Impact of the convergence of International Financial Reporting Standards in the corporate government

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IFRS and the Corporate Government

In Latin America, the State continues being the principal holder of large-size businesses, operating in key sectors as: energy, transportation, communications, infrastructure, water and sanitation.

Some of the problems faced by these businesses are:

- Conflicts of interest

-Lack of clear objectives and mandate

- Undefined selection procedures of directors

- **Unequal financial language in Latin America (IFRS?)**

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IFRS and the Corporate Government

Corporate Government:

Set of formal and informal practices governing the relations between managers and all those interacting within the businesses.

CG is part of the institutional environment (legislative, regulatory and practical) of countries and influences its capacity to generate value in a transparent and sustainable manner.

Good CG practices seek to reduce incentives and performance problems:

- Shareholders and direction (agency problems)
- Controllers and minority shareholders (concentrated ownership)
- Businesses and interest groups or stakeholders

WHAT IS IFRS?

The principal objective of the International Accounting Standards (IAS) is the standardization of the financial information presented in the financial statements, regardless of the nationality of who is reading or interpreting them. Transparency and comparability of the global financial information improves.

The change in the denomination of IAS (NIC, in Spanish) for International Financial Information Standards (IFRS) (NIIF, in Spanish) was entered by the IASB – International Accounting Standard Committee as of April 1, 2001.

The IAS-IFRS is an accounting model, which takes as its starting point the accounting principle of the operating business, and all norms contained therein are intended to collect accounts for the daily happenings of accounting subjects, and the basic purpose being the preparation and presentation of financial statements for the fiscal period.

Spanish acronym

NIIF (Normas Internacionales de Información Financiera)

NIC (Normas Internacionales de Contabilidad)

English acronym

IFRS (International Financial Reporting Standards)

IAS (International Accounting Standards)

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WHY MUST THE IFRS EXIST

Because lack of uniformity prevents investors, analysts and other users to easily compare financial reports of businesses operating in different countries, even within the same sector.

Adapting to International Accounting Standards is a gradual process, not an isolated event that will take several years to be fully implemented. However, market interest is that in businesses, the financial statements adapt to International Accounting Standards, as markets always wish to have high quality and greatly transparent financial information.

The IAS started in the European Union as of fiscal year starting January 1, 2005..

The IAS was in effect between 1973 and 2001, and as of this date was created the International Accounting Standards Board, in force today.

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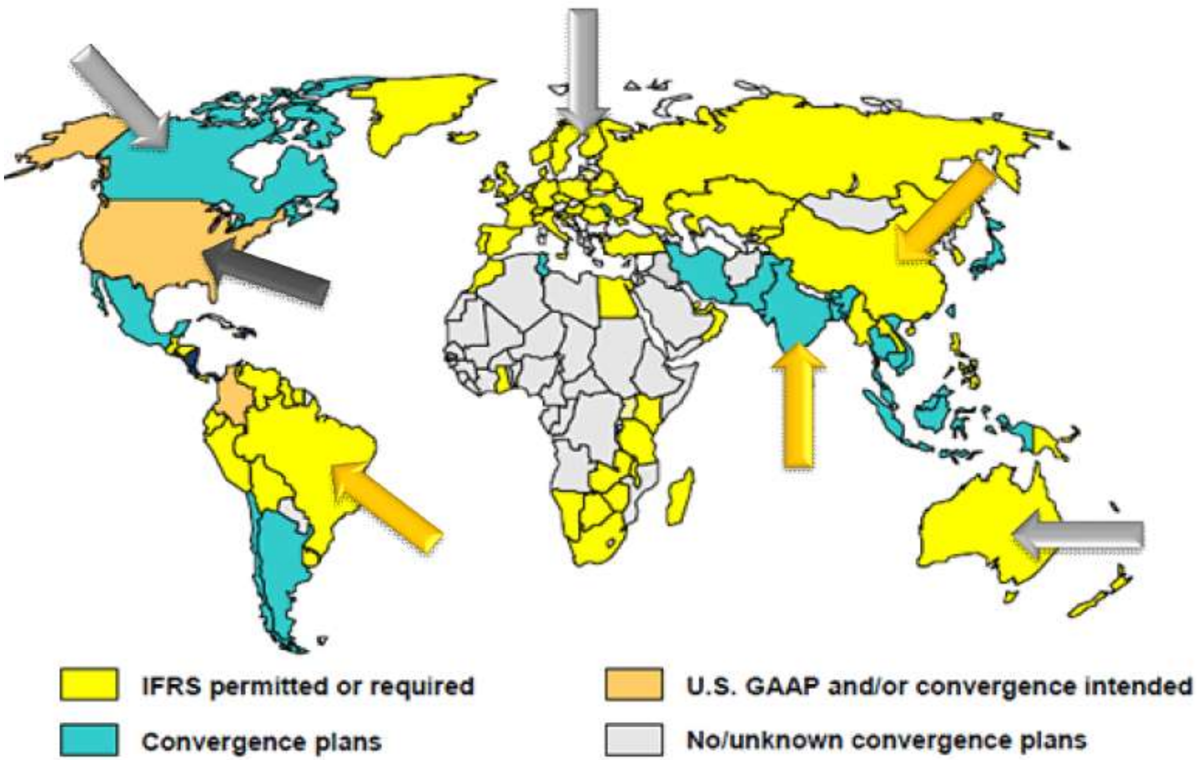
IFRS Worldwide



Fuente: IASB website

130 países
actualmente

150 países
hacia fines 2011

Emergentes
China India Brazil

USA 2014
Plan estructurado

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IFRS Worldwide

2009
Chile

2010
Brasil - Ecuador

2011
Canadá - Venezuela - Bolivia

2012 y más
Argentina – México - Estados Unidos - Colombia

No requerido aún
Uruguay – Paraguay

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IFRS Worldwide

Only impacts financial statements?

NO… IFRS impacts the **different areas** of the organization, and also affects different users and **key stakeholders**

…IFRS is far from only being an accounting technical exercise.

It presents multiple challenges and opportunities to the companies…

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IMPACTS OF IFRS IN INTERNAL CONTROL

- Need of additional internal control processes (coverage, analysis of contracts, revenue recognition)
- Internal auditing and/or auditing committees training plan
- Considering IFRS knowledge in hiring personnel.
- Are there enough controls on additional disclosures requiring IFRS?
- Reconsider controls to prevent fraud. New accounting standards give rise to new accounting fraud.
- Certain international securities and insurance markets require specific internal control structures by law .
- Controls are required on judgment using (provisions, useful lives, multiple elements on revenue recognition, etc.)
- Are external experts (experts, actuaries) sufficiently qualified to execute tasks under IFRS?

PRESENTS MULTIPLE CHALLENGES AND OPPORTUNITIES

Opportunities	**Challenges**
Greater relation between operational and financial areas	Greater transparency
A common financial language	More complex performance measuring
Stronger internal control	More resources and new deadlines

IMPACTS IN CHILE

- **Quantitative impacts on the Equity**

	Weighted Average
• Electrical (-28% a 126%)	33%
• Forestry (7% a 46%)	22%
• Investments (-5% a -8%)	-6%
• Manufacture (-23% a 17%)	-2%
• Extractive (9% a 61%)	35%
• Basic Services (-9% a 43%)	17%
• Telecommunications (-32% a -5%)	-18

Ranges of variation between
-32% and +126%

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TRANSITION IN COLOMBIA

- The transition process for the application of the general accounting model goes from 2009 to December 31, 2013 and is detailed in three stages

	Official Opening Balance	Financial Statements under comparative IFRS
1) Stage of adaptation and evaluation	2) Stage of transition	3) Stage of adoption
2009-2010 April – December	2011-2012 January – December	2013 January December

Comparative figures first year:

Date of Transition to IFRSs* Initial Balance IFRSs		Date of Report
January 1, 2013	December 31, 2013	December 31, 2014
COMPARATIVE		1^{ST} FIN STATEMENT

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CONVERGENCE TOWARDS THE IFRS

The Latin American Governments work to accomplish even better competitiveness levels. This seeks the consolidation of the national production system, attract investment and attain export of goods and services in such a way to generate greater wealth and prosperity.

To open the route for these products and services, a commercial and investment policy is consolidating. Therefore, besides the existing commercial agreements with Mexico, Venezuela, Ecuador, Bolivia, Peru, Brazil, Argentina, Uruguay, Paraguay, Chile, the Caribbean Community (CARICOM), Salvador, Guatemala and Honduras (North Triangle of Central America), several other agreements have added up with developed countries such as Canada and Switzerland, and of course the approval of the Free Trade Agreement with the United States. This, in addition to the agreements entered into with Iceland, Norway, Liechtenstein (EFTA), United States and the European Union, and ongoing negotiations with Korea, Panama and Turkey.

CONVERGENCE TOWARDS THE IFRS

Means to attract investments must be offered to have access to foreign investment and international markets of capital in order to enable attracting investments to promote development, and thus generate employment and impart enough dynamics to national economy, which requires high quality standards in accounting matters, disclosing financial information and assurance information, project confidence, transparency and comparability in financial statements.

The report reflects that although Colombia still has a road ahead at internationalization levels, of the 65 firms included in the ranking 25 are Brazilian, 14 Mexican, and 12 Chilean, and the country has moved from having two to four companies in that classification.

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