the country, and it chose to replace Chilean GAAP with IFRS as issued by the IASB. On the other hand, Brazil replaced its national corporate laws to include IFRS and created a new national accounting standard setting institution, which is required by the corporation law to issue Brazilian GAAP in compliance with IFRS. Both Brazil and Chile rightly claim to have adopted IFRS, but the different approaches also result in different versions of IFRS.

In turn, IFRS implementation refers to how IFRS is actually applied in practice (e.g. how accountants and managers decide to record accounting transactions and present financial information, how compliance with IFRS is enforced by the jurisdiction, the capacity of the national accounting profession for working with IFRS, etc.). That is, IFRS implementation refers to how IFRS works after it is on the national books.

Latin America is defined as the 18 countries in Central and South America (including the Dominican Republic) that make up the Group of Latin American Standard Setters (better known by its Spanish acronym, GLENIF), a regional association of national standard setters aiming to influence IASB standard setting. This is deemed an appropriate sample as these countries have made a public commitment to IFRS and their

standard setters are willing to engage in the international process. Moreover, Latin America serves as a useful unit of analysis given that nearly all of the region now permits or requires IFRS and is composed of developing countries with a shared history and many similar characteristics allowing for cross-country comparison. Studying Latin America also fills a significant void in IFRS adoption literature, as the phenomenon is relatively recent and literature on developing countries is primarily focused on East Asia. Additionally, as will be discussed later, existing literature on the determinants of IFRS adoption thus far offers little predictive value for Latin American countries.

Given the strained relations between the multilateral financial institutions proposing IFRS adoption and the political left governments required to implement the standards, a study on the effects of the domestic political climate on IFRS adoption is a reasonable starting point. Led by globalization theory, I use a multi-method inductive approach to aggregate publicly available information on IFRS adoption policy choices, measure the quality of these based on the potential effect on consistency with IFRS as issued by the IASB and international comparability, and compare these quality scores against the national political climate. While the internationalization of accounting rules is fairly new in accounting history, globalization research has been studying the effects of economic integration on domestic policy making (Drezner, 2001, 2004; Rodrik, 1998) and the relationship between global capital and domestic governance (Drezner, 2007; Garrett, 1998; Stokes, 2001) for quite some time. Thus, it provides appropriate theoretical guidance to support the intended line of inquiry.

Case studies on the IFRS adoption experiences in Chile, Brazil, Argentina, and Venezuela were also used to elaborate the interactions identified using the initial multi-

method approach, including the divergent experiences of countries led by the populist left and the moderate left, particularly their mixed experiences with inflation. Methodological literature reveals case studies are useful for answering how and why questions (Cooper & Morgan, 2008). Given this paper's exploratory scope, we are interested in learning how countries adopt IFRS and explaining why differences occur. Additionally, much of the existing literature on IFRS adoption is based on country case studies that are now outdated.

The paper is structured as follows. First, a broad literature review explores extant research on globalization and policy convergence, the factors affecting IFRS adoption, and the broad problems of international standards convergence and IFRS adoption. The following chapter provides a regional analysis suggesting IFRS adoption quality may have been affected by the regional political climate, and the global integration of domestic financial markets and national economies. The chapter concludes with some methodological considerations and suggestions future research. Subsequent case studies contrast between the more successful adoptions by the moderate left (Chile and Brazil) and the most problematic adoptions by the populist left (Argentina and Venezuela), considering inflation as an additional factor possibly affecting IFRS adoption quality. Later, the challenges of IFRS implementation in Latin America as related to developing country settings are explored further. The paper concludes with a summary of findings and considers further research opportunities.

Chapter 2: Literature Review

Globalization debates frequently focus on the interaction between international economic forces and the state, and it is precisely this relationship that is of interest for IFRS proliferation. Critics of globalization contend that increasing economic interdependence pushes globalizing states to adopt a limited set of domestic policies, including deregulation, leaving little room for partisan policies that may be politically popular. Worse, they contend markets can induce neoliberalism by surprise, when capital markets pressure candidates elected on redistributionist or anti-neoliberal platforms into adopting market-friendly orthodox policies instead (Stokes, 2001). Moreover, they argue increased competition for global investment between states leads to further convergence in areas of labor rights, environmental regulation, corporate taxation, and public entitlement spending. This inter-state competition serves as a force bidding down the quality of state functions that increase the cost of doing business within national borders, a phenomenon known as the race to the bottom (Drezner, 2001).

The internationalization of accounting standards presents us with an interesting case study. Global economic integration requires the adoption of a set of commonly accepted rules that ideally lead to greater transparency in commercial sectors, increased regulation of the accounting profession, and greater tax revenues through more accurate income reporting. Thus, the ideal results of accounting harmonization can be considered desirable for both global markets and domestic welfare. Although these ideal results are antithetical to “race-to-the-bottom” concerns, they also ideally ask states to delegate rule making to a private international body.

While hyper-globalist concerns are legitimate, as states integrated in the global economy tend to have similar fiscal and monetary policies, evidence suggests governments do have the ability to enact popular policies in the interest of general welfare within a framework desirable to global markets. Research shows the most open countries also have large welfare states (Rodrik, 1998) and the oldest, most liquid capital markets are also the most heavily regulated. Even in emerging markets, global investors applauded increased corporate governance requirements when Brazil's Bovespa launched its Novo Mercado. Additionally, some research reveals international financial markets actually prefer investing in emerging democracies (Santiso & Rodriguez, 2008), suggesting financial markets do appreciate some level of state involvement in domestic affairs. While IFRS proliferation is a relatively recent occurrence, this paper aims to analyze the significant variability in adoption of the standards in Latin America, a region of the world that has often served as a unit of analysis for the interaction between global economic forces and state-sovereignty.

Indeed, Soederberg, Menz, and Cerny (2006) argue that instead of "racing to the bottom" with deregulation, the forces of globalization are asking states to re-regulate in market-friendly terms. This occurs through an inherently political process not just imposed from the outside or from above. Instead, proponents of globally converged policies also have to compete and gain legitimacy for these ideas from inside and from below. In doing so, Soederberg et al. (2006) indicate states internalize globalization through a negotiated process, resulting in diverse solutions, or diversity within convergence. IFRS adoption serves as a representative example, given countries can and do adopt the standards in various ways.

Global regulation often occurs through the observance of international best practices in the form of standards and codes, and the process of adopting and implementing these can be imperfect. Given these standards and codes are created in developed countries, which are very different environments than the developing countries expected to apply these rules, Mosley (2010) suggests “domestic political institutions, as well as interests, often will lead to the failure of governments to implement global codes and standards” (p. 724). We should therefore expect to find low levels of compliance where business and political elites have close ties, where regulators are not autonomous from politicians, and where technical capacity is low. Interestingly, she finds that democracy and compliance with financial reforms are positively correlated in general, but the positive correlations are much weaker when the standards or codes require the collaboration of private actors, such as accounting, auditing, banking supervision, and corporate governance.

However, Mosley’s work is based on compliance data up to 2008, which does not capture implementation after an important milestone for IFRS, the 2007 announcement by the SEC allowing foreign firms to report in IFRS without reconciling to US GAAP. We will later see how many of the IFRS adoption decisions in Latin America came around this time, for the benefit of cross-listed companies. Moreover, Mosley’s work conflates all financial reforms together, which leaves out important nuances among the standards. For instance, banks may not want changes in their supervision or statutory reporting requirements, but they should appreciate the improved financial information from their borrowers that come from improved reporting standards. In Latin America, we

see this adoption pattern—i.e. IFRS generally replaces national GAAP, except for banking institutions, which maintain other statutory reporting requirements.

Similarly, Walter (2008) finds the standards and codes project hard to implement for developing countries in part because the standards themselves are the result of a political process and not necessarily better or advantageous. Indeed, Alali and Cao (2010) find evidence of political influence in the IASB by the US, UK, EU, and China. According to them, recent changes to the IASB's funding mechanism stand to make the effects of politicking worse. Notwithstanding, Walter (2008) also finds that even when the standards are not subject to political meddling at the international level, country compliance in East Asia is generally poor due to weak international enforcement. He discovers some countries resist the implementation of financial reforms through "mock compliance," where laws and regulations change, but not much else. Like Mosley, Walter's case studies are before the US rule change, but according to the IFRS Foundation's most recently published Jurisdiction Profiles, East Asian countries maintain similar levels of IFRS non-compliance.

Indeed, accounting literature echoes Walter's concerns, noting the standards do not always translate well (literally and figuratively) into other environments. Extant research identifies several factors limiting successful international convergence and comparability, notable among these are issues arising from language and translation (Zeff, 2007; Zeff & Nobes, 2010). Although IFRSs are written in English, they are translated into the various languages spoken in adopting countries, raising concerns over what is getting lost in translation. For instance, there are several Spanish words used to identify profit throughout Spanish-speaking Latin America, including *ganancia* and

utilidad. A related challenge is choosing the proper translation for accounting concepts. The British “true and fair view” concept had to be translated to closest equivalents (Zeff, 2007), hoping the concept would translate as well as the words. Similarly, the standards frequently use uncertainty terminology requiring much judgment on the part of practitioners. For example, what is meant by probability or probable can vary by country, by translation, or by guidance from the national accounting professional body.

As principle-based standards, IFRS allow multiple alternatives for reporting accounting transactions. This provides needed flexibility, but the reliance on professional judgment results in inconsistent implementation that hinders comparability, sometimes immeasurably (Alali & Cao, 2010). Ball, Robin, and Wu (2003) reveal that incentives of preparers and enforcers remain primarily local, resulting in local patterns of implementation. Indeed, Ahmed, Neel, and Wang (2013) find accounting quality does not improve with mandatory IFRS adoption by a broad set of firms in countries with strong enforcement. Lima, Sampaio, Lima, Carvalho, and Lima (2010) find firm-level incentives drive IFRS compliance in Brazil, but their testing did not reveal IFRS compliance resulted in lower cost of capital for Brazilian firms. Most notably, Nobes (2013) finds “overwhelming evidence that the most powerful single explanatory variable for a company’s IFRS policy choices is its pre-IFRS policies....The findings also mean that there are clear national profiles of IFRS practices and that countries can be classified into the same groups as suggested decades earlier for pre-IFRS national preferences” (p. 104). Moreover, Ball (2006) concludes with concerns over “the differences in financial reporting quality that are inevitable among countries have been pushed down to the level of implementation, and now will be concealed by a veneer of uniformity” (p. 6).

If IFRS implementation is so problematic, what explains its recent and rapid proliferation? Choi and Meek (2008) identify the various factors that traditionally affect the development of national accounting systems, including sources of finance (equity or credit), legal system classification (common or code law), taxation, political and economic ties, inflation, level of economic development, education level, and culture. Countries with common law legal systems tend to have financial reporting aimed at protecting investors and private standard setting, while those with code law systems tend to have financial reporting aimed at protecting creditors and standard setting as a public sector activity.

Shima and Yang (2012) construct a model to test IFRS adoption based on these factors for accounting system development and reveal political and economic ties, reliance on foreign-sourced debt, and common law legal systems create contracting incentives for IFRS adoption, while rates of economic growth, capital formation, and literacy create signaling incentives. Moreover, size of capital markets, taxation, and inflation are disincentives for adoption. Similarly, Zehri and Chouaibi (2013) also find high rates of economic growth, literacy, and common law legal system serve as determinants of IFRS adoption. Ramanna and Sletten (2013) also observe network effects in IFRS adoption, suggesting countries are likely to adopt if their trading partners also adopt.

However, these findings are limited in several ways. First, only Ramanna and Sletten adjust for the qualitative variances in adoption policy choices. Second, the data are only through 2007, excluding many adoptions in developing countries, particularly in Latin America. Third, when Shima and Yang refer to political and economic ties, they

look at colonial ties between the UK and former colonies, however, many non-British former colonies have also opted for IFRS and are thus excluded from testing. Also, other political ties, such as relations with the US and multilateral agencies where the US is a forceful actor, have since replaced colonial ties and might be more relevant. It would be interesting to see what results these models yield with updated adoption data and improved testing for political ties. At present, the results of Shima and Yang's model suggest that most of Latin America should not have adopted IFRS. Since the opposite is true, it is possible that methodological deficiencies, such the failure to factor qualitative differences in adoption, might obfuscate their findings.

Chua and Taylor (2008) argue empirical evidence for an economic rationale behind IFRS adoption is lacking. Instead, they offer a possible political rationale for IFRS adoption. Following the Asian financial crisis of the late 1990s, global economic and state actors sought immediate action. The default to the IASC and IFRSs resulted from the powerful accounting and audit community's interest in keeping regulation of the profession private. The EU's 2002 decision requiring listed companies report in IFRS gave the standards an immediate credibility boost. Suprastate agencies such as the IMF and World Bank pushed nations "perceived to possess weaker forms of financial governance and surveillance adopt standards that are seen to possess an internationally recognized level of quality and hence legitimacy" (p. 470). In the wake of a crisis, taking action was more important than the effectiveness of such action. The authors report little consideration was given to whether improved financial reporting could have prevented the Asian crisis or whether IFRS were of sufficient quality to be up for such a task.

Culture research by Borker (2012) of IFRS adoption by Brazil, Russia, India, and China (collectively known as BRIC) countries using cultural dimensions³ and accounting values⁴ reveals that “Russia and Brazil have cultural values that, excluding outside influences, seem to foster accounting values directly opposite to those associated with IFRS. In contrast, India and China exhibit cultural values and derived accounting values that are to a greater degree consistent with the values associated with IFRS” (p. 321). These findings directly counter the adoption experience of these countries, given Brazil is furthest along in IFRS adoption than all other BRIC countries, suggesting other adoption incentives are very strong or cultural explanations are insufficient for predicting adoption. However, given the aforementioned literature on national differences in IFRS practice, cultural work may still be useful for predicting where future problems may arise at the implementation level.

Alternatively, Ramanna (2011) proposes a political and cultural matrix for determining IFRS adoption method. Using Canada, China, and India as examples, he attempts to classify adoption based on potential ability to influence standard-creation in the IASB and cultural proximity to the IASB. Those with high cultural proximity, but low political influence, like Canada, will choose to align with IFRS. Citing China’s ability to convince the IASB to change related-party disclosure rules for state-owned enterprises as a representative example, he argues those with low cultural proximity, but high political influence might align with IASB seeking to influence standards to its needs, or adopt with significant carve-outs. Those with low cultural proximity and low political

³ Based on work on cultural dimension by Geert Hofstede (1980) *Cultural Consequences: International Differences in Work Related Values*. Newbury Park, NJ: Sage

⁴ Based on related accounting values by SJ Gray (1988) “Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally.” *Abacus*, 24(1)

influence, like India, are likely to adopt limited versions of the standards or form regional alliances to garner political support. Previously, Ramanna and Sletten (2009) also found more powerful countries were less likely to adopt IFRS, as they are less willing to delegate standard setting to an external international entity.

While Ramanna's political/cultural matrix brings us closer to an adoption framework, by factoring various adoption methods, it still has limited explanatory power given implementations that have occurred subsequently. China's convergence to IFRS is remarkably similar to the US process, and the US would likely fall under a different cultural proximity quadrant. Moreover, the ability to change standards as a proxy for political influence is an imperfect measure, as other factors could have been involved at the time the IASB chose to accommodate China's exemption request. The exemption of state-owned entities from related party disclosures made it easier for many other developing countries to adopt IFRS, such as Brazil and Russia. The adoption of IFRS in economic environments different from the EU gave rise to many accommodations to developing countries; most notable among these are IFRS for SMEs.

Additionally, like most other studies, Ramanna's study is based on data through 2008, and primarily based on country studies known as Reports on Observance of Standards and Codes issued by the World Bank and IMF. These highly informative case studies provide useful qualitative data on the adoption and implementation of international financial standards, and one specifically on the observance of international accounting and auditing practices. Many of these reports concluded with a recommendation to adopt IFRS, which means they are dated and do not take into account subsequent efforts to that end. As a result, most of the literature depending on ROSC data

excludes IFRS implementation in Latin America. This paper aims to provide an update on these efforts by using recent information from IFRS jurisdiction profiles more recently issued by the IFRS Foundation.

Chapter 3: IFRS Adoption in Latin America

The international standards project began in the 1970s with the creation of the International Accounting Standards Committee (IASC). The committee was tasked with harmonizing international accounting standards and issuing standards to support multinational commercial activities (Camfferman & Zeff, 2007). However, developing country representation in the IASC was limited and Latin America was notably absent. In its early years, the organization engaged in futile efforts to convince Latin American professional bodies to participate, despite Mexico's inclusion as a founding member.

Accounting historians cite "the professional institutes' straitened financial condition" (Camfferman & Zeff, 2007, p. 181) as a membership constraint. Indeed, Mexico's membership was suspended for non-payment of dues following the Tequila Crisis; and one of the low points in the IASC's history occurred when it chose to expand its board membership to increase developing country involvement in the organization's leadership, only to have the first country offered the position (Pakistan) decline because it could not afford the excessive board membership fees (2007, p. 190). Language was also cited as a possible issue for the lack of Latin American participation and "the perception that the IASC (and IFAC [International Federation of Accountants]) were the domain of the English-speaking countries" (2007, p. 181).

However, emerging markets were not alone in ignoring the IASC. In fact, the standards failed to gain ground in developed countries until the Asian financial crisis spread to Western capital markets in the late 1990s. Stronger financial regulations and reporting requirements were cited as necessary reforms to prevent contagion and future crises in developing markets. The IASC's accounting standards gained prominence in the

international financial community when it was named among a set of recommended financial reforms (Camfferman & Zeff, 2007, p. 442). Thus began the collaboration of various international governance and development institutions and their push for the global convergence of financial regulations (generally) and accounting standards (specifically). As a result, the World Bank, IMF, and IDB (collectively international financial institutions, or IFIs) are widely credited for their financial reform efforts in developing countries, and for the relative success of International Financial Reporting Standards (IFRS) adoption in Latin America (Camfferman & Zeff, 2015, p. 495).

In Central and South America, nearly all countries permit or require IFRS for domestic publicly accountable entities, and many have converged or replaced domestic accounting rules (known as generally accepted accounting principles, or GAAP) with IFRS. This success is even greater when compared to emerging market peers. For instance, Brazil is furthest along its IFRS implementation than any other member of the BRICs—unlike China and India that have partially converged domestic standards, Brazilian accounting standards have been fully converged with IFRS, and Brazilian listed firms have been required to report consolidated financial statements using IFRS as issued by the IASB beginning with financial statements for the year ending December 31, 2010.

The relative success of IFRS adoption in Latin America is somewhat surprising, given the financial reform efforts by IFIs in developing countries coincide with the resurgence of the political Left in Latin America. The Latin American Left has a particularly adverse relationship with the IFIs and, at around the same time Latin America went about adopting IFRS, some countries were withdrawing from the IMF and

World Bank, expelling the lenders from their countries, and even creating regional lending alternatives (Forero, 2009).

So what explains the relative success of the IFRS project despite the inhospitable conditions for its main proponents? Recent literature on the political Left in Latin America have noted the region is not fully abandoning capitalism, but rather adjusting capitalism to minimize its most undesirable effects (de la Barra, 2010; Panizza, 2009; Silva, 2009; Kurt Weyland, 2013). Therefore, perhaps the answer to the adoption question lies in how IFRS has been adopted in the region. Contemporary research on IFRS tends to view adoption as a binary, yes-no proposition, asking do countries adopt? And why? I propose a new method where we first ask how countries adopt. In doing so, I expect to find that countries governed by the Latin American Left make problematic IFRS adoption choices.

3.1 - Methodology

There is great variability in the way countries choose to implement IFRS. This variability occurs by design, as the IASB recognizes the diverse legal and business cultures in which the standards are applied. Countries "adopt" IFRS in a manner consistent with their institutional and legal frameworks and development objectives. Some countries outsource standard setting outright to the IASB (Costa Rica), while others engage in an organized and systematic process resulting in the eventual replacement of national GAAP with IFRSs (Chile). Some countries may choose to converge national standards to IFRS and maintain an approval (endorsement) process for subsequently issued standards (Argentina, Brazil). This has resulted in deletion of some IFRS options and rejection of some subsequently issued interpretations, yielding

statements in IFRS as adopted by the domestic standard setter as opposed to as issued by the IASB. Still, other countries may choose to adopt existing IFRS en bloc (Uruguay and Venezuela). Others require IFRS only for their domestic publicly listed entities and permit private firms to use them, while working to converge national GAAP to IFRS (Mexico). Permitting private companies to voluntarily adopt allows these firms to benefit immediately from IFRS by facilitating international expansion and financing, while the standard setter finalizes its convergence process.

Despite these different approaches, all of these countries are considered IFRS adopters by the IASB, yet the effects of these various adoption methods on comparability are still not fully understood. Consequently, while the stated goal of IFRS is to increase comparability, defining “adoption” and thereby comparing adoption policies is clearly difficult. These differences have led to questions regarding effects on comparability (Alali & Cao, 2010; Ball, 2006; Kvaal, 2010; Nobes, 2013; Zeff, 2007) and which method actually constitutes adoption (Zeff & Nobes, 2010).

In response to mounting debate regarding adoption policy choices following the Australian IFRS adoption process (Bradbury, 2008; Haswell, 2008; Thomson, 2009), Zeff and Nobes (2010) outline the various methods by which countries can “adopt” IFRS. These include:

- Adopting the “process” (i.e. delegating standard setting to the IASB)
- Rubber-stamping each standard issued by IASB
- Endorsing each IFRS (some possible differences from those issued by IASB)
- Converging national standards to IFRS
- Partially converging domestic standards to IFRS

- Permitting the use of IFRS

The authors argue “anything other than adopting the process requires continual action by regulators because the IASB [and IFRIC⁵] change the content of IFRS nearly every month” (p. 79). Therefore, other methods “open up possibilities for differences from IFRS as issued by the IASB” (p. 179). In other words, adoption policies that allow for domestic meddling with international standards can affect compliance with IFRS as issued by the IASB and can prevent financial statement comparability. For example, Brazil’s endorsement process objected to IFRIC 15, resulting in financial statements for real estate development entities that are not in compliance with IFRS as issued by the IASB (IFRS Foundation, 2013e).

Ironically, while the goal of standardization is to improve comparability, given the various methods available to adopt IFRS, comparing how countries adopt the standards is challenging. Therefore, to measure the qualitatively different IFRS adoption policy choices, I employ a mixed methods sequential exploratory strategy, which is deemed suitable given “the primary focus of this model is to initially explore a phenomenon” (Creswell, 2009, p. 211).

To that end, first, I hand-collected primary source IFRS policy choice data from country Jurisdiction Profiles published by the IFRS Foundation. Publicly available primary sources, such as documents and rulings posted on national standard setter websites, provided clarification in cases where information on Jurisdiction Profiles was missing, vague, or unclear. The World Bank’s country case studies on Accounting and Auditing known as Reports on Observance of Standards and Codes (ROSCs) and the Bank’s reference book based on these ROSCs, *Accounting for Growth in Latin America*

⁵ IFRS Interpretations Committee (IFRIC) offers guidance on IFRS issued by IASB.

and the Caribbean (2010), were used as supplemental information, provided the information was not determined to be outdated.

Next, I devised a score system to quantify the quality of adoption choices. The quality of policy choice measures the likelihood that a policy choice will result in financial reporting information that deviates from IFRS as issued by the IASB, thus impacting the comparability of financial reporting information. Countries were awarded 0 to 1 points, on 6 different attributes, where 0 is the least ideal choice (adversely affecting comparability) and 1 is the most ideal choice (ensuring comparability). The measured attributes are detailed below.

IFRS for Entities listed on Public Markets

- IFRS for Listed Companies—Full credit awarded to countries requiring IFRS for domestic listed companies; partial credit awarded to countries that permit IFRS for listed companies; slightly greater partial credit awarded to countries that require either IFRS or US GAAP for domestic publicly listed companies.
- IFRS as issued by the IASB—full credit awarded to countries that require IFRS as issued by the IASB; no credit for countries that permit or require a modified or incomplete version of IFRS that deviate from IFRS as issued by the IASB; countries that permit IFRS use but report the standards are hardly used also receive no credit.

IFRS for Other Domestic Entities

- IFRS for Banks—“Banks” is shorthand for financial institutions and insurance companies, as the same government institution often regulates these two types of entities. Full credit awarded to countries whose banking regulator requires financial institutions to report in IFRS; partial credit awarded to countries whose banking

regulator has partially converged reporting standards to IFRS; slightly greater partial credit awarded to countries whose banking regulator requires financial reporting in IFRS or US GAAP.

- IFRS as National GAAP—full credit awarded to countries that replaced domestic accounting standards with IFRS (including IFRS for SMEs) for non-listed, non-bank entities; partial credit awarded to countries that permit IFRS reporting and/or are converging domestic standards to IFRS (Argentina, Mexico); partial credit also awarded to countries that encounter some problems or delays in transitioning (Colombia, Guatemala); no points awarded to countries that have only partially converged domestic standards to IFRS or do not permit IFRS.
- Modification to IFRS—full credit awarded to countries that replace national GAAP with IFRS as issued by the IASB; partial credit awarded if IFRS adopted with some modifications (or eliminations of some options), but can still claim compliance with IFRS as issued by IASB despite these modifications; countries labeled “Problem,” are those where the domestic standard setter requires IFRS but does not have the force of law (Guatemala and Nicaragua).
- Endorsement process for subsequently issued IFRS—full credit awarded to countries that do not have an endorsement process for subsequently issued IFRS; no points awarded to countries with an endorsement process for subsequently issued standards.

Countries that require IFRS or US GAAP were awarded partial credit for some attributes given that US GAAP are considered high quality standards, are still widely used and understood around the world (therefore, comparable), and are mostly converged with IFRS.

The quality scores from this process are then compared with the political parties in power at the time of adoption. These party labels come from the World Bank Database of Political Institutions (Keefer, 2012). While helpful, these party labels are categorized solely on a binary, Left or Right, classification. The distinction between the more market-friendly moderate left and the vocally anti-capitalist, populist left are discussed further in later sections.

In sum, the aforementioned aims to test the following hypothesis: Countries governed by the Latin American Left make poor IFRS adoption choices, as measured by the IFRS adoption quality score. These adoption choices are likeliest to result in financial reporting information with impaired international comparability.

Timing and Scope of Analysis

Worth noting, this analysis is limited to assessing the quality of policy choices made to adopt IFRS usage in a jurisdiction. That is, the focus here is to assess the process of incorporating IFRS onto the nation's books. This approach has limitations, since it does not address enforcement, compliance, and training activities that may accompany adoption and can ensure its success. However, these implementation challenges are discussed in forthcoming chapters. Nonetheless, as we'll see, alternative adoption policies, such as those discussed herein, create uncertainty in practical application, "add to the opportunities for political interference in the implementation of standards" (Zeff & Nobes, 2010, p. 183), and ultimately hinder comparability. As a result, this is primarily an exploratory study meant to explore qualitative differences in adoption and set the stage for future research.

Moreover, the proliferation of IFRS around the world coincides with the election of Leftist leaders throughout Latin America. Therefore, except where otherwise noted, this analysis refers primarily to the time period from year 2000 through today. The beginning of the millennium is where the story of IFRS proliferation begins with the issuance of IFRSs distinct from the International Accounting Standards (IASs) issued by the IASB's predecessor, the IASC, and this time period overlaps with IFRS adoption in Latin America and governance of the political Left.

The study is limited to the 18 Latin American countries that are members of the Group of Latin American Standard Setters (GLENIF, *Grupo Latinoamericano de Emisores de Normas de Información Financiera*), an association of national standard setters whose “aim is to convey comments from the region to the IASB on agenda matters and drafts” (Camfferman & Zeff, 2015, p. 501). This is deemed an appropriate sample, as I am interested in exploring how Latin American countries adopt IFRS, all of these countries have made a public commitment to IFRS, and are willing to contribute to international standard setting through their association. Choi and Meek (2008) describe the various determinants of national accounting system development—legal system, financial reporting tradition, culture, sources of financing, level of economic development, economic and political ties, taxation, and inflation. This sample of Latin American countries controls for some of these factors, including code law legal system, financial reporting tradition based on legal compliance, and shared continental European culture.⁶

⁶ Accounting literature typically measures culture using survey results on cultural dimensions (Geert Hofstede, 1980) and accounting values (Gray, 1988). Other research measures cultural proximity based on shared colonial ties, such as Canada's cultural proximity to England in Ramanna (2011).

Incidentally, this group of Latin American countries also includes Bolivia, a non-adopter, and the Dominican Republic from the Caribbean, which is also considered appropriate for inclusion because of its shared ties with the rest of GLENIF countries, particularly Central America through CAFTA-DR. The remaining Spanish-speaking islands are qualitatively different (Cuba is a non-globalizer and Puerto Rico is a US Commonwealth). The English-speaking Caribbean has organized under the Institute of Chartered Accountants of the Caribbean, and most are non-adopters. Therefore, Latin America, except where otherwise noted, refers to the 18 Central & South American countries that comprise GLENIF.

Latin America provides an interesting unit of analysis, as the current literature on IFRS adoption by developing countries largely ignores the region, or addresses it in the context of Brazil as a member of the BRICs (a short-hand for the group of rapidly developing, globally integrating emerging markets formed by Brazil, Russia, India, and China). While Brazil is certainly an important regional power, its history and development path are different from the rest of Latin America, and studying Brazil in the context of its neighbors adds to nascent IFRS adoption literature as well as to existing financial accounting literature.

3.2 – Results and Discussion

Table 3.2.1 – IFRS Adoption Policy Quality

	IFRS Listed	IASB issued	Listed Score	IFRS Banks	National GAAP	IFRS Modified?	Endorse?	Private (non-listed) Score	Composite Score
Argentina	Yes	1.0	2.0	No	Permitted	.5	Yes	.25	2.75
Bolivia	No	0.0	0.0	No	No	0.0	NA	0.0	0.0
Brazil	Yes	1.0	2.0	Partial	Yes	.5	Yes	.25	3.75
Chile	Yes	1.0	2.0	Partial	Yes	.5	No	1.0	5.5
Colombia	Yes	1.0	2.0	Partial	Yes ¹	.5	Yes	0.0	4.0
Costa Rica	Yes	1.0	2.0	Yes	Yes	1.0	No	1.0	6.0
Dominican Republic	Permitted	.75	1.75	No	Permitted	.5	No	1.0	4.25
Ecuador	Yes	1.0	2.0	No	Yes	1.0	No	1.0	5.0
El Salvador	Yes	1.0	2.0	No	Yes	1.0	No	1.0	5.0
Guatemala	NA	--	--	No	Yes ²	.5	Problem ²	0.0	1.5
Honduras	Yes*	.5	1.5	No	Yes	1.0	No	1.0	4.5
Mexico	Yes	1.0	2.0	No	Permitted	.5	No	1.0	4.5
Nicaragua	Permitted	.75	1.75	No	Yes ³	1.0	Problem ³	0.0	3.75
Panama	Permitted	.75	1.75	Permitted	Yes	1.0	No	1.0	5.5
Paraguay	Permitted	.25	1.25	No	Permitted	.5	NA ⁴	0.0	.75
Peru	Yes	1.0	2.0	Partial	Yes	1.0	No ⁵	.5	4.0
Uruguay	Yes	1.0	1.0	No	Partial	.5	Yes	1.0	1.5
Venezuela	Yes	1.0	1.0	No	Partial	.5	Yes	0.0	1.5

*Honduras requires IFRS for listed non-financial companies, however, only financial institutions trade on its domestic exchanges, which are subject to different reporting requirements (Fortin et al., 2010, p. 79).

¹Colombia's legislature approved IFRS adoption in 2009, but private sector complaints led to postponing the adoption timeline. 2015 is the first year a large subset of Colombian companies will begin IFRS reporting as per the transition plan. The partial score reflects these adoption problems (IFRS Foundation, 2013b).

²Guatemala has two accountability professional bodies, only one approved IFRS as national GAAP, and neither has the force of law (IFRS Foundation, 2013c). Partial scores reflect these qualitative limitations

³Nicaragua's standard setter replaced national GAAP with IFRS, but this is a professional requirement that does not have the force of law. However, the IFRS use has quasi-legal endorsement for non-listed companies, as the banking regulator requires commercial loan applicants to submit IFRS financial statements and the tax authority allows tax filings in IFRS without reconciliation to tax law (IFRS Foundation, 2014a). The scoring reflects these factors.

⁴Paraguay permits IFRS usage, but its Profile reports that IFRS is rarely used.

⁵While Peru's standard setter has endorsed all IFRS without modification, its Jurisdiction Profile notes that "in applying IFRS, [non-listed] companies apply some national legal and tax requirements that may not be consistent with IFRS, such as the tax regulations for determining the useful lives of depreciable assets and restatement of financial statements for inflation during the period between 1998 and 2004 even though the Peruvian economy did not qualify as hyperinflationary under IAS 29 *Financial Reporting in Hyperinflationary Economies*" (2014b, p. 3).

Table 3.2.2—Adoption Party and Political Parties

	Adoption Year	Executive Party	Party Description*	IFRS Score
Argentina	2009	FPV	Left	2.75
Bolivia	NA ¹	MAS	Left	0.0
Brazil	2007	PT	Left	3.75
Chile	2008	CPD	Left	5.5
Colombia	2009	Independent	Right	4.0
Costa Rica	2005	PUSC	Right	6.0
Dominican Republic	2010	PLD	Center	4.25
Ecuador	2008 ²	PAIS	Left	5.0
El Salvador	2011	FMLN	Left	5.0
Guatemala	2007	GANAN	Right	1.5
Honduras	2005	PN	Right	4.5
Mexico	2008	PAN	Right	4.5
Nicaragua	2011	FSLN	Left	3.75
Panama	2005	PRD	Left	5.5
Paraguay	NA		Left	.75
Peru	2011	PAP	Left	4.0
Uruguay	2007	EP-FA	Left	1.5
Venezuela	2008	PSUV	Left	1.5

* Party description obtained from the World Bank's 2012 Database of Political Institutions

¹ While Bolivia has not approved IFRS for use by its domestic entities, the IFRS transition plan has yet to be approved by the Bolivian regulator (IFRS Foundation, 2013a).

² The Ecuadorian IFRS project culminated in 2008 with the issuance of the timeline and adoption prescriptions published in the Official Gazette. However, planning for IFRS transition began prior to the Correa government under an IDB MIF grant/loan (Fortin et al., 2010).

Tables 3.2.1 and 3.2.2 show IFRS adoption policy quality in Latin America is mixed, suggesting factors affecting IFRS adoption identified by extant research may have a more nuanced effect than previously thought. The data reveals countries governed by the political Left at the time of adoption have some of the lowest scores, suggesting the Political Left was, indeed, likelier to adopt IFRS in a more problematic manner. This is consistent with the Left's distrust for reform policies pushed by IFIs. Not surprisingly, some of the worst scores belong to the most vocally antagonistic countries—Bolivia and Venezuela. Interestingly, the results also show some of the best adoption scores also belong to countries governed by the political Left at adoption—Chile, Ecuador, El Salvador, Panama. These scores are consistent with recent political literature describing the Latin American Left as pursuing two disparate development models—a moderate Left, which embraces most of the neoliberal model while adjusting for its adverse effects,

and a radical Left that shuns some of the basics of capitalism and globalization (Kurt Weyland, 2013; K. Weyland, Madrid, & Hunter, 2010).

Worth noting, if we could reasonably expect countries led by the left to make poor IFRS adoption decisions, then we can likewise expect countries led by pro-market right leaders to make sound IFRS adoption decisions. Generally, countries led by the right exhibit high IFRS adoption scores, with the exception of Guatemala, where the country's IFRS score was affected by its weak accounting institutions—that lack the force of law—suggesting IFRS adoption quality may also be affected by a country's level of economic development.

Notwithstanding, the moderate-radical Left explanation requires further elaboration, to make sense of Brazil and Ecuador's scores. Brazil's PT presidents, Luis Inacio Lula da Silva and Dilma Rousseff, are known as darlings of international financial markets and the Moderate Left, yet its composite score is lower than Ecuador's, a country that defaulted on its sovereign debt the same year it adopted IFRS. As it turns out, the Ecuadorian IFRS adoption process began long before Rafael Correa's election with the adoption of IASs in 1999 (Fortin & Rahman, 2004); Recently, the Correa administration largely undid the country's IFRS gains with legislation changing accounting requirements for a large segment of Ecuadorian enterprises (Ron Amores, 2015). Thus, the radical left is not just problematic for IFRS adoption, but also subsequently.

On the other hand, Brazilian listed firms are required to use IFRS as issued by the IASB, while the Brazilian non-listed firms use domestic standards that are converged to

IFRS—in a process similar to Australia’s adoption⁷—and its standard-setter retains an endorsement process where subsequently issued standards and interpretations can be rejected. This suggests the existence of two IFRS in Brazil—one for its internationally exposed financial markets, another for its domestic market. Therefore, its score for listed companies is high, but its domestic adoption score is low. If IFRS adoption is like other pro-market, pro-business policies in Latin America, then Brazil’s IFRS adoption is consistent with literature that shows the Left often has to acquiesce to pressures from foreign investors, but can resist these pressures when domestic economic growth prospects are high (Campello, 2015).

3.3 – IFRS Adoption – Seeking an Explanation

The results of the aforementioned analysis are mixed. In some cases, the relationship between IFRS adoption quality and the Left behaves exactly as expected by the hypothesis (Bolivia, Venezuela), yet in other cases the relationship behaves contrary from the expected (Chile), and in other cases, the relationship is mixed (Argentina, Brazil). Like most policymaking, IFRS adoption is clearly influenced by a variety of factors. Historically, determinants of national accounting systems include legal system, financial reporting tradition, culture, sources of financing, level of economic development, economic and political ties, taxation, and inflation (Choi & Meek, 2008).

The sample of Latin American countries used here controls for three of these—code law legal systems, financial reporting traditions of legal compliance, and shared cultural ties to continental Europe. Interestingly, literature reveals that countries with

⁷ This would imply that other notable adopters like the EU and Australia would show comparably low adoption scores using the methodology for this analysis. Indeed, IFRS adoption literature tends to support this (see Ball, 2006; Camfferman & Zeff, 2015; Kvaal, 2010; Nobes, 2013; Zeff, 2007; Zeff & Nobes, 2010).

code law legal systems and reporting traditions of legal compliance are least likely to adopt IFRS (Shima & Yang, 2012), and while cultural studies exclusively on Latin America do not exist in accounting literature, broader research also finds that culture has limited predictive power when it comes to IFRS adoption.⁸ Thus, extant research on the primarily endogenous factors controlled in this sample possibly suggests that the IFRS adoption may be heavily influenced by external factors. Intuitively, this makes sense, as global economic integration drives the need for harmonization of accounting standards and multilateral financial institutions, such as the World Bank and IMF, are credited for their efforts in pushing for IFRS adoption in the developing world.

In this regard, it is not surprising that the governments most outspoken against globalization and the IFIs would choose to exercise greater autonomy in adopting international standards. The push for IFRS by the IFIs came at the precise moment when international finance held least sway in the region. Camfferman and Zeff (2015) write regarding Latin America and IFRS, “a recommendation [to adopt] by the World Bank to such countries would have carried considerable weight, as the Bank was viewed as a major source of infrastructure financing [emphasis added]” (p. 495). This observation may have been true previously, but given it was written so recently, the statement reveals a remarkable misunderstanding of the World Bank’s relationship with the developing world, particularly with Latin America. Because the IFIs have experience with developing countries, they are often the default avenue of engagement between actors in developed and developing countries. However, this default thinking fails to consider

⁸ Focusing on BRIC countries, Borker (2012) finds that Brazil has cultural values that, excluding outside influences, seem to foster accounting values directly opposite those associated with IFRS, while Cardona, Castro-Gonzalez, and Rios-Figueroa (2014) suggest that cultural dimensions have little predictive power on a country’s IFRS adoption decision.

whether developing countries actually want the World Bank as a major source of financing or the possibility of other more preferable financing alternatives.

In this context, the resurgence of the Left in Latin American politics reflects a growing dissatisfaction in the region with the neoliberal policy prescriptions imposed by the Washington-based IFIs, namely the World Bank and the IMF. Latin American voters were fed up with these policies, which they believed placed the interests of international financial actors over those of domestic citizens.

Indeed, one of the World Bank's interests in pushing IFRS in developing countries was to facilitate its own interpretation and comparability of financial statements received from the commercial borrowers in its loan portfolio (Camfferman & Zeff, 2007, p. 441). The general recommendation in its ROSC⁹ reports for all countries was to bring domestic standards in line with IFRS, but nothing was written concerning the appropriateness of these international standards for domestic reporting environments.

During the period under analysis, however, a confluence of factors combined to provide Latin American leaders with considerable freedom to deviate from policies desired by international creditors and investors, perhaps none as influential as the boom in commodities prices.

The Left and the commodities boom counter the influence of IFIs

The commodities boom provided many countries in the region with a natural alternative to the IFIs' conditional lending. This was an important development in many countries, where detachment from the IFIs wasn't just convenient ideological rhetoric, but rather a pressing public mandate. Before Ecuador's Rafael Correa famously told concerned

⁹ Reports on Observance of Standards and Codes (ROSC), a project carried out by the World Bank and IMF to study adherence to international financial reforms. Particularly useful for this analysis are the ROSCs for Accounting & Auditing.

bondholders to “take a valium” (Hayes, 2006), many of his predecessors similarly campaigned against the IMF and its neoliberal prescriptions, only to face extreme pressures from financial markets that forced them to accept IMF loans and terms. Venezuela’s Hugo Chavez also tempered similarly inflammatory language when he was first elected, at a time when oil prices were historically low. He also maintained macroeconomic orthodoxy until prices began to boom (Campello, 2011).

Despite the consequences on its ability to seek additional international financing, defaulting on the external debt was overwhelmingly popular in Argentina, where the currency peg with the US dollar required by the IMF became painfully unsustainable (Campello, 2015). When commodities prices increased its international reserves, the Kirchner government paid off Argentina’s remaining IMF debt to get rid of IMF meddling. Chavez supported this transaction by simultaneously buying sovereign bonds to replenish Argentina’s reserves and clearly establish Venezuela as a funding alternative to US-backed institutions.

The Left’s Foreign Policy provides regional alternative to IFIs

In this way, the boom supported a Leftist regional foreign policy focused on integration and decreasing US influence, especially that of its Washington-based development institutions (those pushing for IFRS). These efforts were primarily led by Venezuela and resulted in programs such as PetroCaribe, the sale of oil to small countries in Central America and the Caribbean under favorable long-term financing arrangements, and Banco del Sur, a regional development bank to serve as an alternative to US-backed IFIs. While the Left in Brazil and Chile proved to be more pragmatic in their domestic policy choices, they were generally supportive of these efforts to counter US regional influence.

Venezuela's largesse was mainly directed at other Leftist governments, such as Argentina, Bolivia, and Ecuador. Not surprisingly, these countries had problematic IFRS adoptions.

Moreover, the efforts seemed to work in changing IFI influence in the region and, in a dramatic role reversal, the IMF came to Latin America to ask for funding to support European borrowers during the European crisis (Forero, 2011). IFI lending to Latin America also fell to record lows during this time, while PetroCaribe debt in Central America and the Caribbean now represents significant portions of public debt for recipient countries (Goldwyn, 2014).

Decreased IFI lending in the region also coincides with increased development lending from China. Empirical research on Chinese lending to Latin America reveals "China's loan commitments of \$37 billion in 2010 were more than those of the World Bank, Inter-American Development Bank, and United States Export-Import Bank combined for that year" (Kevin Gallagher, Irwin, & Koleski, 2012). This research also reveals that China lent greater amounts to countries that have discontinued or fractured relationships with the IFIs—Argentina, Bolivia, Ecuador, and Venezuela.

Not surprisingly, the countries that thumbed their noses at the IFIs, also have the lowest IFRS adoption quality scores. Bolivia is a notable non-adopter in the region, as the government continues to stall approving the project. Venezuela adopted IFRS as of 2008, with important exceptions for inflation reporting. To be clear, this adoption method excludes IFRS 9 through IFRS 15, which were subsequently issued, and all subsequent amendments to IFRS 1 through 8. While Ecuador did successfully replace national GAAP with IFRS, as mentioned earlier, recent legislation by President Correa mandates

reporting requirements for a large segment of Ecuadorean enterprises that are not consistent with IFRS as issued by the IASB (Ron Amores, 2015).

Incidentally, the results of politically motivated macroeconomic policies in these countries (and the absence of IMF monitoring) have made financial reporting difficult regardless of adoption method. The levels of inflation in Argentina and Venezuela are problematic for financial reporting, and made worse by doubts cast on the validity of official statistics (Mander, 2014; Rosati, 2015). These statistics are crucial for the fair presentation of a company's financial condition. Additionally, companies have to account using official currency exchange rates, which often diverge significantly from unofficial rates. Venezuela has various official exchange rate mechanisms (CADIVI, SICAD 1, and SICAD 2) and is presently considered hyperinflationary under IAS 29, requiring firms to engage in substantial judgment and estimation (Ernst & Young, 2015) that may ultimately render reporting information from Venezuela useless.

Notwithstanding, most countries, including some of the most antagonistic on the Left, adopted IFRS as issued by the IASB for its domestically listed firms. In countries with limited or no stock markets, IFRS adoption could reflect a relatively easy way to comply with an IFI recommendation, given the relatively few publicly listed firms affected that probably seek international financing anyway and would benefit from converting to IFRS. In larger countries, IFRS adoption could possibly have to do with the international exposure of its capital markets, including the number of domestically listed firms cross-listed on US capital markets and the SEC's 2007 rule change allowing foreign firms to report in IFRS without reconciling to US GAAP.

Cross listed firms briefly caused a stock market boom in Argentina following the debt default, as savvy investors were able to skirt domestic capital controls by purchasing shares in cross-listed domestic firms and converting them into dollar-denominated American Depository Receipts (ADRs) on US markets (Melvin, 2003). While the Argentine government eventually clamped down on this activity, the episode demonstrates the importance of cross listing for firms subject to domestic constraints and, for our purposes, the importance of economic integration for IFRS adoption quality. Countries with domestic firms cross-listed on US markets—Argentina, Brazil, Colombia, Chile, Mexico, Panama, and Peru—made their IFRS adoption decisions around the time of the SEC rule change. All of these require domestically listed companies to report in IFRS as issued by the IASB, just as the SEC now requires.

Global Economic Integration and Exposure to International Financial Flows

The commodities boom affected the Left differently throughout the region and Campello's (2015) research argues financial globalization and market discipline were largely responsible for moderating the politics of the Lula presidency and the Brazilian Left. Lula's election occurred shortly after the Argentine debt default and provoked a severe currency crisis, as global investors feared Lula would undo the market-friendly orthodox economic policies of his predecessor.

Moreover, Brazil has a more mixed domestic economy, and with the exception of the PetroBras public-private collaboration, oil and other commodities businesses are privately owned, so the government extracts rents from these primarily through after-profit taxes. Also, following the reforms of the previous government, Brazil's financial markets became very globally integrated (Clemente, 2012). This combination made

financial market pressure on policy-making stronger during the boom, as it did not provide the same alternative for public financing. As a result, Lula spent his first term largely re-building the market's confidence by, among other things, naming mostly conservatives to head economic ministries.

Given the significant participation of international investors in Brazil's stock market, Brazilian stock markets particularly suffered during Lula's first election. As a result of the confidence building process, the Bovespa launched the *Novo Mercado*, a new stock market with corporate governance requirements mirroring those found on American and European exchanges. "Among the requirements related to disclosure were that the accounting practices of firms listed on the *Novo Mercado*...needed to follow IFRS or US GAAP, and all listed firms would need to have their accounts audited" (H Fortin et al., 2010). The *Comite do Pronunciamentos Contabeis* (CPC, Accounting Pronouncements Committee) was made the official standard-setter for both listed and non-listed companies, but legally required to ensure the conformity of Brazilian standards with IFRS. Also, Brazilian laws changed, for the first time, to separate financial reporting from taxation. In anticipation of these legislative changes (and the IFRS rule change by the SEC), in 2007, the Brazilian securities commission issued a rule requiring its listed companies to report financial statements using IFRS as issued by the IASB by 2010, but could voluntarily adopt as early as the next fiscal year.

These efforts proved to be successful, as net portfolio investment increased from US \$5.4 billion in 2006 to US \$58.6 billion in 2008 (Barbosa and Pereira de Souza quoted in Campello 2015). In 2007, according to the *International Herald Tribune* "an index of companies that follow the [*Novo Mercado*] regulations has outperformed the

benchmark Bovespa index” (cited in Fortin, 2010). However, the effect of Brazil’s improved corporate governance requirements is hard to fully gauge in a global context. While markets did perform exceedingly well and foreign investors did happily return to Brazilian capital markets during this time, it’s hard to tell if this performance resulted from the new measures or merely due to return seeking global investors enticed by Brazil’s growth prospects given Lula’s adherence to macroeconomic orthodoxy and relatively limited returns elsewhere. Doubts notwithstanding, Brazil’s IFRS adoption was indeed praiseworthy, and praise it received.

Most notably, Hans Hoogersvort, Chair of the IASB, gave a speech in Sao Paolo where he commended Brazil’s “textbook example of how to adopt IFRSs” and noted it “resisted the temptation to tweak the standards to meet local desires” (2011, p. 3). Indeed, Brazil’s securities regulator requires listed companies to report consolidated financial statements using IFRS as issued by the IASB. However, Brazil’s CPC chose to converge domestic standards to IFRS, in a process similar to Australia’s. While the new corporate law requires Brazilian CPCs adhere to IFRSs, the Brazilian CPC did eliminate some options available under IFRS at adoption, such as the revaluation of property, plant and equipment under IAS 16 and revaluation of intangible assets under IAS 38. For some consolidated financial statements, the auditor’s opinions refer to compliance with both IFRSs and accounting practices adopted in Brazil (IFRS Foundation, 2013e).

While the new corporate law requires Brazilian CPC adhere to IFRSs, the CPC issued guidance on IFRIC 15 resulting in statements not in compliance with IFRS as issued by the IASB. According to Brazil’s IFRS Foundation Jurisdiction Profile, “companies that apply this guidance say that their financial statements are prepared ‘in

accordance with the IFRSs applicable to real estate development entities in Brazil as approved by Accounting Pronouncements Committee (CPC), by the Brazilian Securities Commission (CVM), and by the Brazilian Accounting Council (CFC)” (2013e, p. 6). Surely there could have been objections to IFRIC 15 around the world, IFRS 15 will replace it soon anyway, and the modification likely affects few companies, but this action is not consistent with the praise Brazil received as a model adopter as it is out of compliance with IFRS, Brazilian corporate law, and, more importantly, prevents comparability.

The problem with Brazil’s IFRS convergence for non-listed companies is not the standards per se, but rather the praise and credibility Brazilian accounting standards have received as a result of the successful adoption for listed companies. Brazil’s large non-listed firms can still access international financing (e.g. through private placements or interest rate swaps) and foreign investors may not be aware of potential differences between IFRS and Brazilian CPCs or that, in the case of real estate development companies, statements may not be in compliance with IFRS as issued by the IASB.

If Brazil’s successful IFRS adoption for listed companies reflects the openness of its domestic capital markets, is it possible to suggest that its adoption for non-listed companies reflects Brazil’s relatively closed domestic market? Brazil’s recent Leftist governments (and the conservatives of its past) are known to promote policies protecting domestic industries and supporting national champions. An International Chamber of Commerce report, ranked Brazil 67th in market openness out of 75 countries, and was the least open of the G20 economies (Finger, 2013). Its domestic economy overall is rather

closed and interventionist, and the ICC report also ranks Brazil lowest among the G20 countries in trade openness.

Table 3.3.1 – ICC Trade Openness Score and IFRS Adoption Quality

Country	ICC Trade Openness Score ¹⁰	IFRS Score
Argentina	2.5	2.75
Brazil	2.2	3.75
Chile	3.9	5.5
Colombia	3.0	4.0
Mexico	3.0	4.5
Peru	3.6	4.0
Uruguay	2.7	1.5
Venezuela	2.0	1.5

In fact, this is something the worst adopters share, while those with high openness scores also have high IFRS adoption scores. Of course, the ICC's report does not include all the countries in our sample, but it is consistent with research indicating trade ties and economic integration are factors for IFRS adoption (Ramanna & Sletten, 2013; Shima & Yang, 2012).

Table 3.3.2 – IFRS Adoption Quality and International Trade

Country	Adoption Year	Non-listed IFRS Score	IFRS Composite Score	US FTA	Trade/GDP
Argentina	2009	.75	2.75	No	30.6
Bolivia	NA	0.0	0.0	No	77.1*
Brazil	2007	1.75	3.75	No	25.2
Chile	2008	3.5	5.5	Yes	81.0
Colombia	2009	2.0	4.0	Yes	34.3
Costa Rica	2005	4.0	6.0	Yes	102.5
Dominican Republic	2010	2.5	4.25	Yes	54.8
Ecuador	2008	3.0	5.0	No	68.1
El Salvador	2011	3.0	5.0	No	74.6
Guatemala	2007	1.5	1.5 / 4.0*	Yes	67.9
Honduras	2005	3.0	4.5	Yes	136.5
Mexico	2008	2.5	4.5	Yes	58.1
Nicaragua	2011	2.0	3.75	Yes	95.8
Panama	2005	3.75	5.5	Yes	144.5
Paraguay	NA	.5	.75	No	101.9*
Peru	2011	2.0	4.0	Yes	55.2
Uruguay	2007	.5	1.5	No	59.2
Venezuela	2008	.5	1.5	No	51.8

Source: Trade/GDP data from World Bank DataBank for year of IFRS adoption

*Since Bolivia and Paraguay don't have an adoption year, the number presented is an average of trade/GDP for the period 2005/2013

The table above displays IFRS adoption in the context of trade openness, as measured by trade-to-GDP percent. Trade-to-GDP can be somewhat misleading when analyzing countries in Latin America, as natural resource exports can represent a

¹⁰ Finger, K. M. (2013). *ICC Open Markets Index*. Paris, International Chamber of Commerce: 32.

significant portion of GDP during a commodities boom due to a country's lack of domestic productivity, such as with Bolivia and Paraguay. Ecuador also saw similar commodities-driven ratio improvement, as its ratio was much lower prior to 2008 due to the country's political and macroeconomic instability. However, for more mixed economies, such as Argentina, Brazil, Chile, and Mexico, the numbers are revealing. Indeed, consistent with the ICC comparison and research suggesting trade is a determinant for IFRS adoption, Chile and Mexico have relatively high trade/GDP and high IFRS composite scores, while Argentina and Brazil have low trade/GDP and lower adoption scores.

Colombia's low trade-GDP ratio may explain why, despite a proper legislative IFRS adoption in 2009, the implementation process has met with resistance from the business community. However, as Colombia's global economic integration increases, the need for IFRS is clearer.

“It is understood that a delegation of business executives from major Colombian companies went to Europe to discuss financing possibilities, and were informed by bankers and other capital market sources that they could not analyze and interpret financial statements using Colombian GAAP, and that, if the companies really wanted financing in Europe, they should adopt IFRSs.” (Camfferman & Zeff, 2015, p. 501)

These leaders returned to Colombia and relayed the message to the President, who issued a decree in 2011 permitting voluntary IFRS use by large firms. 2015 is the first year of required IFRS application for the first tranche of Colombian firms as part of the transition plan. This first tranche includes listed companies, companies defined by law as public interest entities, large companies whose parent or subsidiary report under IFRSs, and large exporters (IFRS Foundation, 2013b).

Regional Trade Agreements & Accounting Harmonization

Notably, countries with the highest IFRS composite scores also have free trade agreements with the US. Moreover, these countries are also likelier to have active free trade agreements with other countries within and outside of the region. An association between regional trade agreements and IFRS adoption is expected, as there are many parallels in the adoption rationale for both arrangements. Both encourage economic integration by decreasing costs and facilitating investment. Both provide strong signals to international investors regarding a country's business climate and commitment to reforms. Not surprisingly, recent trade agreement negotiations occurred concurrently with IFRS adoption.

The US trade agreements with Latin American countries also cover trade in professional services. Consequently, an analysis¹¹ of Big Four accounting firms reveals consistent revenue growth in Central and South America¹² following IFRS adoption (i.e. post-2008). These agreements also provide opportunities for collaboration among domestic standard-setters. NAFTA and CAFTA-DR contain articles requiring the signatories to work toward mutual recognition of professional licenses and certifications (H Fortin et al., 2010). The Chile-US Free Trade agreement also contains mutual recognition language (Tripartite Committee, 2005).

The members of NAFTA provide a helpful example of the kind of collaboration that can occur among standards setters, leading to knowledge transfer, standards

¹¹ Report titled "The 2013 Big Four Performance Analysis" published by Big4.com, a finance and accounting career consulting service; The Big Four refers to the four largest international public audit firms—Deloitte, Ernst & Young, PricewaterhouseCoopers, and KPMG.

¹² The Big Four firms do not break out revenue by country; however, the annual reports do distinguish between regions in the Americas, where they note aggregate growth in the Americas (outside of US and Canada) and highlight specific revenue growth in Mexico, Brazil, and Chile—three notable IFRS adopters with the most liquid capital markets.

harmonization, professional recognition, and greater trade in goods and services. American, Canadian, and Mexican standard-setters joined to form the American Free Trade Agreement Committee for Cooperation on Financial Reporting Matters (AFTA) in the spirit of fostering economic integration through standards harmonization. This collaboration resulted in a mutual recognition agreement between the three parties. That is, CPA designations are considered equivalent, and persons licensed to practice accountancy in one country can practice in another after passing a short exam on national regulations.

The Chilean standard-setter was later invited to join AFTA following Chile's pending FTA negotiations with NAFTA countries, although this collaboration did not result in mutual recognition for Chilean accountants. The four countries did produce the 2002 publication of a report titled *Significant Differences in GAAP in Canada, Chile, Mexico, and the United States*. Chile eventually signed trade agreements with Canada, Mexico, and later with the US in 2002. Chile's trade agreement with Canada includes provisions for labor mobility among professionals, and the provisions for professional accountants makes accommodation for the differences in Chile's education system, an improvement over the professional labor mobility arrangement in the Chile-US agreement ("International Mobility Program: Canada-Chile Free Trade Agreement," 2014).

Chile is one of Latin America's most open economies; it also has standing free trade agreements with the European Union, China, Australia, Japan, and it is a party to the Trans-Pacific Partnership. The successful collaboration efforts among regional standard setters, IFRS adoption by many of its major trading partners including Europe

and Canada, US convergence with IFRS, the favorable immigration policies for professionals under the Canada-Chile bilateral agreement, and Chile's trade openness were all likely contributing factors to its IFRS adoption decision.

Worth noting, not all trade agreements are created equal. Members of Mercosur, the regional trade bloc composed of Argentina, Brazil, Uruguay, and Venezuela, have low IFRS adoption quality scores. If trade ties influence the IFRS adoption decision, then it is also possible that trade ties also influence IFRS adoption quality as well.

Political and Economic Determinants of IFRS Adoption—Methodological Considerations and Opportunities for Future Research

This section proposes an ambitious narrative describing potential political and economic factors affecting the variability of IFRS adoption quality in Latin America. While it appears to have some explanatory usefulness for the region, the inductively derived model described herein is not yet ready to definitively claim causal links and has some methodological challenges for future researchers to consider.

In summary, windfall revenues from the commodities boom provided the Latin American Left with an unprecedented source of financing and opportunity to counter the influence of US-backed multilateral financial institutions in the region. As such, those benefitting most from the boom also had the most contentious relationship with the international lenders and exhibited the lowest IFRS adoption scores. Therefore, the relationship between the radical Left and the IFIs is a reasonable starting point.

At the time the IFIs were pushing for IFRS adoption in the developing world, the Latin American Left was vocally, if not actively, antagonistic toward the IFIs. Given this, we can expect to see a relationship between commodities revenues, IFRS adoption quality, and rate of financing from IFIs at the time of adoption. That is, if a country's IFI

borrowing was decelerating at the time of IFRS adoption due to increased commodities revenues, we could expect to see a lower IFRS quality score. Future research would do well in exploring this relationship further.

Although, given the contentious relationship between the two, such an analysis does not yield a clear reason why countries led by the most antagonistic characters, like Venezuela, Ecuador, or Argentina, would bother with IFRS adoption at all. In making poor quality adoption choices that still permit the claim of IFRS adoption, perhaps these governments were trying to fend off international criticism by giving an outward appearance of playing by global rules.

International economic pressure is often cited as a reason for the policy switching that occurs when Latin American leaders elected on populist redistributionist platforms instead pursue pro-market policies. It's very unlikely that any Latin American leader (of any political persuasion) ever campaigned for or against IFRS adoption to get elected, but IFRS adoption is certainly a pro-business policy that supports foreign investment. Could it be that accounting standards are politically innocuous? Political economy literature on the domestic sources of business policy and regulation may add some additional insight, but regrettably, it is not considered here.

Nevertheless, a country's global economic integration can arguably serve as a proxy for IFRS adoption's internal demand, as the need for international financial reporting comparability increases with international commerce. Accordingly, IFRS adoption quality appears to be related to the depth of a country's global economic integration. The table below summarizes the idea.

Table 3.3.3 – IFRS Adoption Quality and International Economic Integration

IFRS Quality Score	Low IFRS Score	Mixed IFRS Score	High IFRS Score
International Exposure of: Financial Markets Domestic Markets	Limited or none Limited	Exposed Limited	Exposed Exposed
Examples:	Bolivia – 0 Venezuela – 1.5	Argentina – 2.75 Brazil – 3.75	Chile – 5.5 Panama – 5

Countries with limited or no foreign exposure in financial markets or domestic markets exhibit low IFRS adoption quality scores. Countries whose financial markets are subject to significant international exposure (through cross-listings or foreign investment) and have limited international exposure in their domestic markets (trade openness) exhibit high IFRS adoption quality scores for publicly listed firms and low IFRS adoption scores for domestic firms. Countries with significant international exposure in their domestic markets and little or no foreign exposure in their financial market also exhibit high IFRS adoption quality scores. Finally, open economies with internationally exposed financial markets and high levels of international trade exhibit the highest IFRS adoption scores.

To clarify, internationally exposed financial markets are defined as those with domestic firms cross-listed on US exchanges and/or any amount of trading activity in domestic financial markets by foreign investors. This definition for international financial market exposure is practical given the exploratory nature of this study, as it allows for quick identification of a possible relationship without purchasing expensive financial market data.

The international exposure of financial markets can also be measured using market capitalization data to proportionally evaluate the weight of cross-listed firms and foreign investment activity relative to the overall size of a domestic market. For example, while only 27 of the 358 firms listed on Brazil's Bovespa are cross-listed in the US, only

3 of these were worth 20% of the Bovespa's market capitalization.¹³ Thus, the number of cross-listed firms is not many, but the value of these firms is clearly significant relative to the size of the domestic market. Qualitative features that can also be considered include the number and type of international markets where domestic firms cross-list and the volume, types (institutional, individuals, sovereigns), and country origins of foreign capital trading in domestic financial markets. Unfortunately, this detailed information is not readily or publicly available for all countries to be incorporated in this study. Future research might explore the relationship between IFRS adoption for the financial reporting of domestic listed firms and where domestic firms cross-list, value of cross-listed firms, and changes in the composition of foreign investment in the domestic market.

Moreover, international exposure of the domestic market is loosely defined as a country's global economic integration. The easiest way to assess the integration of a domestic economy is by international trade and trade openness. In the previous section, a country's trade-to-GDP ratio, its ICC trade openness index score (if available), and participation in a US free trade agreement were primarily used to assess trade openness. Other qualitative factors also considered in evaluating trade openness include protectionism, state interventionism, and monetary barriers to trade resulting from capital controls. US trade agreements serve as a reasonable proxy for trade openness in the region, as the Latin American countries in the sample subject to a US trade agreement are also likely to have free trade agreements with other countries outside of Latin America.

Admittedly, this approach provides an imprecise measure of economic integration, and excludes other important factors indicative of domestic economic

¹³ These three firms are PetroBras, Embraer, and AmBev; valuation as of close of trading, June 19, 2015. Source: <http://www.bmfbovespa.br/en-us/home.aspx>

integration, including direction, type, and volume of foreign direct investment (FDI) and access to international financing by domestic non-listed firms. However, while assessing these factors would be as interesting as it would be enlightening for this discussion, the availability of this data in the level of detail necessary is not usually publicly available. High quality data on the financing sources of private firms is especially difficult to obtain.

Notwithstanding, given existing literature finding trade ties and economic integration are factors for IFRS adoption and the exploratory scope of this analysis, the information used to assess trade openness serves as a reasonable starting point for revealing a potential relationship between economic integration and IFRS adoption quality. Going forward, future research could measure trade volume among IFRS adopting and non-adopting countries to determine whether trade ties affect IFRS adoption and policy choice quality.

The qualitative features of free trade agreements with the US, such as the inclusion of professional services and articles encouraging collaboration toward mutual recognition of professional licensing, are also helpful for the harmonization of accounting standards. Future work could also explore the qualitative nature of other non-US free trade agreements regarding these factors, as well as the terms of any bilateral investment treaties.

Importantly, the proposed model discussed herein was inductively derived based on observed patterns and extant research on IFRS adoption determinants. It assumes relationships among many factors corroborated by data with identifiable limitations that has not yet been subject to further statistical testing. However, the inductive

methodological approach employed here is similar to the bottom up approach used by Ramanna to “isolate dimensions of international politics in countries IFRS adoption decisions” (2011, p. 5). He notes this approach is positive, but “distinct from much of the other positive IFRS-related literature that is most commonly large sample statistical” (2011, p. 5), mainly because he isolates primarily qualitative variables (power and cultural proximity) that are not easily quantified—not the case for the variables isolated herein. While accounting literature validates the inductive approach used here to derive a potential explanation—IFRS adoption quality in Latin America appears to follow the pattern described—the independent variables isolated here can be quantifiably measured and potentially tested. Without such testing, causal links cannot be conclusively determined and should not yet be assumed.

To that end, the relatively small sample of 18 countries may be problematic for regression analysis to determine the effect of the aforementioned variables on IFRS adoption quality. Additionally, the data used to support the narrative was useful for identifying potential relationships, given the exploratory scope of this study, but it may prove less helpful for advanced statistical testing. Future research might consider improving the operationalization of independent variables by relying on fewer proxy variables and instead utilize more detailed trade and financial data from reliable (sometimes paid) data services (e.g. intra-country global trade data, intra-country global portfolio investment flow data, global cross-listing data, historical financial data from reliable, paid sources like Bloomberg or Thomson Reuters) and also expanding the sample to include more or all developing countries in order to conduct regression analysis with greater reliability. Additionally, the model presently excludes other potential factors

affecting IFRS adoption, such as a country's level of economic development and experience with inflation.

Notwithstanding, the suggested relationships among political and economic factors described here may provide a potential explanation for the variability in IFRS adoption in Latin America to serve as a starting point for future research, consistent with the intended goals and exploratory scope outlined in the introduction.

Chapter 4: Case Studies

This section explores IFRS adoption in four Latin American countries—Brazil, Chile, Argentina, and Venezuela. The case study method was chosen for various reasons. Business literature suggests case studies are best for answering *how* and *why* questions (Cooper & Morgan, 2008) “The central notion is to use cases as the basis from which to develop theory inductively. The theory is emergent in the sense that it is situated in and developed by recognizing patterns of relationships among constructs within and across cases and their underlying logical arguments” (Eisenhardt & Graebner, 2007, p. 25). Given this paper’s exploratory scope, we are interested in learning how countries adopt IFRS and explaining why differences occur.

Additionally, existing literature has relied on country case studies found in the Reports on Observance of Standards and Codes (ROSC) performed by the World Bank and IMF throughout the world. Given the qualitative nature of standards adoption, these reports have been an invaluable resource for researchers on IFRS adoption and private global governance.¹⁴ However, the ROSC reports are also dated and do not reflect recent IFRS implementation efforts, especially efforts throughout Latin America. Moreover, given the earlier discussion on the contentious relationship between some countries and the multilateral financial institutions, the ROSC authors (i.e. the World Bank and IMF) may themselves be variables affecting IFRS implementation, a relationship notably absent in ROSC assessments.

Importantly, the case studies presented here rely on publicly available primary sources wherever possible. These include Technical Bulletins issued by national standard

¹⁴ Refer to Cardona et al. (2014), Mosley (2010), Walter (2008), and Ramanna (2011) in the Literature Review section for examples of research based on ROSC findings.

setters, Jurisdiction Profiles issued by the IFRS Foundation for each country based on survey responses from the standard setters and practitioners, International Federation of Accountants¹⁵ (IFAC) Country Statements of Member Obligations (SMOs) and Action Plans, and IFRS documents such as agenda papers, staff papers, presentations, communiqués, speeches, and texts. Additional supporting evidence comes from sources such as the World Bank's online databank, the United Nations Conference on Trade and Development (UNCTAD), and secondary sources such as news articles and extant research.

International accounting standards developed outside of developing countries; multilateral financial institutions and global capital markets were external catalysts for IFRS adoption in many emerging markets. Therefore, country case studies aim to place adoption in a broader context, given tensions between the external actors pushing for adoption and the domestic governments required to adopt, highlighting differences where appropriate.

Much literature underscores the divergent development paths between moderate and radical left governments in Latin America, where the moderate left plays by market rules while adjusting for shortcomings in social welfare and the radical left generally eschews the market model. The divergent paths of the two Lefts were the subject of the findings in the previous section, where countries led by the most radical Left exhibited low quality IFRS adoption, while countries of the moderate Left display higher quality

¹⁵ "IFAC is the global organization for the accountancy profession.... The seven Statements of Membership Obligations (SMOs) are the foundation of the IFAC Member Body Compliance Program and serve as a framework for credible and high-quality professional accountancy organizations focused on serving the public interest." Retrieved from: <http://www.ifac.org>

IFRS adoption. The chosen case studies thus represent the spectrum of adoption quality, from best to worst, moderate to radical, respectively.

The moderate left cases highlight Chile and Brazil's IFRS adoption. Chile was the first large country in Latin America to adopt IFRS in full, and its transition experience is particularly interesting because of the significance of its stock market and it also demonstrates the need for a strong and active regulatory body for a successful implementation (Fortin et al., 2010). The Brazilian case is also noteworthy as it highlights the relationship between the political climate and the governance of its capital markets. The Argentinian and Venezuelan IFRS adoptions make up the radical left cases, and mainly underscore the effects of the left's macroeconomic mismanagement on financial reporting and the challenges of applying international standards in such an environment.

The moderate and radical labels come from Kurt Weyland (2013) and K. Weyland et al. (2010) and are *used here for simplicity*. While these authors use Brazil and Chile as examples of moderate left (as I do), they use Bolivia and Venezuela as radical left examples. However, Bolivia is a notable IFRS non-adopter (if not a non-starter). While it would be interesting and useful to assess the factors affecting Bolivia's non-adoption, country selection here was also limited by the availability of primarily source data. As a result, Argentina was selected instead. Unlike Bolivia, Argentina serves as a useful case for IFRS analysis as it has one of the oldest stock markets in Latin America, it was considered an attractive emerging economy by global investors in the 1990s, and it has many listed companies cross-listed in the US, making it an otherwise ideal setting for adoption of international accounting standards. Yet, under the Kirchner and Fernandez governments, Argentina shares many characteristics with "radical left"—

e.g. eschewing macroeconomic orthodoxy, anti-globalization rhetoric, serving as an outspoken ally of Venezuela and Hugo Chavez—making it an adequate substitute for our purposes.

As a result, a more apt term for the Latin American “radical left” explored here is “economic populism” defined by Dornbusch and Edwards (1990) as “an approach to economics that emphasizes growth and income distribution and deemphasizes the risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies” (p. 247) Later, Edwards (2010) studies Argentina and Venezuela as recent examples of economic populism and contrasts these with the relatively tame left in Chile and Brazil. The definition provided by Edwards provides more guidance for the forthcoming analysis and his case selections further support the countries chosen here.

It is important to clarify that the analysis will now move beyond solely assessing the quality of IFRS adoption policies to also consider the experience of actually applying IFRS for domestic financial reporting. Given the guidance from the definition of economic populism, the case studies also shed light on another potential factor affecting a country’s IFRS experience that was not fully considered in the previous chapter—a country’s ability or willingness to control inflation.

4.1 – The Moderate Left

Chile

Chile has successfully adopted IFRS for most domestic operating companies. The Chilean securities regulator, *Superintendencia de Valores y Seguros* (SVS), mandated IFRS by listed companies through a transition period, culminating in 2012 for all

companies under its supervision. In 2009, the SVS had 232 listed companies under its supervision, and their market capitalization represented approximately 122% of GDP.¹⁶ In 2013, 13 of these listed companies (about 5%) were registered and reporting (cross-listed) with the US SEC. The SVS requires IFRS as issued by the IASB.

Banks and other financial institutions are regulated by the Chilean banking regulator, which adopted IFRS for the year ended 2009, albeit with a modification for IAS 39, where banks must measure loan loss provisions using an expected loss approach and are forbidden from using the fair value option in IAS 39. Financial statements issued by entities under the supervision of the banking regulator do not claim conformity with IFRS.

Through Technical Bulletin No. 79, the *Colegio de Contadores de Chile* (CCCH), the national accounting standard setter recognized by Chilean law, adopted all IFRS in existence as of December 15, 2008, stipulated a transition timeline for adoption by Chilean companies, and permitted earlier adoption. The SVS was proactive in its efforts, conducting several surveys, issuing circulars, and although it encountered some delays in adopting IFRS (e.g. it had to extend filing deadlines in the first year), its IFRS implementation efforts were ultimately successful (H Fortin et al., 2010). Finally, through Technical Bulletin No. 85, the CCCH made IFRS or IFRS for SMEs as and when issued by the IASB the Chilean national accounting standards as of 2013. That is, with the partial exception of banks, essentially all Chilean commercial activity must be accounted for using IFRS as issued by the IASB.

¹⁶ Per World Bank. For reference, listed companies in the US have a market capitalization that represents approximately 116% of GDP. UK listed companies also represent about 116% of GDP.

Worth noting, given Chile's history with inflation, in adopting IFRS, the country abandoned its tradition of monetary correction. However, inflation in Chile was relatively low at the time of adoption, and has been since then, so this change likely has not had much effect on Chilean financial reporting. IFRS also require additional related party disclosures and adoption of a functional currency for financial reporting (Tirado, 2009).

In the 1990s, while Chile negotiated bilateral trade agreements with individual NAFTA members, the CCCH began collaborating with American, Canadian, and Mexican national standard setters through the American Free Trade Agreement Committee for Cooperation on Financial Reporting Matters (AFTA). This cooperation did not result in mutual recognition of the Chilean accounting profession like that developed for NAFTA members, given Chile joined later and the mutual recognition process among the three NAFTA members took approximately 10 years to achieve.

However, CCCH's collaboration with its trade partners did begin a convergence process in the professionalization of accounting in Chile, and resulted in the 2002 publication of a report titled *Significant Differences in GAAP in Canada, Chile, Mexico, and the United States*. While Chile opted for IFRS, it still looks to the US for guidance on professional best practices. The CCCH developed its auditing standards based on those issued by the American Institute of Certified Public Accountants (AICPA), and refers to the IASB only when an item is not covered by its pronouncements (UNCTAD, 2013). Although these early collaborative efforts led to harmonization primarily with US GAAP, Chile's IFRS adoption decision likely reflects its cooperation with other standard setters as much as its commitment to openness in trade and investment as a means of supporting its economic growth.

Since its transition to democracy, Chile has accepted and consolidated neoliberalism as its development path. More importantly, this consolidation has occurred under leftist leaders (Edwards, 2010). In 2010, Chile became the first South American country to join the OECD and it is now, arguably, the most open economy in Latin America; it has standing free trade agreements with the US, Mexico, China, the EU, Australia, Japan, and it is party to the Trans-Pacific Partnership. According to the Chilean Central Bank, it also has approximately equal shares of trade with the US, Canada, China, and Europe. Additionally, early support for IFRS by US regulators and standard setters and early IFRS adoption by Canada and the EU also made Chile's IFRS adoption a practical choice to attract investment from all over the world. In fact, Chile's IFRS adoption process is remarkably similar to Canada's, and its IAS 39 carve-out for banks mirrors that implemented by the EU (UNCTAD, 2013).

Despite its accomplishments, Chile still does not have a professional licensing or registration requirement for accountants and no continuing professional development requirements. Audit expertise is developed primarily through Big Four (Ernst & Young, PricewaterhouseCoopers, Deloitte, and KPMG) audit firms and their in-house training programs, and these firms cover 90 to 94 percent of the audit market.

Brazil

Brazil shares another successful IFRS adoption story. In 2010, Brazil signed a memorandum of understanding (MOU) with the IASB, outlining its commitment to the international standards. Since 2010, the Brazilian securities regulator has required IFRSs for listed companies, banks, and insurance companies. Non-listed banks requiring an audit committee must report using IFRSs—audit committees are required based on

bank's assets and deposits under management. Also since 2010, Brazilian Generally Accepted Accounting Principles (BR GAAP) have been converged with IFRSs, and are required for domestic non-listed companies. BR GAAP also includes equivalents of IFRS for SMEs, and special reporting standards for micro-enterprises (IFRS Foundation, 2013e).

Brazilian adoption of the Anglo-American international standards comes as no surprise, as research indicates previous Brazilian financial reporting was based on American rules due to increased American trade in the mid 20th century (Rodrigues, Schmidt, & Santos, 2012). Prior to IFRS, the Brazilian securities regulator permitted listed companies to report using US GAAP. Notably, IFRS does away with the Brazilian accounting tradition of correcting for inflation (Rodrigues et al., 2012).

Where previously Brazilian law and regulator supervision dictated accounting standard setting, a 2007 update to Brazilian corporate law facilitated the consolidation of standard setting in the hands of the *Comité de Pronunciamentos Contábeis* (CPC). The CPC includes representatives from the major financial reporting stakeholders, such as the Brazilian Association of Listed Companies (ABRASCA), the Brazilian Association of Capital Market Analysts and Investment Professionals (APIMEC), BMF & BOVESPA, the Federal Council of Accounting (CFC), the Institute of Independent Auditors of Brazil (IBRACON), and the Foundation Institute for Research in Accounting, Finance, and Actuarial Sciences (FIPECAFI). Notably, the law also formally separated financial reporting from tax law, and requires Brazilian accounting standards to conform to IFRSs.

When Brazil signed its MOU with the IASB, it was just the fourth country in the world to do so, following the US, China, and Japan. Importantly, unlike the others,

Brazil's MOU did not just promise convergence, but rather asserted a commitment to require the full adoption of IFRSs (Camfferman & Zeff, 2015, p. 499).

Brazil's adoption of IFRS began at a time when the Brazilian government was trying to win back the confidence of global investors. In 2002, Brazil elected Luis Inacio (Lula) da Silva as president, the leftist candidate of the Brazilian Workers Party (PT). Lula had previously run for president several times campaigning on socialist and anti-globalization rhetoric, and although some evidence reveals Lula was a pragmatist who moderated his rhetoric after each electoral defeat (Hunter, 2010), his election sent Brazilian markets into a tailspin. As a result, Lula had to spend much of his time in office regaining the confidence of markets.

Thus, very public displays of market-friendliness were common during the Lula administration. This confidence building manifested itself in very positive developments for corporate governance and financial reporting, including the creation of a new stock market with strict corporate governance standards, called the *Novo Mercado*, and mandatory adoption of IFRS for listed companies. Another visible act of corporate governance occurred when the PetroBras cross-listed its shares on the New York Stock Exchange (NYSE), making the Brazilian state-owned firm subject to another country's regulatory supervision, i.e. the US Securities and Exchange Commission (SEC). Public political support for IFRS came in 2007 when Brazil named Pedro Sampaio Malan, former minister of finance and former governor of the Banco do Brasil, as IASC Foundation Trustee (Camfferman & Zeff, 2015), to signal the importance of international standards for the development of Brazilian capital markets.

These public displays served to distract from the somewhat uncompetitive nature of the Brazilian domestic economy. Brazilian developmentalist policies included reliance on the Brazilian *Banco Nacional do Desenvolvimento* (BNDES), the national development bank, which provides subsidized loans to large politically connected companies (Musacchio & Lazzarini, 2012). The BNDES also holds minority interests in Brazilian companies and government can accumulate enough institutional shares through Brazilian pension system in these companies to exercise management control in some cases (Doctor, 2015). Political access to subsidized credit and politically-oriented (as opposed to profit-driven) shareholder activism can undo the large public gains the country made in corporate governance and financial reporting.

Moreover, while IFRS as issued by the IASB is required for listed companies, BR GAAP for non-listed companies contains some departures from IFRS, despite Brazilian law requiring adherence to IFRS as issued by the IASB. For example, it disallowed some options available under IFRS at adoption that conflict with other Brazilian laws, such as the revaluation of property, plant and equipment under IAS 16 and revaluation of intangible assets under IAS 38 (Camfferman & Zeff, 2015, p. 499). For some consolidated financial statements, the auditor's opinions refer to compliance with both IFRSs and accounting practices adopted in Brazil.

Importantly, the Brazilian CPC endorses subsequently issued standards and guidance, meaning it reserves the right to reject IFRSs or offer conflicting guidance. Such was the case of IFRIC 15, where the Brazilian CPC provides a revenue recognition option not available under IFRS for real estate development companies. Firms choosing this option claim conformity with BR GAAP, and not IFRS. While this guidance affects

few companies, it demonstrates that deviation from IFRS is possible under Brazilian IFRS adoption, despite very public commitments and praise to the contrary.

4.2 – The Radical Left

Argentina

In 2009, the Argentinian *Comisión Nacional de Valores* (CNV), securities regulator, approved a recommendation from the *Federación Argentina de Consejos Profesionales de Ciencias Económicas* (FACPCE), the federation of professional organizations of economic sciences, to require IFRS as issued by the IASB for all companies under its supervision whose debts or securities are publicly traded beginning in 2012, however, earlier application was permitted. This requirement excludes publicly listed banks and insurance companies (listed and non-listed banks and insurance companies are not permitted to use IFRSs), but the national banking regulator has announced a plan for converging bank reporting standards with IFRSs by 2018. Cooperative associations and civil associations, which are separately regulated, are also excluded from IFRS reporting.

The FACPCE recommended adoption of IFRSs and IFRS for SMEs for listed companies through Technical Resolution (TR) No. 26, which was subsequently modified by TR No. 29 and TR No. 38, however, the subsequent modifications were incorporated into TR No. 26, such that it is not clear what was modified. In adopting IFRS, the FACPCE prescribes separate financial statements should report investments in subsidiaries, affiliates, and joint ventures using the equity method, instead of at cost as mandated by the IASB. The FACPCE will continue to be the arbiter of subsequently issued IFRSs, but its role is limited to assessing whether new standards conflict with Argentinian law (Camfferman & Zeff, 2015, p. 497).

According to Argentina's ROSC report, the country benefits from a highly regarded accounting profession, due to many historical factors, such as its high education standards and strong licensing requirements. The FACPCE is held in such high esteem, that it is responsible for ensuring Spain's IFRS translation is acceptable for usage throughout Latin America.

While Argentina's adoption of IFRSs was relatively successful, adoption for domestic non-listed companies has faced resistance. The FACPCE brings together all of the country's professional councils. Although the federation permits companies to voluntarily use IFRS, the jurisdictions where most of the country's non-listed companies are registered do not permit IFRS for statutory reporting. Notable among the non-adopters is the autonomous city of Buenos Aires.

Limited local IFRS acceptance is likely due to the lack of inflation or price level adjustment in IFRSs. Following Argentina's debt default and currency crisis at the turn of the century, the Kirchner and Fernandez governments have been characterized by their anti-business, anti-globalization rhetoric and heterodox macroeconomic policies that have resulted in considerable inflationary pressures. The response to inflation has been to change the calculation of the country's consumer price index, yielding official inflation figures that are significantly lower than estimates by private economists. After many complaints, Argentina is the first country to be censured by the IMF for its inaccurate statistical reporting.

Notwithstanding, even at the official inflation figures, doubtful calculations aside, without any adjustment for price level changes, profits and assets are overstated, and expenses are understated. For statutory purposes, the end result is higher tax payments

without any relative change in real economic performance. This problem is compounded for companies transacting in other currencies, as the country's official currency rate (required for use under IFRS reporting) differs significantly from the currency's unofficial rate.

In 2010, the FACPCE wrote to the IASB to consider a proposal to replace IAS 29—*Hyperinflationary Reporting*—presently the only standard dealing with the effects of inflation on financial reporting. In 2013, the FACPCE presented jointly with the Mexican standard setter to the IASB's Emerging Economies Group (EEG) a proposal for an alternative to hyperinflationary reporting, for moderately high inflation environments, such as those found in Latin America and many other developing countries. Under their proposal, price level adjustments would be required after three-year cumulative inflation of 26%, or about 8% per year (presently under IAS 29, restatements are required after three-year cumulative inflation is greater than 100%). However, despite recognizing that most IFRS-adopting countries have moderately high inflation levels, an April 2015 staff paper recommended this proposal for inflationary adjustments be given low priority and be removed from the IASB's work program. Thus, while Argentina's government maintains heterodox macroeconomic policies, the IASB probably will not address issues for firms operating in moderately high inflation environments and local IFRS adoption in Argentina will remain unlikely.

Venezuela

There is limited public information on Venezuela's IFRS adoption or compliance. The country's professional body is not a member of IFAC, so no SMOs or Action Plans are available. No previous ROSC report exists for Venezuela, as the World Bank or the IMF

generally conducted these per the countries' request, and Hugo Chavez notably severed ties with both of these institutions in 2007 after repaying Venezuela's debts with windfall oil revenues (Tran, 2007).

According to Venezuela's jurisdiction profile, the country adopted the 2008 version of IFRS for listed companies, banks and financial institutions, and companies in the oil, energy, and mining industries. In adopting the 2008 version of IFRSs, it made one modification requiring price-level adjusted financial statements when inflation reaches 10%, despite not being categorized as hyperinflationary under IAS 29. Small companies, outside of those in extractive industries, are required to use IFRS for SMEs, although which version of these or whether subsequent amendments are applicable is not made clear. New and amended IFRSs since the 2008 version have not been adopted as of the latest Jurisdiction profile dated March 3, 2015. To be clear, this adoption method excludes IFRS 9 through IFRS 15, which were subsequently issued, and all subsequent amendments to IFRS 1 through 8.

Venezuela's limited IFRS adoption comes as no surprise, given the Chavez government has been marked not just by anti-capitalist rhetoric, but by significant deviations from capitalism, including expropriations, price controls, tax audits of political rivals (Edwards, 2010). Poverty reduction programs did little to curb increasing risks to personal security. (Cawthorne & Garcia, 2014) The government's heterodox macroeconomic policies include capital controls, various fixed exchange rates, and little concern over inflation. All of these factors create financial reporting nightmares at best and going concern issues at worst. Access to dollars at official rates is strictly limited, so domestic companies transacting in dollars likely have to use devalued black market rates,

while accounting for these transactions at official rates. Price controls limit a company's ability to make up for the currency rate discrepancy.

Regardless of Venezuela's inflation reporting modification, the country has classified as hyperinflationary under IAS 29 since 2009, given cumulative three-year inflation exceeds 100%. Additionally, under IAS 21—*The Effects of Changes in Foreign Exchange Rates*—multinational companies have to translate bolivar accounts held in Venezuela into their home currencies at official rates. However, given the country's capital controls, these funds cannot be repatriated, even at official rates, and given the country's high inflation, which is not factored into official exchange rates, devaluation is imminent. Thus, official rates do not represent the actual value of accounts held in bolivares. For an international company, this would result in overstated income and assets from Venezuelan operations and understate foreign exchange losses.

The IFRS Interpretations committee received a letter asking for guidance on accounting for the effects of Venezuela's exchange rates and inflationary pressures, however, a July 2014 staff paper recommended the issue not be placed on the committee's agenda. Unlike the IASB, the SEC has offered some guidance on accounting for Venezuelan operations, and recently allowed the deconsolidation of Venezuelan operations from financial statements (Miller & Horan, 2015), resulting in significant charge offs for companies exercising this option. "At least 46 S&P 500 companies, about 10 percent of the total index, have told investors about potential exposure to Venezuela's currency in the past year, according to a search of company filings compiled by Bloomberg" (Crooks, 2015). Ford Motor Co. exercised this option for the 2014 fiscal year, resulting in an \$800 million write down. Coca Cola charged off \$661 million in

2014 due to the bolivar's devaluation. News reports reveal profit caps limit a company's ability to raise prices to offset the effects of devaluation (Murphy, 2015).

Chapter 5: Challenges for IFRS Implementation in Latin America

While Chapter 3 focused on the quality of IFRS adoption in the region, this section will incorporate those findings on adoption quality and the case study analysis on individual experiences with IFRS, to further explore the challenges affecting successful IFRS application in Latin America, and propose areas for future research along the way.

The post-World War II era engendered significant international economic integration and saw the rise of multinational business operations. The International Accounting Standards Committee (IASC) was born in this context to address the growing financial reporting consequences that accompanied increased economic integration. Financial reporting differences arose relating to “such factors as company law, company finance, taxation, and the strength of the accountancy profession” (Camfferman & Zeff, 2007, p. 22). In theory, harmonizing accounting practices would not only make it “easier for investors to compare the results of companies in different countries, it would also ease the burden on multinational companies which had to prepare financial statements for subsidiaries according to different local regulations” (2007, p. 22). Thus, the harmonization project that eventually led to the global set of accounting standards, International Financial Reporting Standards (IFRS), began with the express purpose of facilitating comparability for outside investors and standardizing practice for international management.

Years later, the World Bank and other multilateral financial institutions would use this same rationale to support the spread of IFRS in the developing world. Indeed, according to Camfferman & Zeff, “the World Bank is arguably one of the world’s largest users of financial statements” (2007, p. 441). About a quarter of the financial reports

received by the Bank are from commercial enterprises, prompting Randolph Andersen, the Bank's Chief Accountant, to state "it is in our interests to have a common basis of accounting" (Camfferman & Zeff, 2007, p. 441).

Indeed, the Bank's need for comparable financial information is clear, but what is less clear is why IFRS are the best option for development lending. IFRS were developed for external users of financial information engaged in profit-driven investment or lending. Surely, a banker at The Bank of New York Mellon is just as interested in getting their loan repaid as a World Bank lender; however, the World Bank's primary purpose is to foster economic development, while BNY Mellon's primary purpose is to increase shareholder value. Are IFRS as informative or useful for these clearly different purposes? Arguably, debt-service coverage should be just as valuable to a World Bank lender as the economic impact or social contribution of the borrower's operating activities, but you cannot find the latter information on a balance sheet. Should that information be supplemental to IFRS reporting or concurrent?

The kind of private lending by the World Bank (and other multilaterals) prompting their need for IFRS often receives little attention, but sovereign lending provides a useful example of the dichotomy of purpose between ordinary users of financial information and multilateral lenders. Goldman Sachs very recently issued a sovereign bond for the Dominican Republic to refinance its outstanding PetroCaribe debt (at a significant loss to Venezuela) (Rathbone & Schipani, 2014). A multilateral institution could have easily facilitated this transaction, however, Goldman would never

issue a sovereign bailout bond in the midst of a confidence crisis.¹⁷ Therefore, repayment capacity as determined by standardized reporting information can prove to be irrelevant for multilaterals, whose goal of promoting economic growth and stability differs from that of global investors interested in preserving capital, minimizing risk, and maximizing returns. Identifying appropriate reporting information for multilateral users is beyond the scope of this paper, but the seemingly automatic turn to IFRS with little consideration for alternative reporting standards does raise additional concerns about the appropriateness of IFRSs in developing country settings.

In solving their comparability problem by promoting IFRS in the developing world, the multilaterals could argue IFRS has fast become a global standard and its adoption further fosters economic integration. This would be a fair point, but the question of appropriateness remains unaddressed. Different international accounting practices develop to accommodate various needs, and professionals operating primarily in developed markets under relatively similar political and macroeconomic climates developed IFRSs. This differs greatly from the various settings under which IFRSs are now applied; yet the IASB (and the IASC before it) has repeatedly determined that developing countries do not require separate or different accounting standards (Camfferman & Zeff, 2007).

Inflation reporting provides an instructive example, as chronic inflation is a problem in many developing countries and reporting guidance under IFRS is inadequate. IAS 29 *Financial Reporting in Hyperinflationary Economies* is required for reporting in countries where aggregate inflation over a three-year period exceeds 100%. It provides

¹⁷ It's worth considering that global bond traders at places like Goldman Sachs and other Wall Street investment banks likely provoked the sovereign crisis necessitating the multilateral bailout (Martinez, 2003; Nieto Parra, 2008).

necessary guidance for firms operating in countries like Venezuela and Argentina, but it requires the use of official statistics for generating estimates. However, the credibility of government statistics has been questioned (Schrank, 2012), rendering any resulting estimates inaccurate. Moreover, there is no guidance under IFRS for firms operating in countries with moderately high inflation, such as Brazil. Aggregate inflation from 2010 through 2013 in Brazil is over 30%,¹⁸ rendering prior year statements and related accounts essentially incomparable. As a result, assets and net income are overstated, and expenses are understated. Prior to IFRS, countries like Mexico and Brazil used price-level accounting to address this problem (Choi & Meek, 2008).

Latin American attempts to address the inflation issue with the IASB have been met with indifference and inaction. The IASB's disinterest in addressing inflation reporting matters probably has less to do with the countries experiencing inflation than with the controversial nature of the inflation debate. Camfferman and Zeff (2007) reveal that the last time the IASC dealt with moderately high inflation rates in the 1970s, the organization reached a limited compromise solution by the time inflationary pressures had subsided. Another reason the IASB likely won't address the inflation issue any time soon has to do with input from the variety of stakeholders at the IASB, notably multinational companies that benefit from reporting overstated income from international operations. Of course, the IASB's unresponsiveness in providing guidance to these multinational entities facing significant reporting challenges under the Venezuelan exchange rate regime does give rise to concerns on the effects of limited technical support on the deepening of IFRS application in developing countries.

¹⁸ World Bank

Another problem exists in the present infatuation with fair value accounting in the Anglo-American accounting community. Ball (2006) notes the challenges of applying fair-value accounting in emerging economies with relatively illiquid markets. Also known as mark-to-market, fair value accounting requires the reporting of assets in terms of their current market values. Arguably, this provides a fairer presentation of a firm's financial position, but can also introduce volatility into a firm's balance sheet and may not be particularly accurate or useful for certain assets whose valuation is derived from relatively illiquid markets. In these cases, managerial trading may manipulate the market prices or, in the absence of liquid market prices, "fair value accounting becomes mark-to-model accounting. That is, firms report estimates of market prices, not actual arm's length market prices. This introduces model noise, due to imperfect estimates of model parameters" (Ball, 2006, p. 13). This might explain the wide rejection of IAS 39 by financial institutions and the poor reception of IFRS reporting by banking regulators in Latin America (and the EU, for that matter).

Further, given that IFRSs were created for multinationals, full IFRS are particularly onerous for small and medium sized entities. Only after IFRS usage spread around the world, did the IASB realize this problem, and eventually it issued a set of standards with fewer disclosure requirements (IFRS for SMEs). However, Big IFRS and Little IFRS may not be enough to address Latin America's financial reporting needs. In 2014, Ecuador passed legislation with new reporting requirements for many Ecuadorean enterprises, among them cooperative associations (Ron Amores, 2015). When El Salvador adopted IFRSs as national GAAP, it also separately issued another set of standards, based on IFRS for SMEs, for Salvadorian cooperatives (IFRS Foundation,

2013c). In addition to IFRS for SMEs, Colombia and Brazil developed additional standards for micro-enterprises (IFRS Foundation, 2013b, 2013e).

We can also question the usefulness of IFRS for listed companies in emerging capital markets. Latin American capital markets are susceptible to greater volatility from foreign investors because they do not count on a deep pool of domestic investors. As global investors frequently make investment decisions based on the relative returns of emerging markets vis-à-vis other developed markets, share prices may be unrelated to firm performance. This leaves emerging capital markets susceptible to greater volatility from both endogenous (e.g. potential election of a Left wing candidate, PetroBras corruption scandal) and exogenous shocks (e.g. loose monetary policies in developed markets).

Peculiarities such as herding behavior and home bias exacerbate this problem. Indeed, an argument in favor of IFRS adoption was that it would reduce information asymmetry and induce foreign capital flows. Information asymmetry is believed to be the reason behind investor preference for familiar investments, known as the home bias. However, evidence from post IFRS adoption reveals that while foreign portfolio investments did indeed increase after IFRS adoption, investors still displayed similar preference for familiar investments (Amiram, 2012). Moreover, research shows that IFRS compliance has not reduced the cost of capital for Brazilian listed firms (Lima et al., 2010), suggesting financial reporting does not influence investors' risk perceptions.

In 2011, the year after mandatory IFRS reporting for Brazilian listed firms, the Brazilian Central Bank raised interest rates to curb rising inflation, making fixed income

investments more attractive than stocks. Consequently, the Bovespa Index fell 18.11%¹⁹ in 2011 and cross-border portfolio investment in Brazil's stock market fell 70% by midyear (Pearson, 2011). Additionally, Chinese stocks have seen a marked increase in foreign investment flows (Noble, 2015), and these companies are notable IFRS non-adopters. If IFRS compliance and greater corporate governance are only secondary to global investor decision-making and Latin American firms begin to feel economic performance and market capitalization are unrelated, will that affect the continued quality of reporting under IFRS?

State interventionism can also widen the perceived disconnect between firm performance and availability of financing. Critics note the state-owned Brazilian National Development Bank (BNDES) increasingly channels subsidized state capital to “politically connected capitalists who could probably attract capital elsewhere” (Musacchio & Lazzarini, 2012, p. 41). In addition to the corporate governance issues generated by such a practice, the BNDES is also hindering development of Brazil's financial sector as it is “practically alone in the long-term loan business” (The Economist, 2010). Private creditors, like outside investors, require firms to keep sound financial reporting practices to make proper lending decisions. However, if firms are aware that financing decisions are really based on political influence, then arguably the incentive to maintain sound financial reporting practices decreases, resulting in a state of *mock compliance* (Walter, 2008). As it is, research on BNDES lending reveals “some firms avoided going to capital markets to evade closer scrutiny of their balance sheets and investment strategies” (Doctor, 2015, p. 209).

¹⁹ *Financial Times*. “Sao Paulo SE BOVESPA INDEX chart, prices, and performance.” Retrieved May 30, 2015, from <http://markets.ft.com/research/Markets/Tearsheets/Summary?s=570637>

Of course, state interventionism is a two-way street. Musacchio and Lazzarini (2012) note some of the ways overreaching states exercise control over private firms, in what they call “Leviathan as minority shareholder.” The BNDES not only lends to private firms, but also holds minority interests in several firms through its investment arm. Through these minority holdings, the BNDES has frequently acted as an activist shareholder influencing firm decision-making and even replacing management.²⁰ IFRSs were intended for apolitical creditors and investors, so what is the effect of state interventionism on IFRS adoption quality? The analysis in this paper reveals that countries with greater numbers of state-owned enterprises (Argentina, Brazil, Venezuela) have lower adoption quality scores. Management research revealing state-owned firms are poorly run when compared to peers with diverse private ownership further supports this idea (Bloom, Genakos, Sadun, & Van Reenen, 2012).

Similarly, management research reveals family-owned firms and those with large ownership concentrations are also poorly managed (Bloom et al., 2012). Ownership concentration is a problem in Latin America, especially in Brazil, where tax incentives encourage firms to stay small; rather than grow, some companies split to avoid tax penalties, and in many cases, owners hire loyal, but less qualified, managers to run their companies “to avoid being robbed or sued for falling foul of overly worker-friendly labor laws” (The Economist, 2015). Additionally, as a result of these ownership concentrations, corporate income is viewed as equivalent to personal income. Given the security conditions in these countries, excessive financial disclosures can be seen as constituting a personal security risk, making owners and managers susceptible to kidnapping and extortion. For example, according to the ROSC performed in Honduras, “many

²⁰ For more, see Doctor (2015) and Musacchio and Lazzarini (2012)

businesses view financial reporting as a possible threat to business secrets, as well as to their personal safety, as they believe that disclosing financial information about their companies would expose them to significant risk of kidnappings and other crimes” (2007, p. 26). Exactly how these dynamics interact with reporting quality are unknown, but certainly worth exploring further.

With cronyism and corruption already problems in Latin America (Salas, 2014), another concern for IFRS adoption quality is the rising influence of China in the region, as Chinese state-owned companies expand their reach in the region. Many experts have raised concerns over the complementarity of informal Chinese and Latin American business practices and the effects of growing Chinese ties on governance in the Americas.²¹ The recent PetroBras corruption scandal in Brazil and the Walmart bribery scandal in Mexico serve to underscore that not even publicly listed companies, subject to strict US laws, are immune to public corruption in Latin America. Therefore, concerns over China and informal business practices are well placed. However, others argue Chinese business practices are improving as China learns from previous missteps and continues engaging the rest of the world; in its most recent five-year plan, China has committed to “coordination and better corporate governance/responsibility to develop long-term investments and build sustainable relationships” (Myers, 2012, p. 27).

While this is certainly a positive development, China’s accounting standards are only partially converged with IFRS. Notably, China successfully lobbied the IASB to change IAS 24 governing related party disclosures for state-owned entities (Ramanna,

²¹ For a brief discussion on the informality of business practices between China and Latin America, see Armony (2012) and Ferchen (2012); For discussion on environmental concerns, see Suman (2012); Ellis (2014) contains a comprehensive discussion on the developmental, environmental, and labor concerns pertaining to the growing economic relationship between China and Latin America.

2011). The change provides an exemption to disclosure of related-party transactions for state-owned entities, despite the state's ability to exercise control over the reporting entity.²² While it is easy to concede the original related party disclosure requirements would have been particularly onerous for (partially or fully) state-owned entities, the potential for abuse of these limited disclosures can be concerning. The recent Petrobras scandal underscores how potentially corrupt transactions can be hidden at the direction of government functionaries. More importantly, this issue returns us to the question of IFRS appropriateness for all kinds of financial reporting, as IFRS were not intended for circumstances where "Leviathan" serves as shareholder.

Notwithstanding, if trade ties are indeed a determinant of IFRS adoption quality, then the effects of growing trade with a notable non-adopter on IFRS reporting quality are worth further inquiry. While the US is also an important trading partner in Latin America as well as a notable non-adopter, it has overtly offered its blessing to IFRS in very public ways that include working with IASB to issue new standards and interpretations, continued convergence of US GAAP to IFRS, and requiring foreign firms listed on its exchanges to report in IFRS (without reconciliation to US GAAP).

Moreover, Chinese investment in Latin America is focused primarily on securing its raw material needs (Kevin Gallagher et al., 2012). While Chinese lending to the region does not impose domestic policy changes on borrowers, it hedges lending risks by requiring borrowing countries to purchase Chinese goods. Thus, this kind of borrowing increases reliance on raw materials exports and creates disincentives for domestic

²² Guidance issued by Ernst & Young (2009) "Related Party Disclosures - Amendments to IAS 24." Retrieved from: https://www2.eycom.ch/publications/items/ifrs/olk/200911_supplement_59/200911_supplement_ifrs_outlook_59.pdf

productive development²³—the kind of development necessary to further deepen IFRS usage throughout the region (Gallagher & Porzecanski, 2010). Given the largest recipients of these development loans have the lowest IFRS adoption scores, perhaps this is another area that deserves closer attention.

Another limitation to the quality of IFRS adoption lies in the relative development of the accounting profession and reliance on international sources of professional development. The World Bank's ROSC investigations revealed some countries have a very strong profession—education minimums, credentialing systems, and continuing education requirements—while others have very weak professions. The IFIs, through various programs, supported capacity building and training for transition to IFRS in various South and Central American countries (Camfferman & Zeff, 2015, p. 495). However, there are still many obstacles to overcome in this regard, and the Big Four audit firms have an important role to play, as it is likely that international users of financial information will continue to rely on the reputation of these firms, when assessing the quality of financial information.

The Big Four are organized globally as partnerships. While global member firms have access to the Big Four brands and networks, they are still national firms “owned, managed, controlled and regulated at national level, and the networks themselves are not subject to any regulatory oversight or supervision” (Hegarty, Gielen, & Barros, 2004, p. 13). Conflicting evidence from the recent PetroBras scandal suggests Big Four auditors take their responsibilities seriously, but there exists the possibility that users continued trust in these global audit brands could be misplaced.

²³ Fears over the obstruction of industrial development are exacerbated by research indicating the BNDES “shows disproportionately strong support for firms in traditional sectors,” which has led to concerns of a “return to dependence on the performance of mineral and agricultural exports” (Carrillo, 2014, p. 68).

According to news reports, PetroBras's decision to hire investigators to look into alleged kickbacks and corruption came after an ultimatum from the company's auditor PricewaterhouseCoopers (PwC) who threatened to inform the US regulator (Valle & Katz, 2014), and PwC refused to sign the company's third quarter audit until the conclusion of the investigation revealed the measurable extent of the alleged fraud (Valle, 2014). However, there are now reports investors are suing PwC for allegedly ignoring the company's misdeeds (Hurtado, 2015).

PetroBras is cross-listed in the United States and, as such, it is subject to US regulatory enforcement and investors can bring suit against the Brazilian company in the United States. The SEC's strong criminal enforcement capacity serves as a powerful deterrent against financial reporting misbehavior. The litigious business environment and strong US judicial institutions provide investors with reasonable civil recourse in the event of accounting-related misbehavior. The threat of both criminal and civil sanctions in the United States serves as powerful public and private enforcement tools ensuring the compliance of financial reporting information with US GAAP. Judicial recourse for investors in the face of financial reporting fraud along with regulatory enforcement is yet another area of Latin America's IFRS experience to examine.

Moreover, continued reliance throughout the world on the Big Four as the default choice for capital markets auditors may hinder the organic development of national or regional firms. Domestic accounting firms (that do not affiliate within one of the Big 4 networks) in these emerging economies will never have the same reputational power as members of the Big 4 to both foreign and domestic investors. In relying on international audit firms and the international profession, the region might further limit its ability to

identify and address its own financial reporting needs and communicate these with global investors and observers.

Chapter 6: Summary and Conclusions

This paper began with the following objectives, leading to the paper's exploratory scope.

- (1) Identify potential factors explaining the variance in IFRS adoption in Latin America
- (2) Identify the challenges for successfully implementing IFRS in the region
- (3) Develop an agenda for future research on IFRS in Latin America

To achieve these objectives, the paper first identifies the type of variability that exists in IFRS adoption and quantifies the qualitatively different adoption choices based on the resulting effects on financial statement comparability. The multi-method analysis identified several potential factors affecting IFRS adoption quality—the national political climate, depth of global economic integration—through cross-listing of domestic firms in foreign markets, domestic capital market exposure to foreign financial flows, and openness to international trade—and a country's experience controlling inflation.

These relationships were isolated using an inductive method used in interdisciplinary accounting research (albeit infrequently), categorizing IFRS adoption based on factors in extant political science literature on the frequently contentious relationship between Latin American politics and the international financial community, and accounting literature on IFRS adoption determinants. Preliminary evidence appears to support the possibility of relationships among the identified factors, but this evidence relies on the most practically available data to operationalize variables, so its usefulness is limited for advanced statistical analysis. Future research should further explore the possible causality of these links using more expansive and comprehensive data, particularly for global trade and financial flows, and should also consider expanding the sample of countries to include the rest of the developing world.

Future research on IFRS adoption would also benefit from the additional understanding provided by research on the qualitative factors associated with the potential relationships identified earlier. Such aspects include research on IFRS adoption and domestic influences on economic policy and business regulation, analysis of the content and dynamics of trade and investment agreements, and the institutional environment conducive to IFRS adoption.

Moreover, the preceding chapter broadly covered a variety challenges for the successful implementation of IFRS in Latin America. Successful IFRS implementation implies cross-border comparability in financial reporting. Particularly notable among these challenges are questions regarding the appropriateness of IFRS as a suitable replacement for domestic GAAPs and the effects of moderate inflation on financial reporting quality. While future research should ideally address these, and the many other challenges identified, testing whether IFRS implementation has been successful as a replacement for domestic GAAP will prove to be very difficult, as the financial reporting information available for analysis is for publicly listed firms, which are largely unrepresentative of the private firms expected to report using IFRS.

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