Chapter 11
International Financial Reporting Standards for Latin American Small and Medium Enterprises

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ABSTRACT
The purpose of this chapter is to describe the process followed by Latin America to adopt International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs), based on examples about the approaches used by seven South American countries – Argentina, Brazil, Chile, Colombia, Peru, Uruguay, and Venezuela. These countries have followed different models of harmonization to IFRS for SMEs. Harmonization models may be grouped into five categories: maintenance of local financial reporting standards, adaptation of International Financial Reporting Standards (IFRS) to local standards, full or partial adoption of IFRS, adoption of another country’s standards, and convergence to diminish differences between local standards and IFRS. Regardless of the chosen mode of harmonization, SMEs face particular challenges as major players in the Latin America and Caribbean region with needs to greater access to finance sources and simplification of laws and reporting standards to be able to achieve global competitiveness.

INTRODUCTION
One of the major external forces that increased the sense of urgency to decrease differences in reporting standards for the Americas is the existence of the South American Common Market (MERCOSUR, for its Spanish acronym) and the North American Free Trade Agreement (NAFTA). As long as there are differences in reporting standards for countries belonging to the same trading block, it will be necessary to reconcile the results of operations and the financial position and cash flows for reporting entities from these locations. Consequently, information costs to make informed judgments and financial decisions
will remain at high levels (Miranda, 2009). However, efforts to lessen these costs in the form of harmonization of accounting and reporting standards have proved to be full of challenges regarding both their adoption and their implementation.

A distinction may be made between different models for harmonization of Latin American and the Caribbean local accounting standards to international financial reporting standards (IFRS), in general, and IFRS for Small and Medium Enterprises (SMEs), in particular. These models are a reflection of local customs and legal and professional frameworks and external environmental factors in the form of market forces for increased regional integration of markets for goods and services. For purposes of this discussion, countries will be classified into five groups that are representative of a specific model or way to seek greater standards uniformity.

The objectives of this chapter are to summarize the different approaches or models of harmonization to IFRS and give examples of countries in the Americas following each of them; to assess the importance of SMEs as major players in the economics of the Latin American and Caribbean region; and to explain the role of the main professional accounting standard setters and the distinctive definitions of SMEs for purposes of these standards in seven countries from the region.

BACKGROUND

Countries may be grouped into five categories based on their adopted models for their harmonization process to International Financial Reporting Standards. The first model is the maintenance of local standards developed by national organizations. Examples of Latin American countries following this approach are Brazil and Colombia. Another one is the adaptation of IFRS to local standards; for example, the cases of Argentina and Venezuela. A third model entails the full or partial adoption of IFRS. Full adoption was the choice for Peru while Uruguay opted for partial adoption. A special case is Puerto Rico, which adopted as its own the accounting standards of the United States of America. The fifth and final model is the actual or future plans for convergence with the objective of diminishing differences between local and international standards. Such has been the case of the United States of America and Chile (Vílchez, 2009). This chapter will focus on the harmonization whether through similar or adapted standards, adoption or convergence as it relates to IFRS for SMEs in seven South American countries – Argentina, Brazil, Chile, Colombia, Peru, Uruguay, and Venezuela. The remainder of this discussion will begin with some background information showing the importance of SMEs in the Latin America and Caribbean. This discussion will be followed by an overview of similarities and differences between IFRS for SMEs and IFRS for public companies, a brief analysis of the Comment Letter by the Group of Latin American Standard Setters about Proposed Amendments to IFRS for SMEs and summarized descriptions of the application of IFRS for SMEs in individual countries.

Small and medium enterprises (SMEs) play a major role in Latin America’s global competitiveness. Their contribution extends to job creation, production (OECD Development Centre, ECLAC, and Latin American Development Bank, 2013), and increased local bank loan portfolios.

A major challenge that Latin American SMEs face is the high cost of land and sea transportation which has an adverse effect over business-to-business trade. They are particularly vulnerable to these costs since their size makes them unable to obtain the economies of scale that bigger enterprises obtain from high production volumes. This makes it necessary for them to outsource some of the production process.