

**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)
Argentina**

ACCOUNTING AND AUDITING

July 2007*

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* This reports incorporates the comments received from Argentine counterparts and stakeholders in June 2008 and May 2009, including main changes occurred subsequently to the preparation of the report.

ACKNOWLEDGEMENTS

This report was prepared by the World Bank, on the basis of a diagnostic review carried out between December 2006 and May 2007, including a two-week field mission in Buenos Aires. The task team led by Henri Fortin also included Ana Cristina Hirata Barros and Joanne Givens (LCSFM). Consultants Hector Alfonso and Jamil Sopher provided assistance with regard to the financial statements review and to quality assurance, respectively. Messrs./Mmes. Mario Guadamillas, Jonathan Hooper, Tatiana Nenova, James Parks and Felipe Saez provided advice and comments. This report reflects the comments received from Argentine counterparts and stakeholders (BCBA, CNV, FACPCE, SSN and the University of Buenos Aires) in June 2008 and May 2009. The task team also received the support of the World Bank Country Management Unit (LCC7C) in Buenos Aires and Washington, DC.

The review was conducted through a participatory process involving various stakeholders and led by the Ministry of Economy and Production (MEP). The task team gratefully acknowledges the support received.

This report was cleared for publication by the MEP on June 4, 2009.

EXECUTIVE SUMMARY

a. Strengthening corporate financial reporting is important for Argentina, as the country seeks to foster confidence in the local business community in order to stimulate investments, both local and foreign. In addition, strong corporate accounting practices enable local banks and financial institutions to monitor adequately their businesses risks, credit and otherwise, which is essential at a time when the Argentine banking sector emerges from the crisis triggered by the events of December 2001. Sound accounting and auditing is therefore essential to the stability of Argentina's banking sector.

b. This report analyzes Argentina's corporate financial reporting and auditing practices with a view to supporting the Government's strategy to (a) improve the investment climate for Argentine companies (including SMEs); (b) foster trade competitiveness by aligning the standards of reporting and governance with practices that are prevalent among the country's main trading partners; and (c) ensure greater transparency in both the private and public sectors. International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA) and good international practice, particularly among the other large countries in Latin America, have been used as benchmarks for this exercise. A study of corporate governance practices was conducted in parallel, which findings complement those of the ROSC Accounting & Auditing. The principal findings of this ROSC are summarized hereafter.

Statutory framework – accounting and auditing standards

c. Argentina's statutory framework for accounting and auditing appears reasonably sound although it is fragmented and at times unduly complex, with many laws setting different requirements for particular sectors and/or jurisdictions.

d. With regard to financial reporting and auditing standards, efforts have been made to adopt portions of international standards (IFRS and ISA), especially with the issuance in 2000 of three accounting standards partially mirroring IFRS at the time. Nevertheless, Argentine standards are still less demanding than their international counterparts and require significant improvements and alignment with IFRS and ISA. Higher adherence to international standards will contribute to foster investors' and lenders' confidence which is a key ingredient for local companies to gain access to credit and attract long-term capital.

e. These efforts have culminated with the adoption of IFRS for all listed companies, effective from 2011 on a mandatory basis (FACPCE Technical Resolution 26, March 2009).

f. Another interesting, recent development has been the Central Bank's project to set up a central repository of corporate financial statements. This will enhance the availability of accounting information for banks and support sound credit risk management practices. Given that credit decisions depend not only on the availability of

the borrowers' financial statements but also on their quality and reliability, a logical, parallel step would be to further align local GAAP with IFRS.

g. The financial sector (banking, insurance and pension funds) currently operates under transitional regulatory arrangements issued in the wake of the December 2001 crisis as part of a broader set of measures designed to help these entities emerge from the crisis in an orderly fashion. Those forbearance arrangements are to be phased out in the short to medium term. This ROSC did not include a detailed analysis of current financial sector accounting rules precisely because these are in transition and expected to undergo significant changes in the near future.

The accounting and audit profession

h. Traditionally, Argentina has had a strong accounting profession, perhaps the most prestigious in Latin America. Such high repute stemmed from a variety of factors including strong university education, a fairly sophisticated financial sector, a tradition of self-regulation arising from the requirements for all accountants to be registered, a legal system conducive to the development of the profession, with all corporations being subject to statutory audits. It is still well perceived among the business community.

i. However, for several years, the Argentine profession suffered from divisions between capital city, Buenos Aires and the federal organization, FACPCE, which groups the 23 Provinces. In the late 1990s, the accountancy body (“professional council”) of the City of Buenos Aires—which comprises more than half of the country’s professional accountants and therefore is by far the wealthiest body in Argentina—broke away from FACPCE. The recent reunification of the accounting profession has resolved this issue.

The audit function

j. The external audit function suffers from several weaknesses including:

- Entry into the profession being based only on university accreditation (i.e. obtaining a bachelor degree in accounting; by contrast, international good practice requires a professional certification based on an initial exam and a minimum number of years of professional practice);
- Continuing professional development (CPD) being simply encouraged whereas international standards require it; and
- The absence of an effective quality assurance system for the profession, except in regulated sectors, particularly the banking sector, where the Central Bank has established a robust system of inspections of the work of external auditors.

k. The implication is that some statutory auditors may not have sufficient technical capability and professional competence to adequately fulfill their obligations. It is worth noting that, by contrast, Brazil has taken steps to reinforce auditing practices on the dimensions mentioned above (entry requirements, CPD and quality assurance). Similarly, Mexico has established a system of professional certification required for all audits of

public interest entities, which includes an entry exam and compulsory CPD. It would be in Argentina's interest to draw on the experience of these countries as part of its efforts to strengthen its auditing practices.

Monitoring and enforcement

l. Another significant challenge in Argentina as in most countries throughout Latin America and the world more generally is enforcing corporate financial reporting obligations, especially with regard to listed companies whose compliance is critical to a well functioning securities market. Argentina is one of the few countries in Latin America to require non-listed companies to file their annual audited financial statements with the local company registrar (called *Inspección General de Justicia* or IGJ in the case of the City of Buenos Aires). However, a review of a significant sample of audited financial statements of companies incorporated in Buenos Aires (including listed and non-listed ones) showed a number of departures with applicable accounting requirements, pointing to a need to continue strengthening existing enforcement procedures by the Securities Commission, the Buenos Aires Stock Exchange and the IGJ. CNV, especially, should dedicate greater efforts and resources to monitoring activities so as to achieve an adequate deterrence against non-compliance.

Next steps – the way forward

m. Since this ROSC was completed, several significant progress has been made, including the reunification of the accounting professional bodies; a FACPCE action plan to fulfill its obligations vis-à-vis IFAC; and the adoption IFRS for listed companies. This creates a momentum for significant improvements in the quality of financial information in Argentina.

n. Reaching a standard of corporate transparency and financial accountability in Argentina that is consistent with the country's objectives of stronger private sector governance and competitiveness will require time and the contribution of all stakeholders, including the business community, accounting and audit professionals, accountancy bodies, financial sector and company regulators, and academia.

o. With a view to maximizing country ownership, this ROSC does not set out detailed recommendations to improve accounting and auditing in Argentina. Instead, it is expected that a country action plan be developed—under the auspices of the Ministry of Economy and possibly with the collaboration of the World Bank and other donors—as part of the activities following the publication of this report. Based on the findings of this ROSC, strengthening Argentina's corporate accounting and auditing practices would not necessarily involve major changes in the country's legal framework, even though some simplification in existing laws and regulations appears necessary.

p. In the short to medium term, mobilizing the profession's and other stakeholders' efforts to implement Technical Resolution no. 26 adopting IFRS for listed companies should be a priority. In addition, adopting ISA for audits of public interest entities (listed

companies, banks, insurance companies, etc.) would be a logical and necessary evolution, which many stakeholders seem to welcome. Most efforts should focus on enhancing compliance with existing laws, regulations and standards. A greater level of integration within the accounting and audit profession and collaboration among regulatory agencies should also be important guiding principles in drawing the roadmap for enhanced financial transparency and accountability in the Argentina's corporate sector. Finally, raising the awareness of.

CURRENCY: ARGENTINA PESO (AR\$)

1 US\$ = 3.08 AR\$ as of May 31, 2007

MAIN ABBREVIATIONS AND ACRONYMS

A&A	Accounting & Auditing
ADR	American Depositary Receipts
AFIP	Federal Tax Administration
AGM	Annual General Meeting
AGN	National Audit Office
BCBA	Buenos Aires Stock Exchange
BCRA	Central Bank
CAS	Country Assistance Strategy
CB	<i>Central de Balances</i>
CFAA	Country Financial Accountability Assessment
CONEAU	National Commission for University Evaluation and Accreditation
CNV	Securities Commission
FACPCE	Argentine Federation of Professional Councils in Economic Sciences
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GDP	Gross Domestic Product
GoA	Government of Argentina
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IES	International Education Standards for Professional Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IGJ	Company Registrar (<i>Inspección General de Justicia</i>) in the City of Buenos Aires
ISA	International Standards on Auditing
MD&A	Management discussion and analysis
MEP	Ministry of Economy and Production
Mercosur	Common Market of the South
PIE	Public-Interest Entity
PP&E	Property, Plant and Equipment
ROSC	Report on the Observance of Standards and Codes
RT	Technical Resolutions (issued by FACPCE)
SA	Corporation
SAFJP	Pension Fund Supervisor
SME	Small and Medium Enterprise
SMO	IFAC's Statement of Membership Obligations
SOE	State-Owned Enterprise
SRL	Limited Liability Company
SSN	Federal Insurance Supervisor

I. BACKGROUND

1. The review of corporate sector¹ accounting and auditing (A&A) practices in Argentina focuses on the strengths and weaknesses of the regulatory and professional environment, and how these influence the quality of corporate financial reporting. International Financial Reporting Standards (IFRS²) and International Standards on Auditing (ISA³), as well as international good practices are used as benchmarks for this assessment, which covers both statutory requirements and actual practices. A description of the approach and methodology followed in conducting A&A ROSCs can be found at www.worldbank.org/ifa/rosc_aa.html. A Corporate Governance ROSC was conducted in parallel by the World Bank.

2. **Argentina is Latin America's third largest economy, with 40 million inhabitants and a gross domestic product (GDP) of US\$183.3 billion in 2006.** Argentina is endowed with a wealth of natural resources, a well educated workforce, an export oriented agricultural sector which accounts for 10% of its GDP, and a broadly diversified industrial base. Nevertheless, the country has suffered a succession of economic crises, due in large part to problems of inflation, external debt, capital flight, and budget deficits. The latest, and possibly the worst, of these crises occurred in 2001-02, resulting in one of the most severe economic downturns on record.

3. **Despite three years of accelerated growth since the 2001 crisis, Argentina faces several developmental challenges.** The economy began showing signs of recovery in 2003 and since then Argentina's economic performance has been impressive. The government has run primary budget surpluses since 2003; unemployment dropped to 11.4% by the fourth quarter of 2005; and per capita GDP as measured in Argentine pesos is expected to surpass the previous pre-recession peak in 2006. Economic growth has averaged 9% per year since 2003; and foreign debt stands at 68% of GDP as of 2006, and is slowly decreasing. Poverty levels have dropped from 58% in 2002 to 38.5% in 2005. However, a number of challenges remain, and the World Bank's Country Assistance Strategy (CAS) for the period 2006-2008, sets forth a plan to maintain economic progress based on three broad principles: (i) sustainable growth with equity; (ii) social inclusion; and (iii) improved governance.

4. **Sustained economic growth will depend in large part on Argentina's ability to enhance the investment climate and promote private sector development.** In that regard, the CAS noted that streamlining bureaucracy and improving transparency are key challenges. Argentina ranked 69th out of 125 countries in the 2006 Global Competitive

¹ In this report, "corporate sector" is used to refer to all private companies (financial and non-financial) as well as state-owned enterprises.

² IFRS correspond to (a) the pronouncements issued by the International Accounting Standards Board (IASB), termed "IFRSs", (b) International Accounting Standards ("IASs") issued by IASB's predecessor, the International Accounting Standards Committee (IASC), as amended by the IASB, and (c) related official interpretations (IFRIC and SIC).

³ ISAs are issued by the International Auditing and Assurance Standards Board (IAASB), an independent board within the International Federation of Accountants (IFAC).

Index released by the World Economic Forum and ranked 101st out of 175 countries in terms of “ease of doing business”, according to the World Bank Group’s Doing Business Report. In order to improve its business climate and make it more conducive to foreign and domestic investment, Argentina needs to restore investor confidence. Moreover, Transparency International’s Corruption Perception Index indicates that the perception of corruption increased in the aftermath of the crisis and remains a serious problem. Battling corruption, which is part of the set of actions necessary to improve the investment climate, will require that both private and public sector entities adhere to high levels of financial transparency and that they observe sound practices of accountability and governance. Finally, even though fraud detection is not the main purpose of corporate audits, properly conducted audits do contribute to stricter compliance with domestic laws by local companies and help prevent the concealment of illegal transactions. More generally, good standards of accounting and auditing, as well as corporate governance, are key ingredients for restoring investor confidence.

5. **Argentina’s main economic partners—both in terms of FDI and trade—are the European Union, the United States and Mercosur partners.** The macroeconomic indicators in the CAS show that in 2002-2004, foreign trade equaled about 26% of GDP—up from 9.3% in 1991-2001—and plays an increasingly important role in Argentina's economic development. Exports of goods and services represented about 14% of GDP in 2006, up from 11% in 2000. Greater regional integration is an important goal for Argentina in the long run. In this context, Argentina needs to align its business standards with those of its main partners, especially industrialized nations. This alignment is understood to be very important, especially in the area of corporate financial reporting; as a result, a trend toward such international harmonization has already begun to take place in Argentina over the recent period.

6. **Since the December 2001 crisis there have been significant improvements in the financial system in Argentina.** Growth recovery and fiscal improvement helped strengthen demand for pesos and stabilize the foreign exchange market. Since 2002, the Central Bank (*Banco Central de la República Argentina* or BCRA) has been accumulating reserves, credit to the private sector has grown and the levels of non performing loans have diminished.

7. **The banking sector has experienced robust deposit growth since 2002 and losses fell significantly in 2004 and 2005.** Almost half of the banks’ aggregate assets are currently held in government bonds. Therefore, the valuation of these securities has a major impact on many banks’ solvency. As part of various measures to facilitate banks’ financial recovery, the BCRA allows banks to book these bonds as held to maturity, exempting them from recognizing significant losses. State-owned banks present yet a greater challenge as these are still burdened with high operating costs and weak loan portfolios. The solution to these problems involves important fiscal and political considerations. Overall, increasing credit to the private sector remains a significant challenge for Argentina. This ROSC did not include a detailed analysis of current financial sector accounting rules in those sectors precisely because the sector is operating

under transitional regulatory arrangements, which are to be phased out in the short to medium term.

8. **Although the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires* or BCBA) ranks among the largest in Latin America, equity and debt markets, as in the rest of the Region, are characterized by low liquidity.** The bulk of listings and trading occur on the BCBA. In addition, there are also eight self-regulated provincial stock exchanges in Argentina. Companies listed on these provincial exchanges may trade on any other stock exchange. BCBA is divided into several listing segments, namely the (a) special segment, for large companies with capital exceeding AR\$60 million, revenue exceeding AR\$100 million, or 1,000 or more shareholders; (b) the SME segment with simplified requirements for small and medium enterprises; and (c) ordinary segment for all other companies. Corporate bonds tend to be crowded out by government debt. Also the concentration of debt in foreign currency makes the sector susceptible to high currency and maturity risk. The stock markets in Argentina are highly concentrated, with three companies accounting for almost half of the market main index capitalization (“*Bolsa*”). There have been significant de-listings in the last decade and very few new equity issuances.⁴ A dozen Argentinean companies are listed in the US and must therefore comply with the US securities laws, including the Sarbanes-Oxley Act of 2002, as well as with regulations issued by the Securities Exchange Commission (SEC). Improving corporate financial reporting and governance is seen as an important means to restore investor confidence, which in turn may lead to new listings and fewer de-listings. More generally, at a time where individual investors and depositors are still wary of losses in the aftermath of the 2001 crisis, the broad set of efforts necessary to foster long term savings in Argentina should include measures aimed at increasing transparency and accountability particularly among issuers of securities and financial institutions.

9. **Trust funds (*fideicomisos*) compete with banks as important sources of financing for companies.** Other forms of non-bank financing in Argentina include (i) the financing of agricultural exports through international and local suppliers’ credits, (ii) small derivative markets, (iii) insurance companies, and (iv) pension funds. A general strengthening of the institutional environment through corporate governance improvements will help broaden the sources of funding for the capital markets in Argentina.

10. **Various government and semi-autonomous bodies regulate Argentina’s financial sector.** These entities set out very specific accounting and auditing requirements for the agencies they oversee. They include:

- ***The Central Bank (BCRA)***, which monitors the appropriate operation of the financial market and implementation of the Law on Financial Institutions and other regulations. It supervises financial and foreign exchange activities by means of the Superintendency of Foreign Exchange and Financial Institutions,

⁴ As of December 2006, 168 companies were listed on the BCBA, 69 of which were included on the *Bolsa* index, the 13 largest making up the *Merval* index. Further information on Argentina’s capital markets is provided in the Corporate Governance ROSC.

which reports directly to the Governor. The Superintendency is chaired by one of the Directors, who is widely empowered to make decisions for controlling financial and exchange institutions;

- ***The Securities Commission*** (*Comisión Nacional de Valores* or CNV) is responsible for supervising the activities of listed companies, stock exchanges, investment funds, securities depositories, risk rating agencies, and trust funds (*fideicomisos*). CNV is a self regulated public agency which reports directly to the Ministry of Economy and Production (MEP). The CNV has jurisdiction throughout the entire country and has broad powers;
- ***The Pension Fund Supervisor*** (*Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones* or SAFJP);
- ***The Federal Insurance Supervisor*** (*Superintendencia de Seguros de la Nación* or SSN), which supervises insurance and reinsurance companies in Argentina; and
- ***The National Institute for Associations and Social Economy*** (Instituto Nacional de Asociativismo y Economía Social or INAES), which regulates cooperatives and mutual associations.

11. **This ROSC addresses some of the key long-term strategies for sustained growth identified by the government of Argentina, as follows:**

- ***Improving the investment climate for argentine companies*** (including SMEs) by (i) identifying weakness in reporting and governance regimes that have raised doubts about the viability of investments; and (ii) encouraging remedial action that would enhance the confidence of financiers, both foreign and domestic, in the Argentine business climate.
- ***Fostering trade competitiveness*** by aligning the standards of reporting and governance with practices that are prevalent among the country's main trading partners. Progress toward this objective is closely related to the confidence trading partners feel in the viability of Argentine companies and the adequacy of their capitalization.
- ***Promote greater transparency in both the private and public sectors*** by (i) ensuring that the rules clear, and (ii) enabling compliance with the rules to be monitored by the full array of stakeholders.

II. INSTITUTIONAL FRAMEWORK FOR CORPORATE SECTOR ACCOUNTING AND AUDITING

A. STATUTORY FRAMEWORK

12. **Nearly 178,000 corporations and limited liability companies are registered in the City of Buenos Aires,⁵ where the vast majority of Argentine companies are registered.** Only about 1% of these are corporations (*sociedades anónimas*, or SAs), which together with limited liability companies (*sociedades de responsabilidad limitada*, or SRLs) represent the most common and economically significant legal forms of commercial companies in Argentina. SAs must have a minimum capital of AR\$12,000 (approximately US\$4,000) and SRLs must have a minimum of two and maximum of 50 partners, but have no minimum capital requirement. Only SAs may list on the stock market.

13. **The Commercial Companies Law⁶—with implementing legislation—provides the basic legal framework for companies, whether listed or not. It sets out a number of requirements, including some pertaining to accounting, publication of financial statements, and internal controls.** In addition, the Code of Commerce requires all companies to keep accounting records and sets forth some basic requirements pertaining to how such records should be kept.⁷

14. **In accordance with good international practice, the Commercial Companies Law exempts SAs that are not considered as having public accountability from several of its requirements.⁸** If a corporation meets all of the following conditions, it is exempted from a series of requirements, as described later in this report: (a) has a share capital equal of less than AR\$10 million; (b) does not issue shares or debt instruments; (c) is not owned in whole or in part by the government; (d) operates outside the financial sector; (e) does not provide public services or operate concessions; or (f) is not controlled by, or does not control, a company that has public accountability under the law. Conversely, SRLs with share capital of AR\$10 million or more are given equal treatment as large SAs, and must follow the same requirements as these. Thus, when this report refers to “large companies”, it refers to both SAs and SRLs with a share capital above AR\$10 million. Limiting the definition of large companies to one criterion only can be problematic insofar as the size of a business entity can only be properly assessed by considering a wider range of criteria including levels of sales, amount of assets held and number of employees, which are not necessarily correlated. As a result, a company with high financial leverage (i.e., with a low capital relative to its assets) might be considered medium-sized. The objectives of the current law could therefore be better achieved by basing the definition of large companies on several financial indicators instead of just one.

⁵ *Ciudad Autónoma de Buenos Aires*. In this report, it is referred to alternatively as “Buenos Aires” or “City of Buenos Aires” (as opposed to the Province of Buenos Aires, which is a separate territory altogether).

⁶ Law 19,550/71, as amended.

⁷ Art. 33-67 of the Commercial Code, as amended.

⁸ Art. 299 of Law 19,550/71.

15. **The financial reporting framework in Argentina is somewhat fragmented, due in part to the country’s federal system, which allows a great deal of autonomy to each province or to the federal capital in setting requirements for companies registered within its jurisdiction.** Since Buenos Aires is the economic center, and since many provinces tend to harmonize their requirements with those of Buenos Aires, this report focuses on the requirements in Buenos Aires, unless otherwise stated. The application of corporate financial reporting requirements to different types of companies is summarized in Table 1, which should be read in conjunction with paragraphs 12 to 30.

Table 1 – Summary of Accounting and Auditing Requirements by Types of Entities

Type of company	Regulatory Agency	Accounting Requirements	External Audit Requirements	Internal Controls, Publication and Other
Listed companies	CNV BCBA	Company Law CNV rules BCBA rules AR-GAAP ⁹	Yes, by auditor registered with CNV	<ul style="list-style-type: none"> • Audit committee required • Controlling commission required • Audit partner rotation every 5 years • Publication required
Banks	Central Bank (BCRA)	Central Bank rules	Yes, by Central Bank- registered auditor	<ul style="list-style-type: none"> • Audit committee required • Controlling commission required • Audit partner rotation every 5 years • Publication required
Insurance companies	SSN	Company Law SSN rules AR-GAAP	Yes, by auditor registered with SSN	<ul style="list-style-type: none"> • Internal control committee required • Publication required
Large SAs (non-listed) and SRLs	IGJ	Company Law IGJ rules AR-GAAP	Required for annual financial statements	<ul style="list-style-type: none"> • <i>Síndico</i> required • Publication requirement
SOEs	Depending on sector	Company Law (for SAs) AR-GAAP	Yes, by AGN	<ul style="list-style-type: none"> • Audit committee required
Other SAs and SRLs	None	Company Law	Not required	<ul style="list-style-type: none"> • <i>Síndico</i> optional

16. **Listed companies are required to submit their financial information separately to both CNV and BCBA.** The CNV and BCBA do not have a shared system to receive information from companies.¹⁰ As a result, for CNV, companies must submit

⁹ FACPCE standards, as adopted (with or without amendments) by the provincial professional bodies.

¹⁰ According to the BCBA, they and the CNV are in the process of implementing a shared system that would allow financial reports to be filed simultaneously.

their information through an online system (“*Autopista Financiera*”), similarly to the SEC’s EDGAR system in the US. They must also file their information with the BCBA separately.

17. Both CNV and BCBA require listed companies to submit annual financial information within 70 calendar days of the financial year-end, or within two days of their approval by the board of directors, whichever comes first.¹¹ Annual financial reporting requirements of CNV and BCBA are as follows:

- **CNV:** Listed companies must submit audited annual legal entity financial statements comprising a balance sheet, income statement, statement of changes in equity and notes.¹² These are to be prepared in accordance with the rules set forth in the Commercial Companies Law.¹³ Listed companies must also present a statement of cash flows.¹⁴ In addition, CNV requires the following information on an annual basis: annual report, external auditor’s report, financial summary (*reseña informativa*),¹⁵ and report of the supervisory body (*comisión fiscalizadora* or *consejo de vigilancia*).
- **BCBA:** In addition to all of the information above, listed companies must submit a statement of other relevant information.¹⁶ Also, BCBA requires companies to include additional complementary information, if it was not already included in the notes to the financial statements. Even if issuers are able to address both sets of regulations, unifying these and eliminating any duplication could only be beneficial to issuers and to the regulators themselves.

18. All companies with subsidiaries are required, under the Commercial Companies Law, to prepare consolidated annual financial statements, either as standalone statements or as “complementary information”.¹⁷ The law does not provide any exemption for small groups from the consolidation obligation. Regarding listed companies, these are specifically required to submit their annual and quarterly consolidated financial statements as separate statements, instead of complementary

¹¹ However, CNV also requires annual financial information to be submitted at least 10 days prior the AGM, whereas for the BCBA, the deadline is 20 days before the AGM. If any changes are made to the financial documents at the AGM, the revised documentation must be resubmitted to the CNV and to the BCBA within 10 days of the AGM. Sources: Section II.4(c) (Book 1) of the consolidated set of CNV Regulations; Art. 77 of BCBA Listing Regulations

¹² Section XXIII.1(b), Annex VII (Book 7); Section XXIII 11.1, Annex I of the consolidated set of CNV Regulations.

¹³ Art. 62-65 of Law 19,550/71.

¹⁴ Chapter VI of FACPCE Technical Resolution No. 8.

¹⁵ The *reseña informativa* is a report that includes an analysis of the consolidated financial statements (where applicable), as well as forward-looking information for the upcoming quarter/year. Section XXIII.11.6 of the consolidated set of CNV Regulations details the requirements of the *reseña informativa*. While not as detailed and thorough as a US-style Management Discussion and Analysis (MD&A), this report is helpful for investors to properly interpret the financial statements and complements them with more qualitative information.

¹⁶ See Art. 62 of BCBA Listing Regulations (*Reglamento de Cotización*), as amended in September 2004, for full BCBA requirements.

¹⁷ Art. 62 of Law 19,550/71.

information within the legal entity financial statements.¹⁸ Presenting consolidated financial statements as “standalone” statements is a more appropriate and internationally accepted presentation, and should be required for large groups—both listed and not—,as these statements are more useful to investors than the legal entity statements for the purpose of assessing a company’s financial position and economic performance. In all SAs, both consolidated and legal entity (i.e. only the parent company’s) financial statements are approved by the board of directors and presented to the shareholders’ AGM, but only legal entity statements are to be officially approved by the shareholders.

19. Listed companies must present quarterly financial information to CNV and BCBA, and submit notices of relevant information immediately to both. Large companies listed on the special segment of BCBA (Para. 8) must prepare all the financial information that is required on an annual basis also on a quarterly basis. Quarterly financial statements must be reviewed by the external auditors. For large listed companies, these quarterly statements (both legal entity and consolidated), must be submitted within 42 days of the quarter-end (or within two days of approval by the board of directors)¹⁹ to both CNV and BCBA. Companies that are listed on the ordinary segment have the option to present only the *reseña informativa*,²⁰ following the same deadlines as large listed companies. These requirements are broadly in line with good international practice and similar to the ones prevailing in Brazil or Chile.

20. Corporations (SAs) with public accountability are required to file their annual audited financial statements with the company registrar of the local jurisdiction (province or Buenos Aires City), which can be accessed by the public.²¹ The financial statements must also be accompanied by a report of the supervisory body (*sindicatura* or *consejo de vigilancia*—Para. 30), and the board of directors’ annual report. Public accountability for Argentinean companies is defined in Para. 14. In the case of Buenos Aires, the above-mentioned statements and reports must be submitted to the IGJ at least 15 days before the AGM, which in turn must take place within four months of the financial year-end.²² Then, within 15 days after the AGM, the companies must re-submit their financial statements, if any changes were made at the AGM. Other SAs and large SRLs are required to submit their audited annual financial statements, external auditor report, report of the supervisory body (if applicable) and annual report and annual report to IGJ within 15 days of their approval by the AGM (for SAs) or by the owners (for SRLs). Requiring non-listed companies to submit their financial statements to the IGJ

¹⁸ For listed companies, the consolidated financial statements are independent from the legal entity financial statements, and they therefore have a separate set of notes, annexes and audit report. They must also be approved by the board of directors and presented to the AGM, together with other required documentation. Source: Art. 62 of Law 19,550/71; Section XXIII.1 of the consolidated set of CNV regulations; Art. 62.b.5 and 63.5 of BCBA Listing Regulations

¹⁹ Section XXIII.1, Annex I of the consolidated set of CNV regulations. Consolidated financial statements (annual and quarterly) must include a balance sheet, income statement, cash flow statement and explanatory notes.

²⁰ Quarterly financial statements and the *reseña informativa* must be approved by the board of directors and signed by the president. They are not required to be audited.

²¹ Art. 145-146 of the IGJ General Resolution no. 7/2005.

²² Art. 234 of Law 19,550/71.

before the AGM is quite cumbersome and is unlikely to bring about added benefit. This practice is commonly required for listed companies, so that the securities market regulator has a chance to review the financial statements for inaccuracies before these are presented to the public. However, the impact of non-listed companies submitting inaccurate financial statements before the AGM is much more limited; in addition, the IGJ does very little in terms of reviewing the content of financial statement, so the objective pursued is unlikely to be achieved in any case. This requirement appears unnecessary and contributes to increasing the cost of doing business in Argentina.

21. **Insurance and reinsurance companies are required to follow the accounting standards issued by the insurance sector regulator, SSN.**²³ If an issue is not covered in SSN rules, insurance companies should apply the relevant accounting standard issued by the FACPCE. Insurance companies are required to submit their audited annual financial statements to the SSN within 45 days of the financial year-end, comprising a balance sheet,²⁴ income statement, statement of changes in equity, annexes and supplementary spreadsheets. The annual financial statements should be accompanied by notes, a report of the supervisory body (*sindicatura* or *comisión fiscalizadora*), and reports by the external auditor and actuary. Insurance companies are also required to submit, on a quarterly basis, information on their financial position according to a standard format provided by the SSN. A report of the auditor's limited review (*revisión limitada*) must also be submitted. Currently, there are no listed insurance companies; however, if they were to exist, they would be allowed to submit their financial statements to CNV in accordance with the SSN accounting rules, with the sole exception that they would have to use CNV's rules for revaluations of long-term fixed assets.

22. **Banks and private pension funds are required to follow the accounting rules issued by the Central Bank and pension fund supervisor (*Superintendencia de Administradoras de Fondos de Jubilaciones y Pensiones, SAFJP*), respectively .** Both banks and private pension funds must prepare annual and quarterly financial statements comprising a balance sheet, income statement, statement of changes in equity, statement of origins and application of funds, notes and a number of annexes.²⁵ Annual and quarterly financial statements must be submitted to the respective regulator within approximately 50 to 70 days of the end of the period.²⁶ The annual financial statements should be accompanied by a report of the supervisory body (*sindicatura* or *consejo de*

²³ Section 39.12.4.1 of the General Insurance Regulations (as amended by Resolution 29,053/02) sets forth the rules pertaining to financial and actuarial audits, as well as the reports that need to be presented together with the financial statements. Resolution 30,490 sets forth the deadlines for annual and quarterly financial statements.

²⁴ The balance sheet should follow a standard model set forth by SSN, as required by Resolution 24,847/96

²⁵ Financial reporting requirements for banks are set out in Central Bank Circular CONAU 1; for private pension funds, in Instruction 138.

²⁶ Financial statements of banks must be submitted to the Central Bank by the 20th day of the month following the period-end. In the case of listed banks, they must also meet the filing requirements of the CNV. For pension funds, financial statements must be submitted to the SAFJP by the 10th day of the second month following the period-end.

vigilancia), and external auditor's report. Quarterly financial statements require a limited review.

23. **State-owned enterprises are required to apply AR GAAP in the preparation of their financial statements.** The organic law that creates the SOE states whether or not it is an SA. If it is, it must follow all the provisions of the Commercial Companies Law pertaining to SAs.

24. **Most companies for which there is a higher level of public accountability (i.e., listed companies, large non-listed companies, banks, insurance companies and pension funds) are required to have a statutory audit at least on an annual basis.** The exception to this is state-owned enterprises (SOEs), for which there is no annual external audit requirement, although some of them elect to hire an external auditor. Independent audits of SOEs are conducted by the National Audit Office (*Auditoría General de la Nación* or AGN), the country supreme audit institution (i.e. the external auditor of public accounts²⁷), under Argentinean Generally Accepted Auditing Standards (GAAS; discussed in Para. 68). However, AGN audits are conducted on a rotating basis, which means that SOE financial statements are not necessarily audited annually. Overall, AGN's structure and organization are primarily designed to address issues pertaining to the general government and not necessarily to conduct the type of external audits in large SOEs requiring specific corporate sector expertise.

25. **There are additional requirements for external auditors of listed companies, banks and insurance companies.** The financial statements of listed companies and insurance companies must be certified by an external auditor registered with CNV, Central Bank or SSN, respectively. In order to be considered for inclusion in the registries, auditors must meet several requirements, including having at least three years of experience in audit, being affiliated with an accounting professional body for at least five years, and meeting certain independence requirements.²⁸ If an auditor meets these qualifications, they should submit an application, together with their curriculum vitae, to the CNV, Central Bank or SSN for inclusion in the respective registry. In addition, the CNV and Central Bank have instituted mandatory audit partner rotation every five years for companies under their purview.²⁹

26. **The responsibility to appoint the external auditor varies by type of company. In the case of listed companies, the board of directors suggests an auditor.** The audit committee must then provide an opinion on the suggestion, and it is up to shareholders (at the AGM) to make a decision. Within insurance companies and private pension funds, the board of directors is responsible for appointing the external auditor. The Central Bank,

²⁷ The AGN is discussed in detail in the World Bank and Inter-American Development Bank's 2007 Country Financial Accountability Assessment (CFAA) for Argentina.

²⁸ For inclusion in the Central Bank and SSN auditor registry, auditors must have 3 years of experience specifically in auditing banks and insurance companies, respectively. Sources: Central Bank Communication "A" 2527; Section 39.12.1.3 of the of the General Insurance Regulations (as amended by Resolution 29,053/02); Section III.9.7 of the consolidated set of CNV regulations.

²⁹ The SSN is in the process of preparing a draft standard that would require external auditor rotation, which should be issued for public comment later in the second half of 2007.

SSN and SAFPJ must be informed of appointments and substitutions of external auditors within 15, 5 and 5 days, respectively.³⁰

27. **The financial statements of public interest entities (including listed companies, insurance companies, pension funds and large non-listed companies) are available to the public.** However, while the financial information of some companies is readily accessible on their respective regulators' website (e.g., CNV, SSN, Central Bank) access to other financial statements, such as those submitted to the IGJ, is not as easy. The IGJ receives paper-based financial statements and files them away. Recently, it has begun to digitize these documents; however the financial statements are simply scanned as images and not as workable data (one cannot readily retrieve and compare revenue data of a set of companies, for example). In order to access the financial statements at the IGJ, one must submit a request, in person, and pay a fee of approximately US\$18, which is quite high for many users. The standard turnaround is approximately 3 to 6 months, and for urgent requests, it is 15 to 30 days.

28. **The Central Bank of Argentina (*Banco Central de la República Argentina, BCRA*) is in the beginning stages of a project to create a central balance sheet office (*Central de Balances, CB*) for non-financial companies.** This office would unify the financial information that non-financial companies submit to the IGJ, CNV, federal tax authorities (AFIP) and financial institutions (for the purpose of obtaining credit, etc.) in one database. Furthermore, companies would no longer need to prepare and submit separate financial statements to these institutions; rather, they would electronically submit one set of audited financial statements submit to CB. The information would be completely digitized and accessible electronically; of course, while some data would be available to the general public, other data would be restricted, as they are now, only to specific government agencies or other authorized users. The creation of the CB is a significant step towards reducing the burden on companies to prepare several sets of financial information, and tailor them to different audiences. In addition, this project would address several of the shortcomings mentioned in this report regarding the IGJ (difficulty in accessing financial information, information only available in paper form, etc.).

29. **Listed companies that issue shares—except SMEs—are required to form an audit committee comprising at least three members of the board of directors, the majority of which must be independent.**³¹ Audit committee members must be experienced in business, financial or accounting issues, and are appointed by the board of directors. The responsibilities of the audit committee include: providing an opinion on the appointment of the external auditor and monitoring auditor independence; revising on the audit plans of external and internal auditors and provide an opinion on their performance; and supervising internal control systems, as well as management and accounting systems. In addition, the audit committee is responsible for providing an opinion on transactions

³⁰ Central Bank Communication "A" 2527; Chapters V and VII of SAFJP Instruction 23/05.

³¹ Audit committees are not required for companies that issue only debt. Art. 12-15 of Decree 677/01. The functioning of audit committees is governed by Decree 677/01 and CNV General Resolution 400/02.

between related parties, as well as informing the stock exchange of potential conflicts of interest in such transactions.³² Any changes in the composition of the audit committee (e.g., substitution or addition of members) must be communicated to CNV and BCBA within three days.

30. Large companies are required to appoint a *sindicatura* responsible for certain supervisory, audit and governance functions.³³ *Sindicaturas*, which have equivalents in a number of Latin American countries, are a legacy of a period when other functions including external audit, internal audit and the audit committee did not exist. When the *sindicatura* is performed by an individual, he or she goes by the title of *síndico*; when it is performed by a group, it is called a *comisión fiscalizadora*. To be appointed *síndicos*, one must be either a lawyer or public accountant, and cannot be a director, manager or employee (or spouse or relative of these) of the company or one of its subsidiaries. The *sindicatura* is appointed by the AGM. Companies with public accountability³⁴ are required to establish a *comisión fiscalizadora* with an odd number of members; other companies (i.e., large SA and SRL with revenues greater than AR\$10 million, equivalent to approximately US\$3 million) can have an individual *síndico*. The *sindicatura* is responsible for, among other things, overseeing the company's management and issuing an opinion on the financial statements and annual report of the company. In practice, experts in the field of financial reporting consider the *sindicatura* as an outdated function, largely because (a) its overlaps with the role of external auditors with respect to certifying financial statements and with that of audit committees for governance and internal control functions; (b) the hybrid nature of its controlling functions—external and internal—makes it difficult to fulfill either of these functions properly; and (c) is not subject to any form of regulatory monitoring. It is worth mentioning that in Chile, the requirement to appoint an inspector of accounts, which is broadly similar to a *síndico*, was removed for listed companies on the basis that these have to have their financial statements independently audited. Moreover, large companies in Argentina are given the option to establish an oversight board (*consejo de vigilancia*) in place of a *sindicatura*; however, in practice, few companies opt to do so.³⁵

31. Overall, Argentina's statutory framework for corporate financial reporting is comprehensive and quite sophisticated, although some level of simplification and consolidation would be necessary to facilitate its application. Specifically with respect to listed companies, the level of requirement is generally adequate even if financial

³² Art. 73 of Decree 677/01 sets forth the rules on related-party transactions.

³³ Art. 284-298 of Law 19,550/71.

³⁴ Listed companies, financial institutions, state-owned companies and companies that operate state concessions or offer public services must establish a *comisión fiscalizadora*, per Art. 284 of Law 19,550/71.

³⁵ The oversight board is required to have between 3-15 shareholders, who are appointed by the AGM. There are no professional requirements to become a member. Oversight boards have wide-ranging responsibilities, including presenting its opinion on the financial statements and annual report of the company at the AGM, overseeing the board of directors, as well all responsibilities attributed to the *sindicatura*. If a company chooses to establish one, it may do away with the *sindicatura*; however, in this case, an external auditor, appointed by the oversight board, is responsible is required to audit the financial statements of the company. Art. 280-283 of Law 19,550/71.

reporting standards are an issue (discussed in Para. 61). Moreover, one of the conditions to ensure that the framework is properly applied and that its objectives are achieved is to have a strong enough profession especially in the field of auditing. This issue is discussed in the next section.

B. THE ACCOUNTING AND AUDIT PROFESSION

32. **The accounting and audit profession in Argentina is organized under 24 self-regulated “professional councils of economic sciences” (*Consejos Profesionales De Ciencias Económicas*), i.e. one per jurisdiction (provinces, plus the City of Buenos Aires).** In order to practice accounting or auditing, one must be affiliated with the professional council of the relevant jurisdiction. These councils are not mere associations but instead they are officially sanctioned and have important regulatory prerogatives. This has traditionally been one of the strengths of Argentina’s professional environment, insofar as it recognizes the distinct responsibility of the profession, and in particular the role of auditors as gatekeepers acting in the public interest. Moreover, it gives the professional body the ability to generate significant financial resources—mainly through member dues and a stamp on financial statements—which are used for a wide range of activities particularly training. Lastly, the professional councils have the power to impose sanctions on members who do not observe its rules, which is an important condition for self-regulation to be effective. Although their membership is mostly made of accountants, they also include actuaries, economists, etc.³⁶

33. **The professional council of Buenos Aires is by far the largest, with 55,000 members representing approximately half of the estimated total number of practicing accountants in Argentina.**³⁷ The profession in the capital city therefore has a clear advantage over the provinces, with an adequate critical mass of trained accountants. Such dominance reflects the fact that most large companies are incorporated within the City of Buenos Aires.

34. **The professional councils, with the exception of Buenos Aires, are organized under an umbrella organization, the Argentine Federation of Professional Councils of Economic Sciences (*Federación Argentina de Consejos Profesionales de Ciencias Económicas, FACPCE*).** FACPCE was created in 1973, and all 24 professional councils were part of it until the late 1990s, when Buenos Aires broke away. The Buenos Aires council is currently negotiating with FACPCE their reincorporation into the federation.

³⁶ In all of Latin America with the exception of Uruguay, membership in accountancy bodies is limited to accountants. A diverse in the membership, while relatively unusual, can be a strength for the professional body, given it broader outreach toward professions that have a stake in corporate accounting and auditing.

³⁷ As the name suggests, the professional councils congregate not only accountants, but also economists, business administrators and actuaries. However, accountants represent the vast majority of members; in the Professional Council of Buenos Aires, accountants make up nearly 90% of membership.

FACPCE is a member of International Federation of Accountants (IFAC) and as such must comply with IFAC's Statements of Membership Obligations (SMO).³⁸

35. There is a federal law that sets forth the specific professional services that can be rendered only by an accountant duly affiliated with a professional council.³⁹

These include preparing financial statements and corporate tax returns, and auditing financial statements. The law does not differentiate between accounting and auditing services; as a result, all members are entitled to perform audits, which is not in line with recent trends on an international level (see Para. 39). In addition, each professional council has its own law of creation, issued by the relevant jurisdiction, which set forth the specific rules for that council and its members (e.g., structure, powers, disciplinary arrangements, etc.).⁴⁰

36. IFAC's Code of Ethics, considered a benchmark of good international practice, has not been adopted in Argentina.

An adequate code of ethics is essential to ensure that licensed auditors perform their function observing the fundamental principles of integrity, objectivity, competence, due care, confidentiality, and independence. As such, the code of ethics is an essential component of the profession's credibility vis-à-vis the users of financial reporting who rely on the work of auditors. In Argentina, each professional council has adopted its own code of professional ethics. While these vary across jurisdictions, variations are more in form than in substance. The codes of ethics in Argentina tend to fall significantly short of the IFAC code, particularly as regards auditor independence. For example, the ethics code of the Buenos Aires council, which was issued in 1980 and is only about 5 pages long, is much less comprehensive than the IFAC Code and is outdated, as it has not been updated for over 20 years.

37. There is no legal requirement for auditors to take out professional liability insurance, and it is not common practice to do so voluntarily.

Only those firms belonging to the large international audit networks, which have internal policies in this regard, systematically take such insurance. While there is no limitation of auditor liability in the law (from a civil or criminal perspective), there is insufficient local jurisprudence⁴¹ to assess to what extent auditors would be subjected to civil or criminal sanctions in case of professional misconduct in Argentina. This is a concern insofar as it tends to limit auditors' accountability vis-à-vis stakeholders.

³⁸ The SMOs establish requirements for IFAC members and associates to promote, incorporate, and assist in implementing international standards issued by IFAC and IASB. They also establish requirements for quality assurance, and investigation and discipline activities

³⁹ Art. 13 of Law 20,488/73.

⁴⁰ Law 466/00 of the City of Buenos Aires sets forth the by-laws of the Buenos Aires council (*Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires*).

⁴¹ A well publicized lawsuit involving a very large company with international background against a large audit firm was pending at the time this report was being prepared, but no conclusion can be drawn from this case at this stage, except that it provides anecdotal evidence that lawsuits against auditors exist in Argentina.

38. **The Argentine accounting and audit profession has traditionally been viewed as one of the best in Latin America, but due to the slow pace of change over the last ten years this leadership has eroded.** Traditionally, Argentina has had a strong accounting profession, perhaps the most prestigious in Latin America. Such high repute stemmed from a variety of factors including (a) strong university education; (b) a fairly sophisticated financial sector; (c) the fact that all accountants have had to be registered with a professional council, which guarantees a stream of resources to these bodies; and (d) a favorable legal system, since all corporations being subject to statutory audits. It is still very well perceived among the business community. While the Argentine profession suffered from the divisions between the capital city and FACPCE, the recent reunification of the accounting profession has resolved this issue (see Para. 83), and Argentina continues to play a leading role in Latin America, although other countries have advanced more rapidly over the past decade.

39. **The Argentine profession is highly heterogeneous, large member firms of the international audit networks coexisting with thousands of sole practitioners whose activities are almost exclusively dedicated to bookkeeping and tax returns.** The market for audit services in Argentina is dominated by the four large international audit networks (“Big 4”), although a dozen or so medium-sized firms, including the local affiliates of the so-called “tier-2” international audit networks, have acquired a significant presence among public interest entities. Of the 46 entities sampled for the ROSC review of financial statements (see Para. 65), half of them were audited by a firm other than one of the Big-4. The clear differences in nature between audits and related services, on the one hand, and bookkeeping and tax return preparation, on the other, call for greater differentiation in the regulation of these activities.⁴² **On an international level, recent trends have seen audit activities being more rigorously regulated whereas certain countries have completely deregulated bookkeeping activities, which nowadays are largely based on the use of commercial software and to a lesser extent on the work of individual accountants.**

C. PROFESSIONAL EDUCATION AND TRAINING

40. **There is no professional examination or professional experience requirement for registering as a public accountant in Argentina.** In order to join a professional council as an accountant, one must hold a valid university degree in accounting. This goes against international good practice, as set forth in IFAC’s International Education Standards for Professional Accountants (IES), which requires three years of professional experience and the passing of a professional examination. Perhaps as a result of such relatively low professional requirements, a number of regulatory institutions (e.g., Central Bank, CNV, SSN, etc.) have instituted additional professional requirements for auditors

⁴² Examples of countries where a clear differentiation between auditors and accountants exists include: (a) the US, where external auditors of listed companies are subject to separate registration requirements, standards and monitoring; (b) the UK, where bookkeeping has been completely deregulated; (c) France, where statutory auditors are treated as a separate profession; and (d) Spain (all statutory auditors must register with *Instituto de Contabilidad y Auditoría de Cuentas* (ICAC), a government-controlled institution). In Latin America, Mexico has also followed this trend by introducing in 2001 a specific professional certification required for audits of all public interest entities.

of regulated companies. For example, the Central Bank, CNV and SSN all require a number of years of professional experience in order to audit companies under their purview.

41. **The lack of minimum requirements (in addition to the university degree) is made more acute by the fact that some public universities in Argentina – most notably the largest and most well-known, the University of Buenos Aires – do not require an entrance examination.** Historically, public universities in Argentina did not require an entrance examination; however, this is beginning to change and many have now instituted an entry exam. Until relatively recently, any high school graduate interested in enrolling in a public university could do so. However, as the requirements for passing the first-year courses were quite high, the students lacking academic credentials tended simply not to advance in their coursework. Private universities all tend to require an entry examination.

42. **The Government of Argentina recently considered university programs in Accounting to be of public interest and, as such, all universities with such a major will have to go through an accreditation process.** The National Commission for University Evaluation and Accreditation (*Comisión Nacional de Evaluación y Acreditación Universitaria*, or CONEAU), which works under the Ministry of Education, is responsible for accrediting undergraduate programs considered by the government to be of public interest, and all graduate programs in Argentina. In this regard, the Council of Deans of Economic Sciences (*Consejo de Decanos de Ciencias Económicas*, CODECE) establishes the evaluation standards, which must be approved by the Ministry of Education and are later applied by CONEAU. FACPCE and CODECE have signed a cooperation agreement six years ago to work together in modifying curricula, and including graduate programs in the continuing professional education system, among other activities. The standards for evaluating accounting programs have not been finalized yet, and it is expected that CONEAU will carry out the evaluation and accreditation process in 2010. A full accreditation by CONEAU is given if a program complies with the standards and is valid for six years. More commonly, however is a partial accreditation, which is valid for three years, and requires the university to draw up an action plan for improvement. If a program does not comply with the standards and its improvement plan is not considered feasible or sufficient, CONEAU will not accredit the program. The existence of an accreditation process, which requires minimum standards of quality, should contribute to reducing the level of heterogeneity that exists in accounting programs across Argentine universities, and is a step in the right direction.

43. **Continuing professional education (CPE) is regularly offered by the professional councils or through FACPCE's SFAP training program;⁴³ however, attendance is not mandatory.** As a result, there is no assurance that auditors have adequate capacity to fulfill their responsibilities or that their skills are up to date. Auditors employed by international audit firm networks are required to participate on a regular basis in the training sessions offered by those firms. The absence of compulsory

⁴³ The SFAP (*Sistema Federal de Actualización Permanente*) training program was created in 2006; participation is not mandatory.

continuing education and training tends to exacerbate the capacity divide that exists between the large international firms and local firms, particularly between firms in the capital and those in less economically significant provinces. The non-mandatory nature of is against international good practice and IFAC's SMO no. 2, regarding International Education Standards (IES). SMO no. 2 requires members (i.e. FACPCE in the case of Argentina), to use their best endeavors to incorporate the essential elements of IES 7 (regarding Continuing Professional Development) into their professional development requirements.

D. SETTING GENERAL-PURPOSE ACCOUNTING AND AUDITING STANDARDS

44. **No specific provision of the federal or sub-national laws addresses how accounting and auditing standard are to be developed and issued.** Accounting and auditing standards in Argentine are "professional standards", this matter being de facto delegated to the each individual professional council for its respective jurisdiction, as part of their general prerogatives as defined in Law 20 488. As a result, the possibility exists that different standards may apply from one jurisdiction to another.

45. **In practice, the provincial professional councils defer to FACPCE, the country's federal accountancy body (Para. 32), for setting accounting and auditing.** FACPCE issues the standards, which then must be adopted by the sub-national professional councils to become mandatory. While the professional councils are empowered to make changes to the FACPCE standards, in practice, the vast majority have adopted them without amendments. An agreement was reached in September 2002 between the 23 provincial councils to the effect of eliminating any existing differences with FACPCE-issued accounting standards. The only significant exception to these arrangements had to do with the Buenos Aires council especially since 2001 when it decided to adopt several pronouncements differing from FACPCE's.

46. **A very positive recent development has been the decision by the Buenos Aires professional council to adopt FACPCE's accounting standards fully and phase out all existing differences gradually.**⁴⁴ This decision will help alleviate the regulatory burden imposed on companies headquartered in Buenos Aires with subsidiaries in the provinces, eliminate the confusion created that the existence of two sets of standards and pave the way for closer cooperation between the nation's two main accountancy bodies (federal and capital city). At present, the situation is as follows:

- (a) *Since 2006, all FACPCE standards ("RTs") apply in Buenos Aires in full;*
- (b) *For fiscal years starting January 1, 2008, two other RTs will become applicable in Buenos Aires;*
- (c) *Residual differences relating to long-term assets acquired in the 1990s and before will be gradually eliminated, as these assets depreciate over time.*⁴⁵

⁴⁴ Professional Council of Economic Sciences of the Autonomous City of Buenos Aires Resolution CD 93 of August 10, 2005.

⁴⁵ These differences are due to the non-recognition of deferred tax liabilities resulting from inflation adjustments of the 2001/03 crises, which was allowed by the professional council of Buenos Aires. This practice was substituted by disclosure in the notes to the financial statements.

47. **The process by which standards are developed is handled by FACPCE's research department (*Centro de Estudios Científicos y Técnicos*, or CECyT). It is a fairly transparent process, but relies almost exclusively on the pro bono work of a small group of professionals.** Standards are elaborated by CECyT in cooperation with a consultative body comprised exclusively of volunteers (CENCyA). Once a draft standard is ready it is sent to FACPCE's Executive Board (*Junta de Gobierno*) for approval; once approved, it is made available for public comment for a period of at least 120 days. The text is posted on FACPCE's website.

48. **Stakeholders outside the profession, especially financial statement users, are not actively engaged and sought out.** Although accounting specialists are widely represented in CENCyA (among permanent and invited members), its members are exclusively from the accounting profession, government and academia. There is a lack of participation from the business sector (i.e., preparers of financial statements) and users (investors, banks). Therefore the standards tend to reflect more the perspective of accounting practitioners than that of the users. The financial and corporate sector regulators are consulted but they are not actively involved in the development of the standards. Moreover, the standard-setting process relies almost exclusively on accountants. Finally, FACPCE has limited resources because it does not collect dues from licensed accountants (the local professional councils do), which means that its capacity for research and standard-setting is highly constrained. At the same time, part of the solution probably involves giving more autonomy and power to CENCyA and giving more of a say in the standard-setting process to financial and corporate regulators and to representatives of the investor and banking community. Interesting lessons in that regard could be drawn from Mexico and Brazil, which have established independent or semi-autonomous financial reporting standard-setters over the recent years.⁴⁶

E. ENSURING COMPLIANCE WITH ACCOUNTING AND AUDIT REQUIREMENTS

49. As discussed in Section A above, Argentina has a fairly elaborate statutory framework for accounting and auditing, setting a relatively high standard of financial reporting and accountability for corporate entities. However, an important issue to be addressed is the robustness of enforcement, including (a) whether adequate mechanisms are in place to monitor compliance with laws, regulations and standards pertaining to financial reporting and (b) the institutional capacity of the relevant agencies and professional bodies. Ensuring that applicable accounting and audit requirements are actually observed is essential to achieve the objective of greater financial transparency and improved business climate in Argentina.

⁴⁶ In the case of Mexico, the *Center for Research and Development of Financial Reporting Standards* was established in 2001 as an independent, nonprofit organization. 12 regulatory agencies and self-regulated organizations are represented (see 2004 World Bank ROSC Accounting & Auditing on Mexico). In the case of Brazil, a Committee on Accounting Pronouncements (CPC) was established in 2005 as part of the Federal Accounting Council. It includes representatives of the investing, business and academic communities. In this regard, FACPCE is considering a proposal to restructure CENCyA per the examples above.

50. **Enforcement of financial reporting requirements for listed companies is carried out by both CNV and BCBA.** With a view to optimize the use of both institutions' resources, CNV and BCBA have concluded an agreement whereby they share monitoring responsibilities.⁴⁷ Specifically, BCBA is responsible for conducting a thorough desk review of the periodic and annual financial statements of listed companies and submit a report of its findings to CNV. CNV is not bound by the BCBA's report, and it may request additional reviews to be conducted by BCBA and/or conduct a more thorough investigation on its own. In theory, conferring the responsibility to conduct desk review to the BCBA, which has more human and financial resources, would allow the CNV to free up some much-needed resources to conduct on-site inspections. However, in practice, there has been some overlap between the monitoring efforts of the two institutions, with CNV carrying out desk reviews in parallel to those of BCBA.

51. **CNV's Issuers Department (*Gerencia de Emisoras*) is responsible for monitoring listed companies' compliance with financial reporting rules.** Seven CNV staff are responsible for monitoring compliance with filing requirements pertaining to, among other things, financial reporting, for the 300-some companies under the agency's purview. Rather than having separate on-site and off-site supervision departments, CNV divides companies into groups, and supervision staff are assigned a group of companies. These staff members are rotated periodically. CNV conducts reviews of the financial statements of a sample of companies on a quarterly basis. A number of factors are taken into consideration in the construction of the sample, including: whether the company has been inspected before, whether the company is a financial institution, company size and listing segment. In addition, CNV uses the findings of the report by BCBA, as well as qualifications in the external audit report, report of the audit committee, statements of relevant facts, and investor complaints as possible triggers for a more thorough investigation. CNV also conducts on-site inspections. However, since CNV has a very limited supervision staff and resources, the frequency with which it is able to carry out its own reviews including on-site inspections is constrained. In this regard, it has issued supervision manuals that detail the checks that are to be conducted during the desk review and on-site supervision phases.

52. **BCBA's Technical and Securities Department (*Gerencia Técnica y de Valores Negociables*) has a staff of approximately 20 in charge of monitoring compliance with financial reporting requirements.** The staff is assigned to cover different instruments, by type: listed companies, bonds, trust funds (*fideicomisos*), post-dated checks, etc.; and each type of instrument is then further broken down by economic sector (finance, oil, telecom, etc.). Staff members are rotated periodically. The monitoring activities that BCBA carries out include: (a) issuing requests for additional information, (b) verifying accounting documents and books, (c) conducting on-site inspections, and (d) investigating complaints. BCBA issues warnings (*individualizaciones*) to alert the market whenever a company is late in submitting its financial statements, when there are qualifications in the external auditor's report, or when there are any other specific issues about a company that the market should be made aware. Furthermore, if companies submit incomplete financial statements or if they delay submission by more than 15 days,

⁴⁷ Section XXXIII.2.1 of the consolidated set of CNV Regulations.

BCBA may suspend trading of the company's securities.⁴⁸ In case of very serious transgressions or of repeated failure to comply with BCBA requirements, BCBA may cancel trading altogether.⁴⁹ While these more severe sanctions are not common, the BCBA does apply them; for example, since 2005 it has suspended trading in three cases for non-compliance with financial reporting rules.⁵⁰

53. Sanctions are made public on the CNV and BCBA websites, which increases the deterrent effect and therefore the usefulness of these sanctions. The CNV is empowered to apply sanctions to individuals and companies that fail to comply with its regulations. CNV sanctions include warnings, fines, and temporary suspensions or bans from conducting public offerings.⁵¹ All CNV sanctions must be made public. Sanctions applied by BCBA, such as warnings, trading suspensions or cancellations, are posted on BCBA website and in its daily bulletin. Sanctions pertaining to suspensions or cancellations of public offering of securities appear on the websites of both CNV and BCBA. From a user's perspective, the BCBA website is excellent, as one can search for sanctioned companies by type of sanction, by company name and by date range. The CNV, by contrast, posts its sanctions as numbered resolutions, grouped by the year the sanction was applied. Since CNV issues much fewer sanctions than the BCBA, it is not difficult to find sanctions on the CNV website, despite the lack of search capability.

54. The IGJ is empowered to apply sanctions to companies under its purview and to concerned individuals (including managers, directors and *síndicos*) that fail to comply with applicable Company Law provisions and IGJ regulations. Sanctions include private warnings (i.e., not made public), published warnings, and fines. In addition, it can petition the courts to dissolve or liquidate a company in certain cases.⁵² However, the IGJ lacks resources to monitor compliance with financial reporting requirements and thus works on a purely reactive basis, i.e., it will investigate cases of non-compliance based on complaints but does not check for timeliness or completeness of filings on a regular and test basis. Furthermore, the fines for non-compliance are quite low, and are not a useful deterrent. Sanctions are not posted on the IGJ website.

55. For the banking, insurance and pension sector fund sectors, the Central Bank, SSN and SAFJP are charged with enforcing accounting and auditing obligations in their respective areas of purview. The Central Bank's Supervision Department and Department of Auditor Control are responsible for monitoring compliance with financial reporting and auditing requirements for banks. Since 1998, the Central Bank's Department of Auditor Control has been monitoring the work of external auditors through inspections, assigning a rating to the quality of the work, from 1 (very good) to 5 (unacceptable). An average of 60 inspections per year has been carried from 2004 to 2006. The SSN has two departments responsible for monitoring compliance with

⁴⁸ Art. 43 of BCBA Listing Regulations.

⁴⁹ Art. 46 of BCBA Listing Regulations.

⁵⁰ Among its sanctions, the BCBA may also reduce a company's daily trading time (*cotización a Rueda Reducida*). Although this sanction is not currently being applied, the measure may be used for sanctioning companies that are late in submitting their financial statements.

⁵¹ Art. 10 of Law 17,811, as amended by Decree 677/01.

⁵² Art. 302 of Law 19,550/71, as amended.

financial information requirements: the *Gerencia de Evaluación* and *Gerencia de Inspección*. The *Gerencia de Evaluación* conducts desk reviews of financial statements of all insurance companies on a quarterly basis. Based on its findings, it may request an on-site inspection, which is conducted by the *Gerencia de Inspección*. Before carrying out an on-site inspection, SSN carries out inspections of the external auditors, who are required to make their work papers available and provide explanations. This helps the SSN determine the scope of their on-site inspections. In cases of non-compliance, both institutions may issue warnings, fines, and suspend or ban companies from offering financial/insurance services.⁵³ The SSN issues alerts of recent sanctions on its website. Archived information on previous sanctions is not available on the website, but SSN keeps a Sanctions Registry, which may be consulted.

56. Each professional council is responsible for monitoring and enforcing professional rules among its membership. Each professional council has a body responsible for disciplinary issues (*Tribunal de Ética Profesional* or TEP). In the case of Buenos Aires, the TEP is comprised of 15 members, of which 12 are public accountants.⁵⁴ Such strong reliance of the opinions of accounting and/or audit practitioners does not necessarily allow the views of financial statements users and other third parties to be properly reflected. The TEP investigates cases of misconduct submitted to it either through a written, substantiated complaint, or upon request by the board of directors of the professional council or the judiciary. TEP rules on the case and applies relevant sanctions, including warnings, private or public reprimands, and suspension or cancellation of professional license.⁵⁵

57. So far, professional councils have put the emphasis on *ex-post* enforcement of known alleged cases of non-compliance, and no quality assurance mechanism aimed at ensuring compliance through *ex-ante* monitoring has been established. The concept of professional quality assurance at the level of the accounting and audit profession as a whole is a relatively new one worldwide. It has been codified by IFAC as part of its Statements of Membership Obligations (SMO), which IFAC member bodies, including FACPCE for Argentina, are expected to observe to the best of their ability.⁵⁶ In Latin America, Brazil is the only country to have established such system⁵⁷ and so far this system has been well perceived within and outside the profession. On an international level, virtually all industrialized nations have introduced a system of independent oversight for statutory auditors, which includes quality reviews of the professional practice (or “inspections”). It is worth mentioning that the US Public Company Accounting Oversight Board (PCAOB), which supervises statutory auditors of companies listed in the US—including foreign companies with American Depository Receipts (ADRs)—has begun carrying out inspections of several Latin American audit

⁵³ Art. 41 and 42 of the Financial Institutions Law; Art. 58 of Law 20,091/73.

⁵⁴ The others are: one graduate in business administration, one economist and one actuary. Art. 18 of Law 466/00 of the City of Buenos Aires.

⁵⁵ Art. 30 of Law 466/00 of the City of Buenos Aires.

⁵⁶ SMO 1, Quality Assurance, ratified by IFAC’s Council in November 2004.

⁵⁷ In 2001, Brazil’s Federal accounting council put in place an External Review Committee (“CRE”) and issued a professional norm establishing a peer review system among auditors (sole practitioners or firms) for listed companies.

firms, including one from Argentina. Countries with a number of companies listed in the US are setting up their own quality control systems, in an effort that these will be recognized by the PCAOB. Obtaining PCAOB recognition reflects very positively on the quality of domestic regulation vis-à-vis the local and international investing community.⁵⁸

58. In addition, CNV, Central Bank, SSN and SAFJP have issued rules applicable to statutory auditors of entities under their purview. These institutions have the power to enforce their rules and sanction auditors. While sanctions are communicated to the relevant professional councils, they are issued directly to the auditor and do not require approval or action on the part of the professional council. Professional councils are also required to inform the relevant regulator of any cases involving infractions of professional rules, as well as the sanctions that were applied, when these involve external auditors of regulated companies.

59. Over all, efforts to strengthen the enforcement of financial reporting and auditing requirements need to be expanded in order to boost confidence in Argentine companies. While regulators have recently undertaken a series of efforts aimed at raising the requirements pertaining particularly to internal controls and audit, these have not been accompanied by the necessary enforcement activities to ensure the effectiveness of these measures. In addition, the enforcement regime in its current stage is somewhat hampered by the fact that regulators are generally lacking in autonomy vis-à-vis the government, particularly from a resource perspective (i.e., they rely solely on budget allocations to fund their operations, as opposed retaining the revenues earned from their enforcement efforts, such as fines). As a result, some regulatory agencies – particularly the CNV – are lacking in human and financial resources to effectively carry out their monitoring and enforcement duties. Since Argentina is looking to enhance its investment climate and promote development of the private sector, it is essential that Argentine regulators strengthen their enforcement activities, as good financial reporting and auditing are essential for restoring investor confidence.

⁵⁸ It should be noted that the EU has also initiated a process to evaluate the quality of domestic regulation of the external audit function with regard to listed companies, in order to determine whether it could rely on it.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

A. ARGENTINE GAAP AS DESIGNED

60. As of May 2007, Argentine GAAP consisted in 11 FACPCE-issued Technical Resolutions (“RTs”), plus four related interpretations, coupled with a few pronouncements of the Buenos Aires professional council. Some of the pronouncements conflicted with the RTs during a transitional period; however, these differences will be eliminated as of January 1, 2008. As previously noted (Para. 45-46), Argentina has had two separate sets of accounting standards since 2001: the main set issued by FACPCE, and the other by the Buenos Aires professional council. The complete list of extant RTs follows:⁵⁹

- RT 6, Financial Statements in Homogeneous Currency;
- RT 8, Presentation of Financial Statements, General Standards;
- RT 9, Presentation of Financial Statements, Commercial Entities;
- RT 11, Presentation of Financial Statements, Non-Profit Organizations;
- RT 14, Financial reporting by joint ventures;
- RT 16, Conceptual Framework for Accounting Standards;
- RT 17, Discussion of General Issues;
- RT 18, Discussion of Specific Issues—RTs 16-18 were issued in December 2000 partly on the basis of IAS (i.e. international standards, which are now labeled IAS or IFRS depending on whether they have been issued before or after 2001);
- RT 21, Equity Method, Consolidation, Related-Party Disclosures;
- RT 22, Agriculture; and
- RT 23, Post-employment and Other Long-Term Benefits to Employees.

61. Although AR GAAP have been partially aligned with IFRS since 2000, they are significantly less demanding than IFRS, and financial statements prepared under AR GAAP are unlikely to fully meet the needs of users accustomed to using IFRS- or US GAAP-based financial statements. Although no official inventory of differences between Argentine accounting standards and IFRS exists, the local member firms of the international audit networks keep an unofficial inventory of such differences for their own use or their clients’. AR GAAP may be adequate for mid-sized Argentinean firms who are mainly financed through the owner’s capital contribution, but internationally acceptable standards of financial reporting are required for larger companies that need to raise or borrow funds on a long-term basis and/or actively engage in international transactions involving joint ventures, capital investments or large levels of trade.

⁵⁹ Interpretations cover Related-party transactions (financing, refinancing and other; Int. no. 1); Statement of cash flows (no. 2); Accounting for income tax (no. 3.); Miscellaneous issues (no. 4). The full text of all RTs and interpretations can be accessed online on the Buenos Aires council’s website at <http://www.consejo.org.ar/marcolegal/marcolegal.htm#contables>.

62. **The most significant discrepancies between AR GAAP and IFRS are as follows** (a more detailed analysis is provided in Annex 1):⁶⁰

- ***A number of rules for the recognition and valuation of assets, liabilities, income and expenses are not in line with IFRS.*** These relate to property, inventories, investments, intangible assets, income tax, goodwill, etc.⁶¹ The possibility under AR GAAP to capitalize pre-operating or reorganization expenses contrasts sharply with IFRS requirements to expense these, the latter being widely viewed by the investor community as a more conservative—and therefore more appropriate—treatment. Besides, more discretion is given to preparers with regard to the recognition of contingent liabilities than under IAS 37. Transparent and internationally compatible criteria for valuing assets and recognizing revenue and profits is critical to the credibility of the financial reporting framework especially in the eyes of investors and lenders who are used to operate on an international level. Ultimately, the adequacy of recognition and valuation rules is key to the quality of the financial statement and therefore to investors’ and lenders’ ability to make properly informed decisions and to their willingness to invest or lend;
- ***Financial statements are to be restated when “inflationary conditions” prevail, whereas IFRS require a hyperinflationary context for financial statements to be restated.*** The issue of inflation, how it affects the financial information and how accounting standards should treat it, is a complex one. Many Latin American experts in the field of accounting and financial reporting are of the opinion that IFRS⁶² does not deal with the issue of inflation adequately. One of the reasons has to do with the fact that they believe the financial statements should be price-level adjusted even if inflation is relatively low (e.g., between 5 and 10% on an annual basis, which is not considered hyperinflationary).

The main problem with this approach is that it introduces complex accounting treatment that international investors are not necessarily familiar with, and tend to be suspicious of. Accordingly, without disputing from a purely conceptual standpoint the validity of restating financial statements for the effect of relatively low inflation, such complex treatments which can lead to inflating reported assets

⁶⁰ Specific sources for this analysis included a brochure published by PricewaterhouseCoopers Argentina, a memorandum provided by Deloitte Argentina, discussions held with each of the Big-4’s local firm in Buenos Aires, and the “20-F” filings of four Argentinean companies listed in the US. This analysis was corroborated by the review of a large sample of published financial statements (see III B. hereafter).

⁶¹ *Investments*: According to IAS 27, investments in subsidiaries and associates should be valued at cost in the legal entity (not consolidated) financial statements of the investor. RT 21.1.2 does not offer this option.

Intangible assets: Pre-operating and organizational costs that may be capitalized in Argentina (per RT 17.5.31) must be recognized as expenses in the period in which they are incurred, in accordance with IAS 38.

Income taxes: The above differences relate to the decision by the Buenos Aires professional body to allow companies—on an extraordinary basis—to not account for deferred liabilities, as a result of inflation adjustments resulting from the 2001/2003 crisis. In addition, non-listed companies were allowed to discount deferred tax assets and liabilities (per RT 17.5.15), which is not allowed under IAS 12.53.

⁶² The international standard specifically dealing with this issue is IAS 29, *Financial Reporting in Hyperinflationary Economies*.

and earnings are problematic insofar as they introduce a difference with the accepted global financial reporting standards (IFRS and US GAAP) and tend to foster a negative perception of undue complexity. A joint working group comprising members of FACPCE and the Mexican Institute of Accountants has been set up to develop amendments to IAS 29, Financial Reporting in Hyperinflationary Economies, one of the objectives being to eliminate the current differences between IFRS and Argentine accounting practices. It should be noted that inflation accounting has been completely phased out in Brazil where current inflation levels are broadly comparable to those observed in Argentina;

- ***In a merger or acquisition, the financial statements of the combined business entity can be prepared using the “pooling of interest” method, which is no longer accepted under IFRS (and US GAAP).*** This means that the assets and liabilities of the entity that, under IFRS, would be considered as acquired, do not need to be stated at fair value (i.e., can be kept at historical costs). The implication of not reflecting the fair value (e.g., revalued amounts) of assets and liabilities after a merger or acquisition is that the earnings of the combined entity are likely to be higher than under IFRS, due to the effect of depreciating and amortizing non-revalued amounts. While a number of companies would probably prefer applying the existing method since in many cases it leads to higher earnings, financial statement users with international exposure tend to prefer a treatment of business combinations consistent with IFRS and US GAAP;
- ***Non-listed companies’ consolidated financial statements are presented as “supplementary information”,*** to be read in conjunction with the financial statements of the parent company, instead of as a complete, standalone set of financial statements.⁶³ As a result, many non-listed companies tend to provide incomplete consolidated information. Because parent company (or “legal entity”) financial statements do not give a complete and faithful view of the financial position and performance of a corporate group taken as a whole, this represents a significant, potential weakness, limiting investors’ and lenders’ ability to make properly informed decisions; and
- ***A lower level of disclosure*** in the notes to the financial statements. Disclosures are also essential for investors and lenders to interpret the financial statements (which are largely influenced by management estimates) and to make properly informed decisions. Incomplete disclosure has an adverse effect on investors’ confidence.

63. **Specific accounting rules issued by the respective regulatory bodies apply to listed companies, banks, insurance companies, pension funds and cooperative sectors.** Listed companies are required to follow AR GAAP, as amended by CNV. CNV has issued a comprehensive set of regulations for listed companies, applicable to companies that issue either equity or debt securities. Among these regulations are a set of accounting rules based on FACPCE’s pronouncements with modifications.

⁶³ Such presentation is a requirement under the Commercial Companies Law. CNV has placed greater emphasis on consolidated financial statements.

64. **Taken as a whole, current gaps between AR GAAP and IFRS are detrimental to the quality of domestic companies' financial reporting, especially in the view of international investors and lenders.** Discrepancies with IFRS can lead to sharply different financial indicators (e.g., debt and net asset value). Added to a lower level of disclosure, this requires investors and lenders to perform additional due diligence and analyses, or may actually impede them from making fully informed decisions, which in turn can deter investment or credit.

B. OBSERVED REPORTING PRACTICES

65. **46 AR GAAP-based, audited financial statements of Argentine enterprises (non-financial companies) were reviewed as part of this ROSC.**⁶⁴ All these enterprises were incorporated in Buenos Aires, and 31 of them were listed on the BCBA. The date of the financial statements ranged from October 31, 2005 to October 31, 2006. The review had two basic objectives: (a) assess the overall quality of the presentation of the financial statements and level of disclosure and (b) detect possible departures with applicable standards. The financial statements of non-listed companies were obtained from the IGJ. The corresponding audit reports were also reviewed. A total of 98 issues, most of which involving departures from AR GAAP, were identified through the review.⁶⁵

66. **The main issues arising from the review are as follows:**

- ***Absence of cash flow statement*** – Five companies omitted the presentation of a statement of cash flows, which is one of the most important statements for investors and lenders to assess the financial prospects of a company. In two other cases, the cash flow statement contained obvious errors, such as the presentation of all cash flows as “from operations”, including those relating to investing and to financing, which means that the cash flow statement could not be used reliably.
- ***Lack of disclosure on sensitive transactions or issues***, especially regarding:
 - ***Income taxes*** – In 10 cases, disclosures were insufficient for the reader to gain a proper understanding of the company's tax position. The inherently sensitive nature of income taxes, which often involve complex calculations and interpretations, may explain this;
 - ***Financial instruments*** – In several cases, disclosures did not allow the reader to gain a proper understanding of the nature of financial instruments and the way they have been accounted. The fair value concept and the calculations of effective interest rates have not yet been adopted or made in the majority of cases because, although local standards embrace IFRS requirements in this connection, postponement of actual application to years or periods starting

⁶⁴ The sample should not be considered as representative of all Argentine companies. Although the findings may not necessarily reflect systemic problems of the business sector more generally, they are useful for illustrating potential problems.

⁶⁵ The objectives, methodology and tools used by the World Bank are different from those used by regulatory bodies (such as BCBA and CNV). Therefore, they can lead to different conclusions.

January 1, 2006 has been allowed. Overall, the review noted a tendency to disclose as little information as possible on the nature, terms, conditions and risks associated with financial instruments;

- *Leases* – The vast majority of lease arrangements in Argentina qualify as “operating” (as opposed to “finance”). In most cases reviewed, disclosures were limited to rental amounts for the period; no disclosure was made of minimum payments, other contractual obligations, and lease period. These disclosures are essential for financial analysts to be able to assess a company’s total indebtedness, which is an essential financial indicator, and carry out modern valuation techniques; therefore, their absence is detrimental to investors’ confidence;
- *Significant accounting policies*, especially for revenue recognition. Transparency in the way revenue is accounted for is particularly important insofar as it shows the investing community that company management has very limited leeway to manipulate earnings. In a majority of the corporate failures that occurred in the US during the first half of the decade involved inappropriate earnings management and/or misstatements related to revenue recognition. Therefore, a lack of clarity in company stated policies for recognizing revenue is likely to be negatively perceived by sophisticated investors and lenders;
- *Related party relations and transactions* – In three instances, such disclosures were insufficient or absent. Disclosures of related party relations and transactions are particularly sensitive for the protection of investors. They represent of an essential feature of in a good corporate governance framework;
- *Details of significant captions on the balance sheet*, such as the terms and conditions of loans, inventories, and capitalized borrowing costs;
- *Other*, including the procedures followed for asset impairment testing, accounting for deferred income tax and capitalizing borrowing costs.
- ***Other cases of departure from AR GAAP*** included (i) the recognition of contingent assets in relations with a claim for a tax rebate; (ii) an inadequate income statement presentation (in two cases, certain transactions were presented as extraordinary even though they did not meet the definition of AR GAAP for such items) and (iii) in a set of statements, the presence of a significant excess of current liabilities over current assets, negative results and cash flows and a depleted net equity—raising questions about the possibilities of the entity to continue as a going concern—with little if any information on the terms and conditions of the current liabilities. The first two cases above clearly illustrate a tendency toward distorting results, which may reduce confidence among financial statement users.

- ***Inconsistent valuation of property, plant and equipment (PP&E)***⁶⁶ – Under Argentina GAAP, PP&E must be recorded on the balance sheet at restated (i.e., inflation adjusted) cost, net of accumulated depreciation and impairment, if any. Inflation adjustments were made until 1995 and then during the period 2001-2003.⁶⁷ The residual balance of these restatements, particularly those of the period 2001-2003, is still included in the carrying values of most assets. Also, certain property revaluations made until the early 1990s and, in a few cases, during the crisis period, are still part of the carrying value of the related assets. On the other hand, although local standards require inflationary restatements when “inflationary conditions” prevail, no such restatements are being made at present even though inflation indices are in the region of 12%.

67. **The implication of these observed departures is the need to improve the quality of corporate financial reporting in Argentina in order to meet the needs of investors and lenders. Besides, they call for stronger enforcement of accounting and auditing standards among enterprises with a higher degree of public accountability.** Strengthening the monitoring of corporate financial reporting practices, listed or not, should start by reviewing the current structure of the financial statements and accompanying notes of listed companies to identify any gaps in the content and presentation of the statements and notes, or areas lacking clarity. Moreover, closer monitoring of periodic filings seems necessary, in order to identify anomalies in the way particular transactions events or new types of transactions have been accounted for. Finally, a periodic review of the work of the statutory auditors (see Para. 75) would be a useful complement to enforcement actions directed at the companies themselves.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

68. **FACPCE’s Technical Resolution 7 (“RT 7”) is the basic authoritative reference for audit practitioners. Together with other minor pronouncements, it constitutes a body of standards far less elaborate than ISA.** RT 7 is a 17-page document with a number of sections enunciating fairly general principles regarding the auditor’s personal qualifications, independence requirements, the various steps to be followed in the conduct of audits, and the form and content of the audit report. No detailed guidance is provided in the standard, which increases the risk that it could be inappropriately applied. In addition, the pronouncement is silent on fundamental issues such as quality control of the audit work, the responsibility of the auditor vis-à-vis fraud and materiality, management representations, using the work of experts, and communications of audit matters to audit committees. Moreover, the local standards do

⁶⁶ Such inconsistency derives from the failure to recognize the effects of inflation in certain cases, when in similar situations in the past, inflation was recognized. FACPCE has the right, according to RT 17.3.1, to determine—based on qualitative, not quantitative, factors—when accounting for inflation should begin or cease.

⁶⁷ During this latter period, the basis of restatement was the wholesale price inflationary index rather than the retail indicators that would have meant that the period was not hyperinflationary. Under IFRS, accordingly, no restatement would have been made.

not consider the various other types of engagements and reports (reviews, other assurance engagements, agreed-upon procedures and compilation engagements).

69. **RT 7's provisions on the auditor's report contain two clear differences with ISA: (a) "subject to" qualifications, which are not permitted by ISA, are allowed and (b) review reports can only be issued for interim financial statements, not for year-end financial statements.** The first issue is of serious concern, because "subject to" qualifications—whereby the auditor makes a partial disclaimer on the scope of the audit opinion with regard to an uncertainty with a potentially material effect on the financial statement (e.g., in connection with a claim by a third party against the company)—represent at best a form of understatement and at worst a misleading information vis-à-vis the users of the audited financial statements. A very short section on special reports could be interpreted as allowing the preparation of agreed-upon procedures and compilation reports but no specific mention is made of this type of engagement anywhere else in the RT 7. Obviously, the concept of assurance engagements is not contemplated in RT 7 or other rules. Also, piecemeal opinions are still permitted. On those various matters, a full alignment of local GAAS with ISA would significantly improve the quality of auditors' reporting by removing sources of ambiguity

70. **Notwithstanding the above, nothing impedes Argentinean auditors from carrying out audit engagements in accordance with ISA.**

71. **In 2003, FACPCE decided to adopt ISA with effective implementation for fiscal years starting on January 1st, 2007,⁶⁸ even though as of the date of the report, this decision had not been implemented yet.** ISA adoption in Argentina had been under consideration for several years. At the time of FACPCE first official decision (2003), a four-year transition period was appropriate. Efforts have been made FACPCE by and its technical arm, CECyT, to disseminate the standards but several factors are likely to impede proper implementation including but not limited to:

- *The more elaborate nature and complexity of ISA*, requiring significant training for many existing audit practitioners;
- *Inherent difficulties in conducting the required large-scale training programs*, including the need to prepare supporting material and to have a sufficient number of appropriately qualified trainers;
- *Resistance to adopt international standards in some sections of the audit profession*, especially among sole practitioners and the smaller firms, who tend to be wary of the high cost that observing ISA may entail for them, both in terms of training and time necessary to carry ISA-compliant audits; this is compounded by the perception among those practitioners that, since the audit firms belonging to the large international networks are already supposed to observe ISA under their member firm obligations, the difficulty of switching to ISA will be more acute for purely local firms and professionals.

⁶⁸ FACPCE Resolutions no. 284/03 and 315/05

72. **The version of ISA adopted by FACPCE is the one issued in 2004.** Much effort has been made since 2004 by the International Audit and Assurance Standards Board (IAASB) to revamp ISA, including a “clarity project” to facilitate their application. FACPCE should therefore adopt the more up-to-date version of ISA. Sticking to the old version of ISA would not be in the interest of the Argentine profession for a variety of reasons: (a) these standards are not necessarily much easier to observe, (b) they do not incorporate the results of the IAASB’s efforts to make the standards clearer and easier to understand and (c) they can no longer be identified as ISA which takes away one of the key the advantage of using international standards, which is recognition and greater trust by financial statement users.

73. **A proposal has been floated among the profession to restrict the application of ISA to the statutory audit engagements of listed companies.** If this idea eventually prevails, this could lead to confusion among financial statement users as audit reports looking alike but prepared on the basis of very different standards will be disseminated, without necessarily a clear differentiation as to the level of comfort they provide to the users. This may also reinforce current perceptions of a heterogeneous profession, with Big 4 and second-tier firms carrying out ISA-based audits and other segments of the audit profession adhering to a lower standard of practice. It should be noted that IFAC, the audit profession’s international body, has developed specific guidance for external auditors in the small and medium practice (SMP) to carry audits in compliance with ISA, which means that, on an international level, adequately structured SMPs are considered capable of applying ISAs. In any event, a rational approach would be to require ISA for all statutory audits of “public accountability” (or “public interest”) entities under the Argentinean law, especially since these entities are more likely to be audited by firms belonging to the large international audit networks, whose internal policies require the use of ISA. For audits of smaller business entities, local auditing standards could still be applied during a period of transition until appropriate steps have been taken to enable small practitioners to apply ISA. In that case however, the auditors should be required to include a mention in their reports that the standards applied are significantly less demanding than ISA.

74. **The review of 46 published audit reports evidenced a number of anomalies pointing to the need for stronger enforcement of auditing standards.** As part of the review of the 46 sets of financial statements reviewed (Para. 65) the corresponding audit reports were also analyzed. 28 different audit firms were involved in the preparation of those reports. An equal number of reports had been issued by Big-4 firms and by other firms. The most significant errors contained in these reports, many of them obvious, involve three types of issues:

- a) ***Absence of qualification in the opinion on the financial statements, when such qualification was required under local standards.*** A number of the departures identified in Para. 66 should probably have been reported in the corresponding audit reports by means of “qualified opinions”. Circumstances where a qualification was required but absent included:
 - o *Financial statements grossly incomplete* – In one case the auditor indicated that those had been prepared in accordance with “legal rules” and gave a

“clean” opinion. In another, the auditor failed to qualify her/his opinion on financial statements omitting the required comparative data;

- *Omission of the statement of cash flows*, in the case of five companies;
 - *Financial statements showing a significant excess of current liabilities over current assets*, negative results and cash flows and a depleted net equity raising questions about the possibilities of the entity to continue as a going concern. Extremely little information was given on the nature of current liabilities and the conditions under which they had originated or whether the creditors were actually related parties. The auditors’ report was silent as to the going concern status of the company, and did not object to the absence of disclosure in the notes; and
 - *Inappropriate presentation of a transaction as “extraordinary”* – A large manufacturing company opted to report the results of a very significant debt restructuring as “extraordinary items” in the income statement.
- b) ***Inconsistencies in the form of the audit report*** – Audit reports are expected to strictly follow the standard four-paragraph format and wording, describing with sufficient precision the statements to which the auditor’s opinion apply, and the conclusions drawn by the auditor based on her/his audit.⁶⁹
- c) ***Ambiguous and/or unclear mentions in the audit report*** – An audit report is to be carefully worded in order to provide clear, concise information to the users of the financial statements regarding any material issue identified in the course of the audit, and to avoid the risk of misinterpretation. The review found several cases. A company which was the plaintiff in a lawsuit against the government had recorded a receivable for the amounts claimed. The auditor included a “subject to” in the audit report although the recognition of such contingent asset would have called for a more definite and unambiguous “except for” qualification of the opinion, clearly expressing the auditor’s disagreement. Another auditor had decided to state a division of responsibilities with an independent appraiser who had been hired to assess the market value of fixed assets as part of a revaluation. The appropriate procedure would have been for the auditor to review the methodology followed by the appraiser in order to satisfy her/himself as to the adequacy of the amounts recorded on the balance sheet, not to simply rely on the work of the appraiser. A “subject to” was included in the opinion regarding a doubtful receivable from an associate on the balance sheet; this is an obvious case

⁶⁹ Issues identified included the following: (i) in its report an auditor described the scope of its examination as including the legal entity financial statements including the “supplementary information” (i.e., consolidated statements), the report of management and certain specific disclosures required by CNV. However, the opinion in the report only referred to the basic statements and omitted any reference to the consolidated information, and it did not give any kind of assurance on the other information that the auditors claimed to have “examined”; (ii) similarly, a report included all the statements in the scope of examination but only referred to the financial position and results of operations in the opinion, i.e., it omitted to refer to the statement of cash flows; and (iii) an auditor did not include a second paragraph explaining the scope of his audit, which is required by local standards. In the same report, no differentiation was made of management and auditors’ responsibilities and, although comparative statements were presented, no opinion was given on these.

of substitution of an “except for” qualification (i.e. where the auditor clearly states a disagreement) with a more lenient or ambiguous “subject to” mention, which does not clearly indicate a disagreement.

75. **The above issues, taken as a whole, are worrisome and underscore the need to (a) further align AR GAAS with ISA and (b) establish some sort of quality monitoring mechanisms for the statutory audit function.** External audits that comply simply with AR GAAS (i.e., RT 7) are prone to be less thorough in addressing essential aspects such as the company’s risk environment and internal controls than audits conducted in accordance with ISA. Thus, simply observing RT 7, an auditor is less likely to detect, address and report on risks of misstatement in the financial statements. Bringing the audit practice to the level of the international standard is essential to the confidence investors and lenders have in the external auditors’ ability to be effective gatekeepers of the credibility of corporate financial reporting in Argentina.

V. PERCEPTIONS ON THE QUALITY OF FINANCIAL REPORTING

76. **Perceptions of the quality of financial reporting in Argentina vary greatly, as there is great heterogeneity in the transparency, comprehensiveness, comparability and overall quality of financial statements.** Generally speaking, there are observable differences between the financial statements of listed versus non-listed companies; companies listed in the US versus those listed only domestically; banks versus other types of companies; larger companies versus SMEs; with the former tending to be perceived as of better quality than the latter.

77. **Furthermore, observers mentioned that vis-à-vis its peer countries, the level of disclosure in Argentina is significantly lower, particularly as compared with Chile.** Observers mentioned that since accounting rules are much less detailed and stringent than IFRS, companies tend to disclose the legal minimum. Further, several observers noted that the additional information companies provide to investors had somewhat diminished since the 2001 crisis. They also noted that MD&A are often of little use, in part because the basic requirements for these are extremely limited and are the same for listed and non-listed companies (SA).

78. **Observers also cautioned that for a foreign investor, Argentine financial statements may not be readily understandable.** The complexity and multiplicity of rules used to draw up financial statements make it difficult for individuals, other than analysts trained in the local market, to understand them. As a result, when foreign investors want to invest in an Argentine company, they tend to choose ADRs, instead of investing directly in the Argentine stock exchange.

VI. CONCLUSIONS AND RECOMMENDATIONS

79. Over the years, Argentina has developed a comprehensive and relatively demanding statutory framework pertaining to corporate accounting and auditing. On the whole, however, accounting and auditing practices in Argentina require significant improvements to provide investors and lenders complete and accurate financial information, in accordance with international standards. The principal findings of this ROSC are follows:

- (a) All companies above a certain size are considered as publicly accountable and must therefore have their financial statements audited and file these statements with a company registry. This requirement is designed to provide some form of protection to creditors and other third parties. In addition, the company law requires that all companies with subsidiaries prepare consolidated financial information on an annual basis. As far as the stock market and financial sector are concerned, the regulatory framework for corporate financial reporting is quite sophisticated.
- (b) The current regulatory environment for accounting and auditing (which includes all rules regarding these subjects, such as laws, regulations, generally-accepted accounting principles, etc.) is fragmented, with varying laws and regulations across jurisdictions (the 23 provinces plus the capital city) and from one business sector to another. This makes compliance with the law more complex and costly especially for companies with operations nationwide. Moreover, some the provisions of the law have become somewhat outdated. This is the case, for instance, of the *síndicos* whom large companies are required to appoint and whose functions in practice overlap with those of statutory auditor and audit committee.
- (c) The accounting and audit profession in Argentina is organized under 24 self-regulated professional councils of economic sciences, one for each local jurisdiction. Among those, the professional council of Buenos Aires is by far the largest, grouping approximately half of the nation's practicing accountants. At the country level, FACPCE is the umbrella organization for the whole profession, recognized by a specific federal legislation. The profession in Argentina is highly heterogeneous, large member firms of the international audit networks coexisting with thousands of sole practitioners whose activities are almost exclusively dedicated to bookkeeping and tax returns. Whereas it has traditionally been viewed as one of the best in Latin America, its leadership has been eroded over the last ten years, in large part due to the slow pace of change.
- (d) As far as accounting and audit standards are concerned, federal or sub-national laws do not address how these are to be set; in practice, the provincial professional councils defer to FACPCE for setting them, the only significant exception being Buenos Aires. FACPCE process to develop the standards is fairly transparent but it relies almost exclusively on *pro bono* work and involves mostly the members of the profession.
- (e) Since the beginning of the decade, FACPCE has taken commendable steps to align Argentina's Generally Accepted Accounting Principles (GAAP) with IFRS.

- Nevertheless, significant gaps exist at present on a number of recognition and valuation principles, for assets, liabilities, income and expenses (including in the way financial statements may be adjusted for inflation), regarding consolidation and business combinations, and with respect to the level of disclosure in the notes to the financial statements.
- (f) Similarly, Argentine auditing standards are much less elaborate than ISA, leaving out several important notions such as quality control, materiality, addressing fraud, or communication with governance bodies.
 - (g) With respect to education and training, the license of public accountant in Argentina is based on the system of university accreditation which is traditional in Latin America. It does not require a professional examination or professional experience. Moreover, licensed accountants and auditors are not subject to any continuing professional development obligation.
 - (h) Enforcement of financial reporting requirements for listed companies is carried out by both CNV and BCBA. Sanctions are made public on the CNV and BCBA websites, which increases the deterrent effect and therefore the usefulness of these sanctions. The review of a fairly large sample of listed enterprise financial statements found a number of departures with applicable standards, pointing to the need for stronger enforcement of accounting and auditing standards among these enterprises.
 - (i) Regarding non-listed companies, the company registrar and regulator, IGJ (or its equivalent in the Provinces), is empowered to apply sanctions on companies that do not comply with applicable provisions of the law and/or its own regulations. However, its lack of resources limits enforcement to cases where complaints have been filed by third parties, and companies that do not file their annual statements are not systematically tracked. In addition, fines for non-compliance appear too low to have a real deterrent effect.
 - (j) Each professional council is responsible for monitoring and enforcing professional rules among its membership. So far, professional councils have put the emphasis on ex-post enforcement of known alleged cases of non-compliance, and no quality assurance mechanism aimed at ensuring compliance through ex-ante monitoring has been established.
 - (k) An interesting, recent development is the decision by the Central Bank to establish a central repository of corporate financial statements to enhance the availability of accounting information for banks, in an effort to promote and support sound credit risk management practices. Since credit analysis and decisions depends not only on the availability of the borrowers' accounts but also on their accuracy and reliability, a logical parallel evolution would be to align local financial reporting standard with IFRS.

80. Instead of including prescriptive recommendations in the ROSC report, the approach in this case has been to incorporate as much as possible inputs from the national authorities and the private sector to enhance country ownership and therefore the likely impact of this ROSC. A country action plan is expected to be developed as part of the

activities following the publication of this report, under the aegis of the Ministry of Economy (MoE), possibly with the assistance of the World Bank and other donors including the Financial Sector Reform and Strengthening (FIRST) Initiative.

81. The action plan would involve government policies as well as capacity development within the accounting profession and, to a lesser extent, regulatory agencies. The plan should include the following activities as priorities for the short to medium term:

- **Implement FACPCE’s action plan⁷⁰ in a timely manner, in order to comply with the requirements under IFAC’s Compliance Monitoring Program.** FACPCE has set forth a number of actions it must take in order to comply with IFAC’s Statements of Membership Obligations (see Para. 84). Specifically, the following actions are of particular importance:
 - *Adoption of international standards (IFRS and ISA) for public interest entities.* As was done in Brazil, Chile and Mexico, Argentina should adopt IFRS for public interest entities such as banks, listed companies and insurance companies. In addition, audits of such entities should be carried out in accordance with ISA.
 - *Creation of a public oversight system for the accounting profession.* The action plan includes the creation of a quality review program for the accounting profession. This program should be implemented as part of a broader system of independent oversight (i.e., not dominated by the profession) for statutory auditors. While the Argentine accounting profession is highly respected, self-regulation is no longer accepted internationally. Current good practice requires that quality control programs operate under a system of public supervision, e.g., monitored by a collective group of regulatory agencies, or by an independent regulatory body for the accounting profession.
- **Harmonize and strengthen the monitoring activities carried out by regulatory agencies, particularly CNV and BCBA.** Listed companies should not be required to submit separate sets of financial statements to the two institutions. Therefore, a shared system that would allow for financial statements to be submitted to both institutions simultaneously should be implemented as soon as possible. Also, it is expected that the creation of a central balance sheet office (*Central de Balances*) by the BCRA will contribute to eliminating this problem (see Para. 28). In addition, there have been some cases of duplication of monitoring and enforcement efforts on the part of CNV and BCBA, which do not represent an efficient use of their scarce resources, an issue of particular importance for CNV. Harmonizing the work of both institutions would contribute to a more efficient monitoring system, thus further deterring non-compliance.

⁷⁰ FACPCE’s action plan is on IFAC’s website: http://www.ifac.org/ComplianceAssessment/part_3/ARG1.pdf.

VII. SUBSEQUENT DEVELOPMENTS

(i.e., after the report was prepared)

82. During the period between the finalization of this report and its publication, the Argentine profession and regulatory agencies have taken a series of steps towards improving the accounting and auditing framework in the country. Specifically, they have achieved the following: (a) unification of the professional bodies and accounting standards; (b) development of an action plan as a part of IFAC's Compliance Program; (c) adoption of IFRS for listed companies. In addition, advances have been made with regard to the implementation of ISA. In this regard, a draft Argentine standard (PRT 14) has been approved, which will put into effect a number of international standards, and ISA has been translated and published in the country.

83. **Unification of professional bodies and accounting standards in Argentina.** The process of unification of accounting standards in Argentina, which began in 2005, culminated with the reintegration of the Buenos Aires professional council as a full member of FACPCE, in September 2007. Members of FACPCE are required to approve, without modification, and adopt the standards issued by the Federation. Differences pertaining to the following were maintained on a transitional basis: (a) method of calculating the value of recoverable assets; (b) accounting for deferred tax liabilities resulting from the accounting of inflation adjustments in 2002. These differences will be eliminated in the financial years beginning January 1, 2008.

84. **Development of an action plan, as required under IFAC's Member Body Compliance Program, which covers most of the recommendations set forth in this report.** FACPCE has prepared an action plan which details a series of activities that will be undertaken in order to address IFAC's recommendations regarding the implementation of SMO 1 through 7. The action plan, which was approved by IFAC in May 2008, includes activities pertaining to the convergence with IFRS, adoption of ISA, and the creation of a quality control program.

85. **Adoption of IFRS for listed companies.** In March 2009, FACPCE approved Technical Resolution no. 6 adopting IFRS for listed companies and applicants for listing. Under the Resolution, extant IFRS and those to be issued in the future will be mandatory. These provisions do not extend to so-called "entities included in the SME compartment and other entities under the purview of the National Securities Commission such as fund managers or undertakings of collective investments". Entities outside of the scope of the Resolution will be able to apply IFRS voluntarily. In any cases, entities required to apply IFRS or who opted to apply them will have to apply them wholly and without modifications, including their interpretations (IFRIC and SIC). With regard to accounting for investments in "dependent entities" (*entidades dependientes*), the Resolution requires that they be accounted "under the equity method (IAS 28) and not at cost or fair value as provided in IAS 27".⁷¹

⁷¹ Information and comments provided by the University of Buenos Aires.

86. **RT 26 is applicable for financial statements issued for periods starting on or after January 1, 2011**, and for interim financial statements of the corresponding financial year; early adoption is not allowed. The Resolution includes provisions related to the transition period, which set out the complementary information to be included in the year-end and interim financial statements for financial years beginning on or after January 1, 2010. In general terms, it requires the reconciliation of the equity and results for the period according to the standards currently required and under IFRS.⁷¹

87. Over the recent period, one could note a greater level of scrutiny on the part of agency overseeing the registry of companies (*Inspección General de Justicia*) regarding information to be submitted, *inter alia*, when changes in boards of directors and amendments to bylaws occur. It should be noted that price-level accounting remains prohibited by law, even though according to unofficial sources inflation would be around 20% on a yearly basis. Finally, one could notice FACPCE's significant efforts to secure endorsement for its technical resolutions by all accounting professional councils throughout the country; and, FACPCE as well as the accounting professional councils have been devoting significant efforts to achieve closer relations with regulatory agencies, especially the National Securities Commission.⁷¹

ANNEX – SUMMARY OF THE MAIN DIFFERENCES BETWEEN ARGENTINE GAAP AND IFRS

Sources: Text of the standards, studies prepared by two large audit firms⁷² and consultations with local professionals with recognized ARGAAP and IFRS expertise, corroborated by the results of the review of the financial statements for the year 2005 or 2006 of 46 companies incorporated in the City of Buenos Aires, as well as Form 20-F filed by four Argentine companies.

A. Recognition and measurement of the various elements of the financial statements (assets, liabilities, income and expense)

Restatement of financial information for the effects of inflation – Whereas IFRS require “price level” restatement of the financial statements in the context of hyperinflation only, Argentine standards call for the recognition of changes in the purchasing power of local currency whenever inflationary conditions prevail. Although the current economic situation would indicate that such conditions are again present, no corresponding adjustment has been required since 2003 (References: RT 6, as modified by RTs 8, 10 and 19, and RT 17; IAS 29).

Business combinations – Both the purchase and pooling (or “uniting”) of interest methods are accepted in Argentina, depending on the nature of the case, under Argentine GAAP, while as a result of the issuance of a new IFRS dealing with this matter in 2004, only the former can be followed according to IFRS (References: RT 18.6 and IFRS 3).

Translation of foreign currency statements and transactions – IFRS (IAS 21) require that functional currencies reflect the economic substance of the underlying transactions and circumstances in which a company operates. Argentine accounting rules do not identify specific criteria to be followed to determine functional currencies. Also, these rules allow the monetary/non-monetary method for the translation of the statements of so-called integrated entities (basically extensions of parent’s activity) with recognition of translation differences in the results of the period (References: RT 18.1 and IAS 21.39).

Current receivables and payables – According to local principles they have to be recorded at the value of estimated cash flows discounted at internal return rates determined at the date of the initial measurement. No discounting would be required by IFRS for current receivables or payables (References: RT 17.5 and IFRS Framework).

Inventories – In accordance with local rules, inventories must be stated at replacement cost (production or purchase) at the date of the financial statements. IFRS require valuation of inventories at the lower of cost and net realizable value (References: RT 17.5.5.4 and IAS 2.9).

Valuation of investments in subsidiaries and associates – In the legal entity financial statements of the parent company (i.e. not the group’s consolidated financial statements),

⁷² Deloitte and PricewaterhouseCoopers.

Argentina GAAP require that investments in subsidiaries and associates be valued following the equity method; IFRS require in these cases valuation at cost or at fair value depending on certain circumstances (References: RT 21.1.2; IAS 27.37 and IAS 28.35).

Property, plant and equipment (PP&E) – Under IFRS, these assets are stated at cost net of accumulated depreciation and any accumulated impairment losses. Revaluations are allowed to avoid significant distortions provided that revaluation exercises are carried out with enough frequency to guarantee that carrying amounts do not differ substantially from fair value. In Argentina, PP&E is valued at restated cost net of accumulated depreciation. No revaluations are permitted now although they were accepted in the past including the one in 2001/02 based on the devaluation of the peso, allowed by FACPCE but disregarded by the CPCE/BA. The remaining balances of this procedure in the statements of the companies that adopted it represents a departure from IFRS as well as the remnants of the recognition of inflation in 2002/03 recorded on the basis of wholesale indices and still sitting in most balance sheets (References: RT 17.5.11 and RT 6, as modified, and read in conjunction with FACPCE Resolution 240/02 and 287/03; IAS 16.30-31).

Investment property – This is supposed to be stated following the rules applicable to PP&E, i.e. at restated cost less depreciation and impairment (RT 17.5.11). IAS 40 also offers the option of valuation at fair value calculated at each balance sheet date.

Impairment of assets – Local rules on this subject are basically similar to those of IFRS. However, the application of these practices to PP&E, specifically the comparison of carrying values with fair values calculated by use of discounted cash flows, has been postponed to periods starting on or after January 1, 2008. Accordingly, most companies record impairments of PP&E based on perceptions about the expected degree of utilization and, generally, in situations when a full write-off is required.

Intangibles – Pre-operating and organization expenses can still be capitalized in Argentina (References: RT 5.13.1; IAS 38).

Goodwill - IFRS 3 indicates that goodwill is not supposed to be amortized but it should be subject to an impairment test every year. Argentine GAAP still require annual amortization (RT 18.3.3.1) although IFRS guidance is also accepted. Negative goodwill can also be amortized over a number of years (RT 18.3.3.2), as opposed to immediate recognition in current results and reversal of existing items to net equity under IFRS.

Deferred income tax – Differences with IFRS relate to (i) the choice given to non-listed companies to carry deferred assets or liabilities at discounted values and (ii) a significant discrepancy in the treatment of the temporary difference generated by the inflationary adjustment of PP&E during the crisis of 2001/02. At that time, the CPCE/BA authorized the non-recording of the deferred liability arising from the higher carrying value of those assets originating from that adjustment which was replaced by a disclosure of the amounts that should have been deferred by year of expected reversal (References: RT 17.5.15, RT17.5.19.6 and Interpretation 3/03, as modified by Resolution 312/05; IAS 12).

Contingent liabilities – More discretion is given to preparers with regard to the recognition of contingent liabilities than under IAS 37

B. Presentation of the financial statements

Consolidation of financial statements – Consolidated statements are presented together with those of the controlling entity. CNV requires that they be placed before the latter. However, they are considered supplementary information and generally do not disclose sufficient information to stand on their own, i.e. they have to be read in conjunction with the accounts of the parent company. Moreover, AR GAAP allow certain exclusions of subsidiaries from the consolidation (e.g. when the value of the investment has been fully written off on the balance sheet of the parent company), which conflict with IAS 27.

Extraordinary items – Argentine standards permit the segregation of unusual and infrequent items as extraordinary (RT 9 IV.C). This conflicts with IAS 1.85.

Classification of current and non-current items – In Argentina all balances realizable or payable within one year of the date of the financials are classified as current (RT 8 III. B). No exceptions are contemplated for situations such as operating cycles shorter or longer than one year (IAS 1.57).

Minority interest – IFRS require the segregation of minority interests' results in the statement of income and their inclusion in the statement of changes in equity rather than their separation as an independent item. Local disclosure rules call for displaying of the minority interest in a line between total liabilities and net equity in the statement of financial position (RT 9 III.C).

C. Disclosure in the notes to the financial statements

Changes in accounting policies – Local requirements do not go beyond the enunciation of the changes and the amounts involved. IAS 8.29 calls for further disclosing including the reasons for each change.

Bases of recognition and measurement of revenue – This is not specifically addressed by local disclosure rules. Accordingly, these disclosures (IAS 18.35) are infrequent.

Construction contracts – IFRS require detailed information such as the methods used to determine the stages of completion and data on each contract in process. Argentine standards are silent on disclosure needs (References: IAS 11.39/40 and 42).

Date of authorization for the issue of financial statements – There are no requirements for inclusion of this information in the statements as prescribed by IAS 10.17.

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