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**MIND THE GAP: DEFINING AND EXPLORING INTERNATIONAL FINANCIAL  
REPORTING STANDARDS SYSTEM**

**ATENÇÃO ÀS LACUNAS: DEFININDO E EXPLORANDO O SISTEMA  
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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**Mind the gap: defining and exploring International Financial Reporting Standards system**

Atenção às lacunas: definindo e explorando o sistema International Financial Reporting Standards

Tese apresentada ao Programa de Pós-Graduação em Controladoria e Contabilidade do Departamento de Contabilidade da Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo, como requisito parcial para a obtenção do título de Doutor em Ciências.

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## **Resumo**

A contabilidade como ciência construída sob evidências da prática tem o papel fundamental de fortalecer a prestação de contas aos usuários. O objetivo dessa contabilidade construída é reduzir as assimetrias informacionais entre os vários usuários e participantes do mercado envolvidos com as companhias que reportam. A crescente complexidade dos eventos econômicos aumentou os desafios no processo de emissão de padrões contábeis harmônicos e a adoção pelos preparadores dessa estrutura descritiva de procedimentos. Essa estrutura comparável e padronizada utilizada nos mercados são os Princípios Contábeis Geralmente Aceitos, ou GAAP. Os GAAP (PCGA) procuram filtrar práticas não fundamentadas, reduzindo-as a um número aceitável de práticas ‘aceitas’ e, assim, contribuindo para a harmonização das informações fornecidas. O padrão internacional, mais notadamente conhecido e utilizado, são as IFRS (International Financial Reporting Standards). Essa estrutura, emitida pela Fundação IFRS, não tem como objetivo prescrever todas as situações existentes na prática e, em decorrência, lacunas práticas emergem. Assim, esta pesquisa tem como objetivo explorar as fontes adicionais das IFRS que além Fundação IFRS tem a legitimidade necessária para tornar esse padrão harmônico e aplicável em todo o mundo. Isso significa que eu defino o sistema contábil internacional e discuto quem, na prática, preenche as lacunas de tal maneira que as entidades que as adotam, supervisionam e analisam possam desempenhar suas funções. Isso se faz necessário porque no processo de identificação dos eventos econômicos existem convenções contábeis que serão filtradas no processo de emissão de normas contábeis. Com base em uma analogia inovadora da IFRS como um iceberg, estudei empiricamente como as diretrizes do IFRS foram emitidas e como as empresas as aplicam.

Palavras-chave: convenções contábeis; normas internacionais - IFRS.

## **Abstract**

Accounting as a science is built on practical evidence and has the fundamental role of strengthen accountability to users. The purpose of this constructed system is to reduce informational asymmetries among various users and market participants involved with the reporting companies. The broadening complexity of economic events has increased the challenges in the process of issuing accounting principles and the adoption by the preparers of a descriptive framework of procedures. This comparable and standardized framework used in the markets is known as Generally Accepted Accounting Principles (GAAP). GAAP seeks to filter out unsound practices, reducing to a reasonable number of 'accepted' practices and thus contributing to the quality and harmonization of the information provided. The international GAAP, notably known and used across the globe, are IFRS (International Financial Reporting Standards). This framework, issued by the IFRS Foundation, does not pretend to completeness of all existing situations and gaps will emerge. Therefore, this research aims to explore the additional sources of IFRS embedded with the necessary legitimacy and in a way that makes it harmonized and common knowledge around the globe. This means that I define the international accounting system and discuss who fills the gaps in practices in such a way that the companies that adopt, supervise, and analyse them can perform their functions. This is necessary because in the process of identifying economic events, there are accounting conventions that will be filtered in the process of issuing accounting standards. Based on an innovative analogy of IFRS as an iceberg, I empirically studied how IFRS's guidances have been issued and how companies apply it.

Keywords: accounting conventions; international standards – IFRS.

## **Initial remarks**

The existence of a **framework of unique and globally accepted accounting standards** arose in the quest to standardize accounts of certain transactions; that is, in the search for a common language – Generally Accepted Accounting Principles – to recognize, measure and disclose the contracts formed by a company. The benefits of common set of GAAP are evident: they permit comparisons among businesses enterprises of the same sector in different countries and of different business opportunities for investors and creditors, without having the trouble to adjust one set of financial statements to be comparable to another set when both were prepared under different GAAPs.

Due to the fact that such framework requires international implementation and that the multiple jurisdictions differ in systems, culture and local regulation this quest has the potential of being utopic and imperfect.

For exemplification, it is not necessary to know how to build a clock to “tell what time it is”. To understand the numbers on the clock and assess what time it is a minimum knowledge is necessary. However, the gears of a clock and the time zones, such as the operation of the ranking of international standards, have greater complexity than what can be seen on the clock's surface. This complexity, for accounting purposes, is verified in multiple situations in which accounting standards are unclear and/ or incomplete; which would require a look for submerged parts to get an understanding about the particularities of this specific “watch”, for better establish the step to be taken, such as “advance”, or “delay”, the “clock.” Whom to turn to in these situations?

Note that, as in the above metaphor, the facts and circumstances deal with economic resources in a general way, with local variations or needs for sector-specific demands. Thus, the existence of a universal clock will make it easier to come and go in different time zones. But even then, there is the need to allow adjustments for time zone changes. Moreover, time zones can also be adjusted to generate economic incentives, for example, to reduce energy consumption during summertime. It is no different in connection to global accounting standards: it is important to have a convergence between all market participants with a common language to mitigate risk when allocating resources and evaluating projections. In addition, legitimated guidance helps evaluate when a company complies to a certain standard,

which would make assurance possible and endorsing the necessity of adopting a common (and global) standard.

In the metaphor, the “watch”, now advocated, is the “accountability”, while the concept of “time zones” is the common language (the accounting system). Even though there may be sector or jurisdictional distinctions, it is necessary and essential that the accounting system allows the comparison of financial information among entities either in the same or in different time zones, applying common basis. This international accounting utility (i.e., comparability of financial statements) should not be seen as something natural or as a hard science (like physics, chemistry or biology). Like the decision to adjust time zones to reduce energy consumption, accounting is a human science and results from an ongoing quest for optimization utility (Iudícibus, Martins, & Carvalho, 2005) to the multiple participants involved in a society.

**Thus, this research intends to add to the literature responding the following question: Who, besides the IFRS Foundation, has the embedded legitimacy to issue requirements for such a framework in a way that makes it harmonized and common knowledge around the globe?**

To answer the main question of this research, I define the international accounting system, name IFRS, and explore who shapes this framework of standards in a single accounting system that is globally accepted. Because, IFRS as issued by the IFRS Foundation does not intend to completeness of all existing situations and gaps will emerge. Accounting standardization gaps are situations in which professional judgement must be applied in order to choose which convention, procedure or decision shall be applicable. It should be reminded that, despite the fact the accounting methodology requires that debits be always equal to credits, this perception of “exactness” omits the fact that substantially most of the accounting information provided in a typical set of financial statements of a profit-oriented enterprise is judgmental – that is, they may be heavily subjective in the choice of how they are measured and reported. This means that preparers will seek additional sources to apply IFRS, when have uncertainty about accounting application.

As a basis to define and explore who shapes IFRS both theory of sources, from legal literature, and Nobes’ (2006) proposition of gaps within the international system were used.

Considering that IFRS is the accounting system that is widely adopted globally, and that it is common sense that it is a principles-based set of standards, rather than based on prescription of rules, I also evaluate if this statement can (still) be corroborated. In other words: When creating accounting standards for multiple jurisdictions, has the IFRS system been less principles-based? For verifying that, I have examined the content of guidances within this international system, mapped and tested two propositions (proposed by Nobes, 2006) related to the issuance of guidances from IFRS Foundation and from audit firms.

Another objective has been to evaluate how this ‘framework of rules in a single accounting system’ is applied. The application of IFRS may be influenced on the level of corporate governance incentives and on the level of regional divergences. Therefore, I have evaluated the preparers’ use of both IFRS and non-IFRS literature, in the process of applying IFRS-based financial statements.

To meet those objectives, this thesis is segregated in two chapters, the first builds the theoretical framework of this research and aims at answering the main question, with an opinion and critical perspective; and, the second with empirical qualitative analyses, such as content analysis, survey and cluster analysis, aiming at evaluating the secondary objectives. Lastly, I elaborate the final remarks considering the main discussions and debates over this work.

I believe that this work and the results are relevant to the accounting field as I introduce and define the IFRS system as a complex order of accounting principles and I define who fills the gaps in practice, and how are they applied in corporates (at least for some Brazilian preparers in the sample) so that the entities that adopt, supervise and analyze IFRS can perform their functions. The IFRS system is based on multiple sources, in which it must seek the origins of the GAAP and from where Generally Accepted Accounting Principles emerge. In addition, preparers may use other guidances to consult for IFRS application (e.g., local legislation, regulator books and guidances), which are not within the IFRS system and may threaten comparison of financial information; and, the usage of guidances may be influenced by corporate governance incentives (e.g., public or private entity, with or without audit committee, audited or not audited by a Big 4 audit firm). Thus, it is important to note the legitimacy of all additional sources of IFRS (i.e., preparers’ perception of consulting those guidances) and in which extent each guidances (mandatory IFRS standards, non-mandatory IFRS guidances and additional guidances) are used by preparers, because divergences in

application arise and may lead to uncertainty about international harmonization.

## **Chapter I: Theoretical framework**

International accounting standardization is a process through which markets self-regulate their activities. Aiming at making financial information intelligible across borders (i.e., need to a common language) and International Organization of Securities Commissions (IOSCO) response to correct a sequence of events, I studied the origin of the IFRS Foundation as the standard-setter for international accounting and the creation of the IFRS system. In this chapter, I define the international accounting system and discuss who fills the gaps in practices in such a way that the entities that adopt, supervise, and analyse them can perform their functions. The IFRS system is a complex order of accounting principles. To achieve consistent application of International Financial Reporting Standards (IFRS), entities shall consider all guidances within the IFRS system. This chapter is the theoretical framework for the empirical analyses on chapter II.

\*\*\* summary translated to Portuguese \*\*\*

A padronização contábil internacional é um processo através do qual os mercados auto regulam suas atividades. Com o objetivo de tornar as informações financeiras inteligíveis entre as fronteiras (ou seja, na busca por uma linguagem comum) e como uma resposta da Organização Internacional de Comissões de Valores Mobiliários (IOSCO) para corrigir uma sequência de eventos, apresento a origem da IFRS Foundation como o promulgador das normas contábeis internacionais e a criação do sistema IFRS. Neste capítulo, defino o sistema contábil internacional, conhecido como International Financial Reporting Standards - IFRS, e discuto quem preenche as lacunas práticas de forma que as entidades que o adotam, supervisionam e analisam informações financeiras utilizando tal padrão possam desempenhar suas funções. O sistema IFRS é um ordenamento complexo de práticas contábeis. Para alcançar uma aplicação consistente das Normas Contábeis Internacionais de Demonstrações Financeiras (IFRS), as entidades devem considerar todos os guias dentro do sistema IFRS. Este capítulo é o referencial teórico para as análises empíricas do capítulo II.

### **The IFRS system, its sources and the application of guidance to fill the gaps**

The common sense is that standards issued by the IFRS Foundation are a set of flexible guidelines and judgments (i.e., from rules to principles) when seeking financial information

that are relevant and reliable to users. The IFRS Foundation, a private transnational organization, is the developer of standards entitled International Financial Reporting Standards (IFRS) through one of its arms, the International Accounting Standards Board (IASB). Making this pattern suitable for a wide range of different environments and different parties' preferences, with different facts and different legal and business circumstances, is a challenge for IASB. Moreover, it runs the risk of not being considered legitimate for transnational application and of being dominated by a small number of constituents.

The source for dealing with the problem above is IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, adopted in Brazil (as CPC 23), which dictates how to apply accounting principles to certain events or circumstances. This standard can be considered the proposed structure of the IFRS system and the identification of applicable sources in specific situations or circumstances. The preparer of financial information, when carrying out the process of identifying the phenomenon to be accounted for, should ask the following questions.

- Is there a statement or interpretation issued by the IFRS Foundation that applies specifically to the transaction, event or circumstances?
- Does using this practice result in relevant and reliable information about the transaction, event and condition to which it applies?

If one of the answers to these questions is negative, the entity shall use judgment when looking for a broader set of accounting principles that can assist with public accountability. It is worth noting that the motivations for the use of these other bases may be a search for more relevant information, even in cases when a clear and specific 'answer' applies to the situation or event. In this scenario, there is a carve-out<sup>1</sup> by an entity, because preparer must judge whether the information provided, on the financials, even with a clear and specific standard, is reliable and relevant (characteristics considered fundamental to accounting). Therefore, a further important element of evaluation shall be which sources (from where it emerges) have

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<sup>1</sup> There is a possibility, in the regional regulatory process, for a regulator to enter, or withdraw, in the IFRS system an express clause; the insertion of standardization, distinct from the clear and specific standard, is called carve-in, while the exclusion in the process of local standardization, which differentiates local adoption from a clause expressed in a clear and specific standard, is also carve-out.

authority to issue international accounting guidances to be applied by the entities adopting these practices, besides having the legitimacy of issuing IFRS.

This chapter has, therefore, the objective to identify enablers (sources) of guidances with transnational validity. As a premise, which should be debated when considering local endorsement, regional regulators and local legislation are not considered a legitimate source of IFRS because enforcement is restricted to a local jurisdiction and may carve in, or carve out, guidance of the IFRS system. This is a positive side of the IFRS system as a standard for global application. Although, as debated on chapter II, this may bring uncertainty on global comparability, if a regulator and a local legislation are considered more relevant than IFRS system's guidances. Exception to the (North) American regulator, which is part of U.S. GAAP. The American market is the largest capital market in the world and has multiple entities that are not domiciled in the country, which prepare financial statements that are in accordance with the standards issued by the IFRS Foundation.

[Figure 1 near here] Applying the IFRS system

It is possible to have situations when there is a conflict between the sources identified in the IFRS system and the local regulators (e.g., revenue recognition and debates about real estate in Brazil). These usually occur on obscure application of a standard, which demands the need for interpretation about facts, circumstances and contracts. In these moments, the primary source (IASB, from IFRS Foundation) may be called upon to legitimate the views within the system.

### ***The origin of the IFRS system***

International accounting regulation is a process of markets to self-regulate their activities, for example, for preparers to reduce the cost of compliance with more than one standard-setter. Through the need for a common language (Thorell & Whittington, 1994), seeking to overcome the barriers of capital market investment (i.e., costs of compliance with more than one version of Generally Accepted Accounting Principles), it is regulation designed to balance information asymmetry in markets and to foster more financial activity. As stated by Vogel (2018), 'over time, more sophisticated market systems have naturally required more elaborated accounting systems.' The increasing reasons for harmonization (Thorell et al., 1994) did not necessarily lead to the selection of the International Accounting Standards

Committee (IASB) as the institution for accounting policy making: changes had to be made, and power had to be given for the selection of this legitimate institution. At that time other institutions coexisted but not thrived.

I consider international accounting as the standardization toward a common language and IOSCO response to correct a sequence of events. The main source of international Generally Accepted Accounting Principles (GAAP)—IASB, from the IFRS Foundation—was created in 2002. By main source I refer to where one should look for the sources of GAAP; in other words, where the Generally Accepted Accounting Principles are born.

Multiple actors (or agents) have interest on international accounting. Investors and lenders are the main actors whose interest in devising international accounting regulations has been aroused. The key rhetoric of market regulation aimed to construct a set of standards, a common language, to improve comparability and to subsequently reduce the cost of compliance with multiple accounting systems, although the literature cites other reasons (i.e., markets and corporate crisis).

[Figure 2 near here] Summary of international accounting marketcraft

[Insight 1 near here] IFRS system as a market-crafted regulation

[Insight 2 near here] What are the goals of global accounting harmonization?

[Insight 3 near here] Who are the market actors that benefit from global accounting harmonization?

[Insight 4 near here] What was the sequence of events that led to the creation of the IFRS system?

[Insight 5 near here] Is the IFRS's due process legitimate?

### ***The selection of accounting choices: the classification of accounting systems***

The adoption of international standards by entities allows to study both the reasons for adopting an accounting principle and the reasons for divergences arising in the application of

a convention (which may or may not be in conformity with international standards)<sup>2</sup>. In practice, the existence of a wide system, with different versions of the standards and imperfect application of them, is noticeable; preparers, regulators, and even auditors cause the failures. In addition, the very existence of derived sources<sup>3</sup> in the IFRS system to fill the gap has potential in situations in which comparability between companies, even in a single transnational standard, may not be achieved. Therefore, inherent in the existence of a guidance it is that all stakeholders in the market should be aware of it, which also may not be achieved in practice.

To define the IFRS system I evaluated the current literature with opportunities for differences in international standards proposed by Prof. Christopher Nobes. Nobes (2006) proposes that there are possible instances when extra guidances shall be used to fill the gaps of GAAP. Those instances are when the GAAP have gaps (e.g., transactions under common control, investment tax credits), covert options, vague criteria and interpretations [instances when the IFRS Interpretation Committee (IFRS IC) clarify the standard] and accounting estimates. If the standards were principles-based, it would be expected an increase of those instances, when it is necessary to follow derived sources to contribute to the application of accounting principles. This theoretical proposition will be tested on chapter II: 'Mapping the IFRS system: Who shapes the International Financial Reporting Standards?'. Secondly, how those guidances are applied will be evaluated on chapter II: 'How are International Financial Reporting Standards applied in Brazil?'

[Table 1 near here] Evidence of practices in specific standards

[Table 2 near here] International accounting policies that do not appear in a specific rule

[Table 3 near here] Accounting principles by jurisdiction that diverge in international adoption

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<sup>2</sup> Sunder (1997) defines accounting conventions as accounting methods without official sanctions. Those that are officially sanctioned are called accounting principles.

<sup>3</sup> When applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for gap situations, a preparer should consider guidances other than those issued by the IFRS Foundation. Therefore, it is possible to understand that IFRS is a complex system with multiple valid sources for accounting application and, as such, should be considered legitimate (even without sanction by the sources), though non-mandatory.

The evaluation of the propositions summarized in the tables illuminates the analogy of the IFRS system as an iceberg. This metaphor is based on the reference to visible parts (Table 1) and non-visible parts (Table 2). The standard issued by the IASB (primary source) is only the visible part of the block. There are, therefore, gaps and covert options in international standards that make them potentially non-applicable (the non-visible part of the iceberg). Thus, agents involved in adopting standards should consider multiple sources when there is a situation in which compliance with IFRS is unclear and that requires more judgment to reach a minimum of common rules that minimize accounting choices and allow comparability among entities. Therefore, the submerged part of the block is essential for its initial balance.

[Figure 3 near here] IFRS and its research opportunities

***Research of legal literature on theory of sources and its interactions with the IFRS system***

The human sciences present a fertile theoretical framework for the process of standardization. This framework, which depends on the legal organization, can be applied as an analogy to the search for sources (extra orientations) of the IFRS system. As far as I am aware, no other research in accounting literature has applied this analogy to standardization.

First, it should consider if the organization issuing the system is based on code law or common law tradition. The distinction may be due to the importance attached to secondary sources of the standardization, because in jurisdictions based on code law greater weight is given to legislative sources to the detriment to other sources. In the case of common-law (as in the case attributed to the IFRS Foundation), the greater weight is given to customs and to the jurisdictional work of parliaments (Reale, 2002). Under these circumstances, the IFRS-based system is based on culture including the clause of non-application of a specific standard in situations in which the information generated is not relevant or reliable to the economic event (poison pill).

Accordingly, the analysis of this dogma uses the source metaphor to “describe the ways of forming legal norms, that is, their entry into the system. For it, the law emanates from

certain specific procedures such as the water flows from its source” (Ferraz, 2015).<sup>4</sup> The consideration of the sources is of paramount importance when verifying what indicatives they must have; that is, how to legitimize an existing source and consider its validity and effectiveness in the system being analyzed (the IFRS system). In this sense, the theory of sources, in its modern sense, refers to the realization that law is not essentially a given, but a construction elaborated within human culture (Ferraz, 2015) that may be applicable to accounting science due to its eminently utilitarian characteristics (Iudícibus et al., 2005).

The sources are not a mechanism of sanctions for those who do not adopt certain established practices; nevertheless, there must be a sense of compulsion and power between sources (Bobbio, 2014). In terms of the gaps in the identification of a suitable standard, in those situations in which the agent cannot present a clear reference of standard scope, the agent must identify whether the (primary) source of the IFRS system intends completeness. The IFRS jurisprudential (and international) system does not pretend to completeness of all existing situations. Inherent in the standardization are gaps that must be filled by professional judgment, in addition to designating inspection and endorsement by local regulators and is of great importance that independent auditors evaluate the transaction.

Therefore, it is possible to conclude that the IFRS system is a complex system derived from multiple sources with validity of application and that, to this end, it must have legitimacy in global harmonization (even without sanctions from these sources).

Consequentially, a suitable question is: what are these valid sources that promulgate standards in the unique and globally accepted IFRS system?

In the IFRS system, the IASB, from the IFRS Foundation, is the primary source, or the source of sources. The IASB refers to the headwater of issued documents, mandatory or not, by the IFRS Foundation. Alternative or secondary sources with validity to issue application guidance for Generally Accepted Accounting Principles are the U.S. GAAP and the audit

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<sup>4</sup> The sentence in the original language, Portuguese, is: “descrever os modos de formação das normas jurídicas, ou seja, sua entrada no sistema de sistema. Para ela, o direito emana de certos procedimentos específicos como a água emana de sua fonte”

firms' guidances,<sup>5</sup> issued individually by the biggest firms in the market.

Auditors also provide an important guarantee of the execution of standards because it is their responsibility to ensure, and disclose, the company's adherence to Generally Accepted Accounting Principles. One audit function is oversight (enforcement) and control accountability. Therefore, auditors play an important role in the accounting system. Their vision, opinion and experience have systemic and global impact as a source of control in application.

The issue of completeness of the system, and of potential conflicts between sources, highlights that the standards issued by the IASB are issued by the primary source; thus, it has prevalence in situations where this conflict arise. For example, in circumstances of potential conflicts with those of the North American standard, the U.S. GAAP, the IASB' position should prevail. (unless in the circumstance when U.S. GAAP present more relevant and reliable information). Thus, there is a sense of hierarchy, with the standards issued by the IASB ranking above the derived sources. When faced with a situation in which a clear orientation (situations such as gaps, covert options, vague criteria and interpretations, and accounting estimates applied) is not detectable in a specific standard, the entity will naturally migrate to derived sources.

Even with a potential plurality of sources that would present more need to evaluate the due process of the system, it is important that the unit of adoption in certain circumstances meet comparability in applying an accounting principle. Hence, the importance of mapping the derived sources:

- if the existence of gaps is admitted, it must be understood that the universe of behaviour is broader than what was conceptually designed;
- an accounting principle may enter in the system through channels other than that of the primary source; and

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<sup>5</sup> The chair of IASB board, Hans Hoogervorst, in the introduction of an audit firm's book, highlights the importance of global harmonization. To achieve such, he stresses the need of interpretation and consistent application on jurisdictions in compliance with IFRS. While the IFRS are primarily based on principles, the demand for judgment is based on experience. In this scenario, Hans understood and recommended the audit firms' book for preparers' consideration because of the benefits of the auditors' extensive experience and professional judgment (PwC, 2013, p. 5).

- finding the derived sources can bring greater independence, legitimacy and comparability from a single transnational standard.

[Figure 4 near here] Applying the theory of sources in the transnational accounting system

[Insight 6 near here] The regulators and their relationship to the IFRS system

[Insight 7 near here] Auditors and their relationship to the IFRS system

[Insight 8 near here] Considerations for distinctions between local accounting treatment and IFRS system sources

[Insight 9 near here] The local accounting treatment and the reduction of choices

[Insight 10 near here] The process of financing the IASB

### ***What is within the IFRS?***

Based on the study of the sources of international accounting, the following guidances should be used by entities to account for a practical phenomenon in addition to those in the most recent technical pronouncements issued on the U.S. capital market. Those submerged parts are, even when issued by the primary source, non-mandatory orientations. I considered mandatory requirements those that are issued by the primary source (IASB) and are part A on the book of each standard (i.e., the standard and the application guidance). Other guidances are, by concept, not-mandatory orientations that clarifies a standard (e.g., Illustrative examples, Basis for Conclusion or IFRS IC Agenda Decisions) or filters practical convention (e.g., U.S. GAAP or Audit firms' books). It is not, in this context, based completely on the theory of sources, because it has, from the same source, a sense of internal hierarchy.

[Figure 5 near here] The IFRS system: limits and boundaries of the gap

### ***Illustrative examples and practical material from IASB***

Since many IFRS contain appendices and that a statement at the top of each clarifies its status—i.e., as illustrative and not integral to the standard—an initial consideration is whether they have the same hierarchy as the standard itself. Because the document is issued by the IASB committee, it is understood that it should be used in a situation in which there are gaps

in the international standard, unless there is conflict with the specific standard or there is only one orientation and the standard allows different views.

An example of divergences between the standard and the appendix can be found in IAS 7 (Cash Flow Statement) with the presentation of interest paid as part of the operating activities, while the standard itself states that interest paid can be classified as part of operational activities or financing. This case is also used as an overt option of the international standard. Another example in the same standard is the consideration of at which point the reconciliation between profit and operating activity should be initiated by the presentation of the Statement of Cash Flow by the indirect method. While the standard refers to profit or loss, the case in the appendix starts with profit (or loss) before taxation.

In addition, the IFRS Foundation staff also issue educational materials that may indicate a path to the expected accounting treatment of similar facts and circumstances. Another document of the committee is “Management Commentaries: practical statement.” This is not an IFRS document and therefore is not mandatory for adopters of international standards. However, it was issued by the IFRS Foundation.

#### *Interpretation Committee's (IFRS IC) agenda declination, rejection or decision*

The IASB and the IFRS IC are responsible for maintaining IFRS Standards. Issues identified with divergent practices in accounting for private transactions, cases of doubt about the accounting treatment appropriate to a circumstance, or concerns expressed by investors about specified disclosure requirements may be addressed to the Interpretation Committee (IFRS IC). Considering the preparation of a document by the IASB staff, after analyzing the item presented and if the IFRS IC understands that a standard should be changed (or issued), it will address its considerations to the IASB. The IFRS IC orientations should be based on the framework as an anchor of the standard when evaluating an interpretation or rejection of the subject, without conflict with the set of IFRS. The IFRS IC, when taking a step closer to the practice or when providing interpretive guidance, should not create an extensive environment of guidance and rules or act as a group of urgent issues (Nobes, 2006) and should take care not to seek to provide answers to specific questions.

If the IFRS IC does not plan to add the debated item to its work agenda, it should publish a notice of anticipated refusal to update its meetings and the IFRS Foundation's

website for further comments on the matter. This decision requires scrutiny by the committee. After due diligence and analysis, the committee may (i) confirm the decision and issue a rejection notice; (ii) add the issue to the work program; or (iii) forward the matter to the IASB. The notice of rejection of the question does not have authority of IFRS Standards, and therefore, entities under the IFRS are not obligated to adopt it. Nevertheless, considerations must be useful, informative and persuasive (IFRS Foundation, 2016). Thus, this document can be read as a rebuttable premise.

This view can be corroborated, in addition to the analysis of the committee's due diligence process, by the IASB's own staff. In analyzing the subject of real estate incorporation (also introduced in the debate by Brazil), in a document prepared by the IFRS IC at the March 2018 meeting, the technical staff analyzes and advocates that (IFRS Foundation, 2018.b) it is important that an agenda decision be read as an extra piece.

*“12. How we address such questions when the Committee has decided that standard- setting is not required needs careful consideration. As acknowledged by the Committee and noted by respondents, there are risks to providing answers to highly-specific fact patterns. The main risk highlighted is that stakeholders might inappropriately analogise to the conclusion when the facts are similar but not the same. The same risk arises when the Board or Committee develops illustrative examples. There is also the risk that, in appearing to be open to answering highly- specific questions, the Committee might inadvertently undermine the appropriate use of judgement by others that is required when applying a principles-based framework. The Committee might also appear open to acting like a technical enquiry helpdesk. In addition, if the answer very much depends on the particular facts and circumstances, then there may be little benefit for IFRS stakeholders around the world in the Committee providing answers.*

*13. For these reasons, the Committee generally does not provide answers to highly- specific fact patterns.*

*14. Not answering such questions does not prevent the Committee from being responsive or helpful. Indeed, we think the Committee would be responsive with respect to the IFRS 15 questions simply by pointing to the applicable requirements and providing some context (eg setting out the Board’s objective in developing particular requirements and the factors an entity needs to consider in applying those requirements to real estate contracts more generally)(...). For most questions submitted, we think the Committee can achieve the objective of helping stakeholders obtain a common understanding of the requirements and their application by pointing to the applicable principles and requirements and providing some context. (...)*

16. However, at times we think it might be necessary to go further to achieve that objective. For example, in the case of the IFRS 15 questions we recommend concluding on the application of paragraph 35 of IFRS 15 to the fact patterns in the submissions. One reason for doing so is because we are aware that these questions are causing disruption in the implementation and application of IFRS 15. When we are aware of such disruption and if, in complying with due process, we think the Committee could help in resolving the disruption using an agenda decision, we recommend that the Committee does so.

17. For the questions regarding the application of paragraph 35 of IFRS 15 we think the Committee needs to go further than is typically the case in order to help stakeholders obtain a common understanding of the requirements. This is because of the nature of the requirements and the contracts to which they apply. For example, paragraph 35(c) discusses an entity's enforceable right to payment for performance to date. In our view, providing only general explanatory material without discussing the specific fact patterns submitted would not be sufficient to help stakeholders obtain a common understanding of how to assess the existence of an enforceable right. We also think the contrasting conclusions regarding the application of paragraph 35(b) to the fact patterns discussed in Agenda Papers 2C and 2D help to explain how to apply those requirements (...).

18. If and when the Committee provide answers for highly-specific fact patterns, we agree (...) that it is important to clearly articulate the fact pattern and the factors that are relevant for consideration in reaching the particular conclusion. This reduces the risk of inappropriate application of the Committee's conclusions. That said, **we think it is also important that an agenda decision is read as an extra piece of explanatory material that does not, and should not, replace an entity's consideration of all facts and circumstances relevant in determining how to appropriately account for its transactions.** The material in agenda decisions should not be seen as providing answers per se but rather as providing additional, helpful information to assist an entity in applying the Standards in its own circumstances." (Own highlights)

By documenting a rejection of the agenda that clearly details the relevant points in the articulation and reading of the case, the IFRS IC assists its constituents in obtaining a common understanding based on the requirements of the standard—and even how to apply the standard. Nonetheless, attention must be paid to the correct moments (when there is such disruption in the interpretation, in which the Committee or the Board must act as an arbitration chamber) for this type of action. In practice, an accounting choice may be required by the diligence and analysis of a rejection notice by the IFRS IC, thereby filling a gap in the IFRS system.

The IFRS Foundation's trustees have discussed<sup>6</sup> changes in the Due Process Handbook to review IFRS IC Agenda Decisions role and oversight. Some respondents to the Exposure Draft issued by the trustees have expressed the feeling that IFRS IC ADs should reflect the reality that these guidances are mandatory in practice. Nonetheless, the trustees have decided not to change the role of IFRS IC ADs, maintaining the Board's view that these guidances are not mandatory (i.e., not part of IFRS Standards). Although, DPOC (Due Process Oversight Committee) note the demand for a higher oversight and has established, since September 2020 IFRS IC meetings, the need for the Board participation when IFRS IC AD is issued.

*Notably, they constitute a decision not to undertake standard-setting; they represent the involvement of the Committee, which has a status within the Constitution, as well as the Board; **they represent the consequences of a detailed review of a specific set of facts or circumstances; they have been exposed for comment by stakeholders.** The DPOC can consider whether there is a need to change the due process, by for example introducing greater oversight by the Board. (Own highlights) (IFRS Foundation, 2019.a)*

*Platform for system disclosure standardization (xBRL), as proposed by the IFRS Foundation*

The IASB is developing a structured disclosure classification system for IFRS adopters. The purpose is to include the marking of quantitative and qualitative information presented and disclosed in financial reports prepared in accordance with international standards. The file platform used to express and deliver content with a taxonomy delivery mechanism uses the XBRL (eXtensible Business Reporting Language) syntax. This set of files enables computers to automatically process the IFRS taxonomy and deliver information to users who prefer electronic tools.

The IFRS taxonomy represents the requirements for disclosure and presentation of specific international standards, but it is not part of the IFRS standard set. Its promulgation

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<sup>6</sup> The project called Due Project Handbook review started in November 2017 and ended in 2020. The Due Process Handbook sets out the due process principles that apply to the International Accounting Standards Board (Board), the IFRS IC and the IFRS Taxonomy. The objectives of the review were to update the Due Process Handbook in line with the Board's and the Interpretations Committee's developing due process conventions, relating particularly to effects analyses and agenda decisions. (IFRS Foundation, 2020.a)

assists in ensuring consistent application of IASB standards.

### *Audit firms' books*

The four large audit firms annually and individually issue a publication emphasizing the application of IFRS in practice and explaining their conclusions about several interpretative points. These interpretations are the result of an extensive internal decision-making process that, based on concepts and practices (from multiple sources, including the primary source and sources derived from international accounting) and after evaluation of scenarios and views, are aligned with the application of IFRS. These points are based on contemporary issues that have arisen in practice around the globe, with the inclusion of examples and clarifications in the application of the standard(s).

These guidances are used for the interpretation and implementation of IFRS in complex situations and relevant business contexts, as well as how standards should be adopted in the real world of a global accounting standard. That is, these books act as a bridge between the conceptual framework of the IASB and practical application. It is also noted that these points should be identified when assuring conformity of accounting principles adopted by companies with IFRS. In the event of material deviations, these should be reported as non-compliant with the standards issued by the IASB according to the opinion issued by the firm.

### *Consideration*

The Generally Accepted Accounting Principles for international markets, referred to as IFRS, is composed of a complex system. IFRS has one legitimate actor (IASB) and other valid issuers, that enacts valid guidelines that composes the IFRS system. The objectives of IFRS system are to generate transparency and comparability in accountability, at the same time that allows inspection of information around the globe. The professional judgment to generate relevant and reliable information to the users is the basis of these practices and these multiple factors. Multiple jurisdictions have already adopted these common practices, and multiple factors – based on qualitative characteristics of the accounting information – can determine the forms of application in each country.

Within this accounting system, called the IFRS system, then there are the following conditions.

- **IFRS accounting principles are formed by a complex system; the IASB, from the IFRS Foundation—which issues standards, practices and guidances—is the primary source of international standards; and the set of Generally Accepted Accounting Principles in the U.S. market (U.S. GAAP) and the books of large audit firms are complementary sources for the IFRS (complex) system.**

The standards issued by the IASB, from IFRS Foundation, have mandatory application to entities that use and disclose IFRS. Nevertheless, these standards are build based on principles-based; i.e., should have a high conceptual anchorage with, in certain cases, little practical application. The level of practical application will be different due to a quantity of conventions to the specific facts and circumstances and increase of transactions complexity.

When faced with such circumstances, companies will analyse the principles of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (standard for the application of accounting policies) and apply judgement developing and applying an accounting policy. In making the judgement, management may use accounting principles enacted by U.S. market (U.S. GAAP) and/or the audit firms. The first is sought by the setting more prescription and sectorial standardization to multiple circumstances and the audit firms for their extensive experience and professional judgment, when facing an extensive internal debate based on global circumstances that will, in the end, assist ‘consistent’ applicability of the IFRS in the specific case.

[Figure 6 near here] Hierarchy of the IFRS system

\*

- **Derived sources, practices and guidance issued by the IFRS Foundation comprise the specific guidance for completeness of international GAAP. These sources are valid and allow the international applicability of this system when considering the multiple factors involved in the judgment to the evidence not detectable in specific standard and that demand the use of extra guidances (i.e., gaps).**

In the absence of an IFRS that specifically applies to a transaction, other event or condition, the process of developing and applying the accounting policy should be based on guidances within the IFRS system. Those sources filter the best option of accounting when analyzing multiple options (i.e., conventions) and the conceptual framework of IFRS. This view

emphasizes that the issuance of these guidances generates refutable premises within the norms. Therefore, it is valid to corroborate that, in material situations, noncompliance may result from: (1) a complete evaluation by the preparer of the noncompliance of this guidance with the company reality (it is advisable to disclose the judgments that lead to this conclusion) or originator of a carve-out situation; or (2) accepting the current auditor view, but with risks when in a rotation situation.

Therefore, when not applying a guidance from IASB the management is selecting another accounting principle in the search for relevant and reliable information (e.g., not applying IFRS IC ADs). This may also occur in material situations when there is a clear prescription in the audit firm's guidelines—including the “power” assigned to the auditor's opinion on whether accounting principles follow IFRS, as issued by IASB.

The second situation may occur when the judgment of the audit firms is not consolidated in a common way. These potential conflicts should be mitigated, no matter how great the risk of turning the audit service into a commodity. The uncertainty in the practical application at the mercy of an external agent is a risk, and a stress, between the parties involved in the preparation of the financial information.

The hierarchy of the IFRS system should be read as: when there is no prescription from the guidances from the IFRS Foundation and from the norms issued by the North American market, if the specific situation has prescription on the auditor's book, its application should be the best option. At the core of the standard, and in my view, its non-application should be viewed as a carve-out act demanding an explanation of the motivations for noncompliance with the IFRS system in the quest for transparency to users of financial information. Nevertheless, under such circumstances, entities may tend to be guided by local legislation or the capital market standardization system to which financial statements are sent and not by the source derived from the IFRS system. On chapter II, I sent a survey to preparers of financial information seeking to understand the relevance of the guidances within and outside the IFRS system to preparers in Brazil.

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- **The application of IFRS is only a part of the information system within a firm. An entity's equity and performance policies, generally applied as a function of accounting, may derive from multiple factors (such as the entity's financing**

**needs, the risks the entity faces, legal constraints, incentives and remuneration policies, or agreements), and the IFRS system described here does not seek to mask the risks involved in the business and management decisions. Thus, reporting that IFRS are not being complied with, even when the practice is expressed by derived sources, should be transparent to users so they can compare financial information to make the decision while allocating their resources.**

## **Chapter II: Empirical analysis**

The International Financial Reporting Standards (IFRS) are commonly referred to a set of principles-based accounting standards. To promote consistent application among jurisdictions, multiple guidances have been issued and may be applied. In this chapter, I studied the parts of the IFRS system – the analogy of it as an iceberg, as defined in chapter I – and how the IFRS’s guidances are applied in corporates. Those empirical evaluation permitted to study if, in fact, IASB has issued more prescription on its guidances (i.e., predicting one best choice to adopters), contradicting the common rhetoric. I also studied how these guidances, and other relevant in Brazil, are applied by preparers. To do these empirical analyses I made content analyses, a survey and cluster analyses. The first permitted to map each standard iceberg and evaluate propositions of prescription by IASB in comparison to its predecessor (the International Accounting Standards Committee). The second permitted to evaluate how the guidances used for applying Generally Accepted Accounting Principles are used by preparers in Brazil and to compare IFRS system guidances and other existing guidances (e.g., regulator books and guidances) based on their relevance to preparers, evaluating if national traditions remain under IFRS. The third, to rate the usage of the guidances and to evaluate differences of corporate governance incentives into the use of guidances within the IFRS system, for a sample of Brazilian preparers. As a concluding remark, this chapter raises concerns about consistent application of IFRS considering the relevance of local guidances for IFRS application and non-endorse of the non-mandatory orientations in the IFRS system.

\*\*\* summary translated to Portuguese \*\*\*

As IFRS são comumente referidas como um conjunto de práticas contábeis baseadas em princípios. Para promover uma aplicação consistente entre jurisdições, várias orientações foram emitidas e podem ser aplicadas. Neste capítulo, estudei as partes do sistema IFRS - a analogia dele com um iceberg, conforme definido no capítulo I - e como as orientações das IFRS são aplicadas na prática. Essas avaliações empíricas permitiram estudar se, de fato, o IASB emitiu mais prescrições dentro de seus guias (ou seja, tem previsto uma melhor opção para os adotantes), contradizendo a retórica popular. Também estudei como esses guias e outros relevantes no Brasil são aplicados pelos preparadores. Para fazer essas análises empíricas, realizei análises de conteúdo, um questionário e análises de cluster. A primeira permitiu mapear cada iceberg por norma e avaliar hipóteses de prescrição pelo IASB em comparação com seu antecessor

(IASB). A segunda permitiu avaliar como a aplicação das práticas contábeis geralmente aceitas pelos preparadores no Brasil e comparar os guias do sistema IFRS e outros guias existentes (por exemplo, posicionamento do regulador) com base em sua relevância para os preparadores, avaliando se as tradições nacionais permanecem mesmo nas IFRS. A terceira, classificar o uso dos requerimentos contábeis e avaliar as diferenças de incentivos à governança corporativa no uso desses requerimentos dentro do sistema IFRS, para uma amostra de preparadores brasileiros. Como observação final, este capítulo levanta preocupações sobre a aplicação consistente das IFRS, considerando a relevância das diretrizes locais para a aplicação das IFRS e o não endosso dos guias não mandatórios do sistema IFRS.

### **Mapping the IFRS system: Who shapes the International Financial Reporting Standards?**

The existence of a complex international accounting system (based on the theory of sources and the consideration that there are multiple sources within the IFRS system) and its metaphor to an “iceberg” is based on visible and non-visible parts of a standard under IFRS. This theoretical construction allow evaluation of content by each standard to map how much of GAAP (Generally Accepted Accounting Principles) is below the “water” (and demand more interpretation to balance the application of accounting principles) and to evaluate if the IFRS system has become less-principle based – when comparing standards within the IFRS system that were previously issued by the IASB to the IASB. This research evolved based on the analysis of ‘principles-based’ international accounting since the 1970s and the need to issue guidances from other sources (e.g., audit firms’ books) to fill the gaps of the standard. A summary of this research approach can be seen in the following ‘predictive value’ or ‘Libby box’.

[Figure 7 near here] Predictive value of mapping the IFRS system iceberg

#### ***Data***

The data has been captured from IASB’s 2019 Red Book, Interpretation Committee’s Agenda Decision and Audit firm’s guidance issued by KPMG (one of the Big4 audit firms): ‘IFRS compared to U.S. GAAP’. I have considered KPMG guidance by convenience, because other audit firms issue books with rare, but still existing, circumstances of disagreement (see Insight 7 for an evaluation of conflicts between audit firms guidances) to KPMG. KPMG present in

this document, clearly, labeling differences between IFRS and U.S. GAAP and views by the firm that are requirements to companies that are audited – those views were “developed in the absence of explicit guidance under IFRS Standards or U.S. GAAP. In the books of other audit firms there is no stated requirements. Sometimes we note what we would expect in practice or we simply note that practice varies or may vary” (KPMG, 2020). Therefore, all those guidances are important for a consistent application of IFRS around the globe and are requirements for a company that are audited by the audit firm.

Therefore, the data used are:

- IASB’s Red Book: which is the conjunction of standards, considering Part A (mandatory) and B-C (non-mandatory) guidances issued by IFRS Foundation.
- Interpretation Committee’s Agenda Decisions: which are published by the Interpretations Committee and included in the annotated Standards.
- IFRS compared to U.S. GAAP: which compares and highlights differences of IASB Standards and U.S. GAAP. Also, presents the audit firm requirements for some accounting conventions, determining a specific accounting treatment in the absence of explicit guidance under IFRS Standards.

### ***Organization***

To organize the content of those data I have downloaded all Standards from the IFRS® Foundation website, but I have considered the following parts of each standard: Standard on part A, Application guidance on part A, Implementing guidance on part B-C, Basis for conclusion on part B-C and Illustrative examples on part B-C. Other parts of the Red Book have not been considered, because those are not guidances within the IFRS system (e.g., Table of concordance, Approval by the Board, Contents, Effective date and transition).

I have downloaded the list of IFRS IC ADs from IFRS® Foundation website (IFRS Foundation, 2020.b). I have not considered the context to codify characters, paragraphs, or labels of each Agenda Decision.

I have considered the U.S. GAAP differences and audit firm’s view based on IFRS compared to U.S. GAAP KPMG’s publication. This publication can be obtained, publicly, in KPMG’s external website (KPMG, 2020).

### *Codification*

The codification step is to test the internal validity of the theoretical framework. As explained in the data and organization sections, I identified and collected the variables from multiples documents.

- From 2019 IASB’s Red Book I have collected the following guidances of the IFRS system: Standard (i.e., a mandatory part of each standard or interpretation, with definition), Application Guidance (i.e., mandatory and part of the Standard), Practical materials of the standards, as issued by IASB and IFRS IC (i.e., implementation guidances) and Basis for Conclusions. I have codified that information based on the quantity of items within the document (i.e., paragraphs).
- From 2019 IASB’s Red Book I have, also, collected the Illustrative Examples from each standard. I have codified this information based on the quantity of characters (i.e., length of each item within the document).
- From IFRS® Foundation website I have collected the quantity of Interpretation Committee’s agenda declination, rejection, or decision.
- From KPMG’s IFRS compared to U.S. GAAP. I have collected the technical position by another standard board that uses a similar framework of IASB (e.g., U.S. GAAP) and Audit firm’s book (i.e., views and conclusions from KPMG). This information has been collected based on labels.
  - For U.S. GAAP and IFRS differences I have considered the following labels: ‘Unlike IFRS’ and ‘differences from IFRS’.
  - For KPMG’s views I have considered the following labels: ‘In our view’, ‘We believe’ and ‘In our experience’.

KPMG’s guidance is aggregated based on 35 topics (see Table 4). This means that each topic relates to one or more standards and interpretations from IASB. The data captured from each standard, which was then aggregated by topic, can be seen in Table 5.

[Table 4 near here] List of Standards for each topic

[Table 5 near here] Data captured for each topic

I have ordered the data (on Table 5) based on the year the main standard of the topic has been issued. I have not collected data from the original standard. The data refers to standards that are applicable for IFRS adopters from 01<sup>st</sup> January 2019 on.

### *Categorisation*

In this chapter I map covert options and gaps within the IFRS system of standards to evaluate the actual state of standards and to demonstrate, at one point in time, the IFRS system by topics. This evaluation seeks to answer the following question: When creating accounting standards for multiple jurisdictions, has the IFRS system been less principles-based?

There is a common sense that IASC literature was a principles-based set of standards. Nobes (2006) proposes a rationality for it:

*IASC operated on the basis of the need for a 75% majority of votes of its Board members. The members (mainly accountancy bodies) and their representatives at the Board (mainly partners in large audit firms or employees of large companies) came from diverse backgrounds and were subject to political pressure (e.g., see Zeff, 2002). One way of passing a standard in this context was to insert options. (Nobes, 2006)*

Therefore, and considering that IASB has begun issuing IFRSs since 2002 and maintained some IASs (standards issued initially by IASC), my intention is to compare IAS and IFRS, aggregated by topics (see Table 4 for the list of standards for each topic), and analyze if IFRS standards are less principles-based than IAS. I have designed a test to compare IASs and IFRS, this means that I cannot corroborate if one or other is principles-based or rules-based, the test only permits to evaluate if one is more, or less, principles-based.

The debate in this research is important to a wide range of agents in IFRS. The existence of submerged parts and the significant number of differences and the common sense that there is an increase of standardization from IASB, demonstrate the importance of this research in mapping the gaps, because compliance with and consistent application of IFRS are also in the submerged guidances of the IFRS system. Therefore, one must consider the gaps in application in addition to the correctness of application by agents of IFRS.

In Table 5, I present the data captured for each topic within the IFRS system. This evaluation assists in constructing the “iceberg” for each topic. The emerged part of the iceberg relates to IASB-mandatory guidances, while the submerged part of the iceberg relates

to non-mandatory IASB guidances, U.S. GAAP differences with IFRS and Audit firm's views.

To answer the above question ('When creating accounting standards for multiple jurisdictions, has the IFRS system been less principles-based?'), I have, based on seminal literature (Nobes, 2006), developed two research propositions:

- H1: More interpretations and more submerged parts from IASB have been developed over time. For example, to answer local regulatory demands, the IASB has been clarifying its view on standards in part B-C so that it can mitigate local differences when applying IFRS. According to Nobes (2006), if the IASB did not answer local stakeholders at the time, there would be the insertion of the U.S. regulator (SEC) in the entities that applied IFRS (entities with American depositary receipts that were in compliance with IFRS since 2005) and submitted their information on the U.S. market. These interpretations by the SEC would have created extra guidance to consider, although U.S. GAAP is a source of IFRS. Therefore, to confirm this proposition, it is expected that the percentage of iceberg's topics with guidances (both mandatory and non-mandatory) prior issued by IASC would be lesser than iceberg's topics with guidances issued by IASB.
- H2: Standards issued by the IASC demand greater expression of audit firms' opinions than those issued by the IASB. The evaluation is that the IASC developed more principles-based standards than those developed by the IASB. This means that standards issued by the IASC demand greater expression of audit firms' opinions than those issued by the IASB, because the audit firm filtered more conventions for IASC standards and IASB has been filtering those conventions by itself. Therefore, to confirm this proposition, it is expected that the percentage of audit firm guidance within the icebergs would be higher for prior issued topics by IASC than to topics with standards issued by IASB. Furthermore, this may show the technical influence of agents in the process of developing accounting standards (lobbying). For example, the Shared Based Payments standard (IFRS 2) has a high quantity of audit firms issuing 'it appears that'. This standard, beginning with debates in 2001, has been intensely developed by the exposition and debates of the IASB, the FASB and the European Financial Reporting Advisory Group (EFRAG). Therefore, the existence of many

extra views on this topic may be due the need of the Board to set a more conceptual standard, with low practice application, and with the audit firm filtering conventions.

In testing those propositions, I further aggregated the 35 topics into two categories: topics that relate (mainly) to standards that have been prior issued by IASC and topics that relate (mainly) to standards that have been issued by IASB. As explained above, I expected variability among the variables aggregated based on the committee that first emitted the standard. For instance, I expected in H1 an increase of mandatory and non-mandatory guidances issued by IASB and in H2 a diminishing of variable in audit firms' opinions.

### *Analysis*

To create the illustration of the IFRS system “iceberg” per topic, and to be able to test the two propositions, I developed an analysis in five steps.

- (1) Step 1: Based on Table 5, I have summed all amounts per guidance from the 35 topics. For example, there are 174 items in standards related to ‘Presentation issues’. I have summed all items (i.e., for all 35 topics) for Standard (2,963), Application Guidance (1,187), Implementing Guidances (144) and Basis for conclusion (6,933); all characters in Illustrative examples (1.20 million); all IFRS IC ADs (285); all U.S. GAAP and IFRS differences (1,556); and, all audit firm’s views (271).
- (2) Then, on step 2 I have divided the amount per guidance by the sum calculated on step 1. For example, in ‘Presentation issues’ I have divided 174 by 2,973, which is equal to 5.9%.
- (3) Then, as step 3, I summed all amounts calculated on step 2 per topic.
- (4) As step 4, I have divided the amount calculated on step 2 by the amount calculated, per topic, on step 3.
- (5) Lastly, I summed all amounts calculated on step 4 to check the completeness of each iceberg per topic. This means, the sum of each part of the iceberg sum 100%. This enable the comparison of each iceberg per topic.

To illustrate the calculation, below it is an example based on ‘Revenue’ related standard IFRS 15. It is possible to replicate step 1 to 5 using data from Table 5.

[Table 6 near here] Analysis example based on ‘Revenue’ topic

Among the 35 topics within the IFRS system, 20 relates to standards that were initially issued by IASC. For those topics the submerged part is (on average) 73% of the iceberg. For standards issued by IASB (i.e., standards issued after 2002), the submerged part is (on average) 56%. The main parts of the “iceberg” are submerged; therefore, it is important to define and study those non-mandatory guidances.

Comparing early issued standards by IASC and standards issued by IASB, mandatory and non-mandatory guidances issued by the IFRS Foundation have increased (from 25% to 28% and 36% to 53%, respectively) while audit firm views have decreased (from 20% to 7%) – also, U.S. GAAP differences have decreased (from 18% to 12%). The evaluation of propositions 1 and 2 is based on this data. For the variables U.S. GAAP, I outlined no propositions, although the decrease level from the IASC to the IASB demonstrate a contribution to future research about whether the Norwalk Agreement has been efficient.

Considering the above analysis, aggregations and ordering, I present below the ‘iceberg’ for each IFRS system topic. Figure 8 presents all 35 topics.

[Figure 8 near here] The IFRS system iceberg: mapping the iceberg by topic

In addition to the illustration of the IFRS system, I have evaluated the effects identified comparing IASC and IASB standards. Figure 9 permits the evaluation of the propositions in this chapter.

[Figure 9 near here] Effects analysis of IFRS system: from IASC to IASB

H1 is accepted because the guidances issued by IASB, both mandatory and non-mandatory, have increased when comparing standards originally issued by IASC to standards issued by IASB.

Another way to analysis H1 is to sum all guidances from the primary source (IASB) in comparison to the guidances issued by the other sources; then, to compare the topics that relates to standards originally issued by IASC and IASB. When comparing the standards, if the parts from the iceberg are issued more by IASB, it means that the topic is less-principles based. Because, the measurement basis for the variables are to a less-principles based guidances or with more prescription of rules. For example, when the standard is more principles-based it would need more filling the gaps from the audit firms, that would issue

extra requirements.

[Figure 10 near here] Trendline of the iceberg from IASC to IASB

[Table 7 near here] Data, trendline of the iceberg from IASC to IASB

For H1, overall, the percentage of iceberg related to IASB's mandatory and non-guidances have increased over time, due to the issuance of application guidances, basis for conclusion, among others guidances from the IFRS Foundation. Moreover, because of a lower quantity of audit firms issuing 'it appears that' in the IASB era (accepting H2), the IFRS Foundation has issued more non-mandatory guidances. These analyses permit to corroborate that IASB has been filling the gaps in GAAP application, which results to a more prescription based standard-setter, by filtering conventions, and move the standards away from a principles-based framework. Therefore, I confirm that more interpretations and more submerged parts have been developed and that standards issued by IASC required audit firms to express opinions more than the standards issued by IASB. As it can be seen in Table 7 and Figure 10, two topics, originally issued by IASC, are the most principles-based: Events after the reporting date and Associates and the equity method; while, seven topics, issued by IASB, are the least principles-based: First-time adoption of IFRS, Operating segments, Joint arrangements, Disclosure of interests in other entities, Fair value measurement, Regulatory deferral accounts and first-time adoption of IFRS and Revenue.

As predicted in the seminal literature (Nobes, 2006), differences exist between standards issued before the IASB came into existence (when it was a committee) and IASB's standards. These findings suggest that the standard-setter (primary source) has been issuing less principles-based standards, through both mandatory and non-mandatory guidances.

The descriptive analysis may be limited to the number of topics from the IASC (20) compared to the number of topics from the IASB (15). In addition, other non-mandatory materials have been issued by the IASB and, due to the difficulty of quantifying them, those are not considered in this analysis (e.g., webcasts, online articles). But this would only add more instances where the IFRS Foundation is filling the gaps to accounting principles.

The descriptive analyses that corroborates both propositions are based on macro statistics of each standard. The macro-analyses are based on descriptive analysis of Figure 9. I have not micro-analysed differences of standards originally issued by IASC or issued by

IASB, neither the magnitude of the differences, nor have compared contents. Those analyses are significant but would require judgement that so far have no theory or literature bases.

Other two limitations of the descriptive analysis, that will be further checked, are:

- Does more quantity of items represent more principles-based standards?
- Would H1 and H2 be met for the same topic issued by IASC and IASB?

### ***Robustness test***

#### *Test 1: Codification with alternative measure*

I codified and analyzed IASB's Red Book variables Standard, Application Guidance, Implementing Guidance and Basis for Conclusion based on the quantity of items in each of those guidances. To additionally test if the IASBs standards are less principles-based I alternative codified those variables based on the quantity of characters (counting the number of characters by item, by guidance and by standard). The extra data captured from each topic can be seen in Table 8.

[Table 8 near here] Data captured by topic for alternative measure (quantity of characters)

This data introduces one alternatives codification to present the 'iceberg' by topic and to robustness check H1 and H2. The analysis followed the same five steps explained on the analyze section of this chapter. For the other guidances (IASB's Illustrative Examples, U.S. GAAP and IFRS differences and KPMG's view) I maintained the same data (i.e., the quantity of characters and labels, respectively). I expected that the same effects and percentages would be attended for this new codification in comparison to analysis by items. Therefore, I present below the 'iceberg' for each IFRS system topic based on counting of characters.

[Figure 11 near here] The IFRS system iceberg: mapping the iceberg by topic – robust analysis based on counting of characters

In addition to the illustration of the IFRS system, I have re-evaluated the effects identified comparing IASC and IASB standards.

[Figure 12 near here] Effects analysis of IFRS system: from IASC to IASB – robust analysis based on counting of characters

Then, I have compared the new parameters with the counting of items to corroborate the propositions per topic using Pearson's correlation. To confirm that these icebergs are similar, I expected a strong and positive correlation (a strong Pearson's correlation is above 75%). For all parts of the iceberg the correlation is above 92% when comparing counting of characters and counting of items. Also, the correlation is above 98% when comparing the sum of all guidances from the primary source (IASB) and the sum of guidances issued by other sources based on measuring each variable by counting characters in comparison to measuring each variable by counting of items.

According to this robust analysis, the propositions can (still) be accepted.

*Test 2: Comparison of icebergs with the same topic*

The data related to each standard has been collected from IASB's 2019 Red Book and related non-mandatory guidances. As described above, the data refers to standards that are applicable for IFRS adopters from 01<sup>st</sup> January 2019 on. The IASB has recently issued two new standards, replacing previous standards issued originally by IASC: IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. The first replaced two standards (IAS 11 and 18) and two interpretations (IFRIC 13 and 15) and the second replaced one standard (IAS 17) and three interpretations (IFRIC 4, SIC 15 and 27).

The evaluation of those two topics, comparing the 'iceberg' for the current and "old" versions of topics (standards and related guidances) permit to robustness check H1 and H2 for the same topic. The extra data have been collected from IASB' 2017 Red Book, 2017 IFRS Compared to U.S. GAAP from KPMG and IFRS IC ADs from the IFRS Foundation website. I expected that when comparing those "old" topics with the current, both mandatory and non-mandatory guidances would increase (i.e., for IAS 17 and related interpretations both mandatory and non-mandatory guidances would be lesser than IFRS 16) and audit firm's guidance would decrease (i.e., for IAS 17 and related interpretations the amount of 'In our view' and related contents would be higher than IFRS 16).

[Table 9 near here] Data captured for extra topics

[Figure 13 near here] The IFRS system iceberg: comparison the iceberg for each topic – Revenue

[Figure 14 near here] The IFRS system iceberg: comparison the iceberg for each topic – Lease

[Table 10 near here] Proposition test for all codification measures

According to these robust analyses, the propositions can (still) be accepted. Both amounts of mandatory and non-mandatory guidances have increased for Revenue and Lease related topics and audit firm guidance have decreased.

The fact that the standards are newly issued might be an argument for the decrease of audit firm's view when filling the gaps and covert options for these new topics. The argument would be that there was still no time for the creation of extra views by the audit firm. However, I believe that this is not the fact and that the data represents the existence of gaps and covert options within the IFRS system for the topics. I believe that audit firms have had enough time to discuss, interpret, evaluate practical applications and influence the refinement of the standard (both mandatory and non-mandatory IASB guidances) – as discussed in chapter I. The standards have an extensive due process, often slow (e.g., IFRS 15 have been added to the IASB's agenda on 2002 and IFRS 16 on 2006, and first discussion paper have been issued on 2008 and 2009, respectively), which allows an assessment by audit firms throughout the course of creation and improvement of the standard.

It is also relevant to analysis that U.S. GAAP differences have decreased, but not been eliminated, for those two topics. Although not the scope of this evaluation, this effect is also expected. IASB and FASB have worked together for issuing those “new” standards. In addition, for IFRS 15 the standard-setters have created a joint transition resource group while for IFRS 16 have not; and, IFRS 16 have had more accounting relief. Therefore, it was expected that the ‘size’ of U.S. GAAP differences would decrease more for Revenue than for Lease topic.

### *Limitations*

I compare standards issued from IASC and IASB using 2019 RedBook, which means that those are not the originals (as issued by IASC and IASB) and, in particularly in 1993 and in 2003, principles-based options were removed from IASs (Nobes, 2006). Those changes were culminated by the objective of the standard-setter to reduce or eliminate alternative accounting treatments (in addition to redundancies and conflicts) in existing IASs, to deal

with some convergence issues and to make improvements. Both projects were undertaken to meet stakeholders' interests. This is a limitation to answer if the standards have become less-principles based.

The analyses have been, so far, to evaluate if IASs has less prescription of rules than IFRSs. These evaluations have been on counting variables that reflects prescription of rules on each standard and related guidances. This is a macro-analysis based on statistics. Considering that both H1 and H2 were accepted, I have considered that IFRS Foundation has been filling the gaps in GAAP application and resulting in more prescriptions, which move the standards away from principles-based.

To test if the principles-based content on the standard has decreased from IAS to IFRS, even with the limitation that I am not comparing IFRS with the original IAS, I understand that, even without a theory or literature bases, it is needed a micro-analysis, evaluating the fundamental of each standard and the use of labels that would express more principles-based terms, or conventions, or prescriptive-rules.

To propose an initial examination of this matter, I have designed a preliminary micro-analysis based on quantity of specific labels ('If and only if', 'only if', 'it must do so', 'encouraged', 'shall', 'should be', 'at a minimum' and [contains] 'require' - [does not contain] 'requirement' or 'does not require') that reflects a less principles-based standard. I understand that when IASB uses those terms, there is a prescriptive regulation, which is the opposite of what is expected from a principles-based standard. Although, those words are vaguely misused. I alternatively measured the IASB's Red Book variables Standard, Application Guidance, Implementing Guidance and Basis for Conclusion based on quantity of those labels that reflects a less principles-based standard. Below I present the results of this micro-analysis, but I believe that how the standard-setter uses those words is a limitation to answer if the standards have become less-principles based.

[Table 11 near here] Data captured by topic for less principles-based content measures

This data permitted to test H1 and H2 and to draw each topic's iceberg. The analysis followed the same five steps explained on the analyze section of this chapter. I expected that the same effects and percentages would be attended for this new codification in comparison to analysis by items. I also expected a strong and positive Pearson's correlation.

[Figure 15 near here] The IFRS system iceberg: mapping the iceberg by topic – robust analysis based on counting of labels

[Figure 16 near here] Effects analysis of IFRS system: from IASC to IASB – robust analysis based on counting of labels

For all parts of the iceberg the correlation is above 90% when comparing counting of those labels and counting of items. Also, the correlation is above 97% when comparing the sum of all guidances from the primary source (IASB) and the sum of guidances issued by other sources based on measuring each variable by counting those labels in comparison to measuring each variable by counting of items.

### ***Consideration***

This section permitted to map the emerged and submerged parts of the international accounting system by topic. This mapping is a complex and innovative analyses, and as far as I am aware there is no other research that have a similar structure. This study permits the development of new theses and deductions in addition to the propositions outlined in the seminal literature. The result of such mapping was an understanding that IASB has been less principles-based than its stated mission. This conclusion is based on the fact that IASB has been issuing more interpretations and more submerged parts than its predecessor and that standards issued by the IASC required audit firms to express opinions more than the standards issued by the IASB.

Former IASB's Board member Amaro Gomes, in a presentation for Brazilian association of graduate programs in accounting (Anpcont), stated that:

*“IFRS, in general, is based on principles. But when looking at IFRS 9 there are more than just principles. Or IFRS 15. A 200-page standard cannot be a principle based standard. We say that IFRS is based on principles because compared to U.S. GAAP, which is its great counterpoint, it has much less detail. (...) One of the most principles-based standard is IAS 29.”<sup>7</sup> (Gomes, 2020)*

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<sup>7</sup> The sentence in the original language, Portuguese, is: “As IFRS, de uma maneira geral, são baseadas em princípios. Mas, quando se olha a IFRS 9 não há só princípios. Ou a IFRS 15. Não pode ser principiológica uma norma de 200 páginas. Nós falamos que IFRS é baseada em princípios por que comparada com U.S. GAAP, que é seu grande contraponto, ela tem muito menos detalhes. (...) Uma das normas mais principiológicas é a IAS 29.”

The IFRS 9 *Financial Instruments* standard, quoted as an example by Gomes above, has a direct part of the IASB in a total of 81% and IFRS 15 *Revenue from Contracts with Customers* - 97%. While IAS 29 *Financial Reporting in Hyperinflationary Economies* has 64%. The results of this research, therefore, permits to corroborate Amaro's statement.

Nevertheless, the fact that IASB is less principles-based standard-setter than its predecessor does not mean the standards are a set of rules. As defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 5, accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. I believe that the results of the iceberg show that the standard-setter is proceeding to select conventions to balance IFRS application, dictating how to apply accounting principles to events or circumstances a company faces or deals with. In other words, considering the increasing of transactions complexity, the higher risk of litigation over time (when comparing IASC's and IASB's worldwide application) and the influence of convergence project with the FASB, the standard-setter has been limiting conventions for practical application. This find may be because IASB should be considered one actor that benefits from global accounting harmonization; IASB has benefits to maintain power and perpetuity, by filtering conventions and issuing standards with more prescriptions than principles.

In this way, concerns might be raised regarding the consistent application of IFRS in jurisdictions and the threat to global comparability resulting from the increase in covert options and gaps through non-mandatory guidance issued by the IASB.

[Insight 11 near here] Limiting conventions

Then, it is important to understand the incentives for global standardization because the factors influencing local IFRS adoption may be caused by other sources in the IFRS system. This possibility introduces a new framework for regulation studies within the IFRS, as to evaluate lobby and the issuance of the standards it would be necessary to evaluate all sources of the IFRS system.

I consider that audit firms play an important role in implementing IFRS and are active participants on IASB long due processes. This research thereby contributes to the understanding that auditors play an important role in the system. They have contributed to the process by offering their views on the IASB guidances and may be (technically) influencing

the primary source (IASB) of the IFRS system, this conclusion relates to opinion Insight 10 (The process of financing the IASB) on chapter I.

### **How are International Financial Reporting Standards applied in Brazil?**

The process of adopting IFRS in certain jurisdictions, or a part of the IFRS as issued in the emerged part of the iceberg, calls attention to the need for extra consideration of compliance under IFRS. The IASB has been setting more guidances through both mandatory and non-mandatory guidances, in comparison to its predecessor, and issuing non-mandatory guidelines that fill the gaps in the IFRS system (e.g., IFRS IC ADs). In this sense, jurisdictions (with a formal endorsement process), as Brazil, that do not adopt the full IFRS book for separate financial statements (i.e., only adopt part A of the standard) may permit a diminishing conformity with the IFRS system because, on average, 81% of the IFRS system is issued by the IASB (62% from its predecessor), and, of this, 65% are submerged guidances (59% from its predecessor).

### ***Why to study IFRS application in Brazil?***

Brazil's code law legal system permits to study differences on the use of IFRS system sources and another local GAAP. It is expected that, in Brazil and other countries, even listed companies that apply IFRS on its consolidated financial statement use local GAAP sources more than, or as much as, international-GAAP sources. This would confirm Nobes (2006) propositions that code/ common law dichotomy could still affect financial reporting practice in the IFRS era.

In Brazil, the internationalization of accounting is linked to regulatory interference and/ or corporate tax reforms. Brazil has adopted IFRS through Law 11,638 from 2007. The first adoption year for some companies has been 2010; although, there are companies that have adopted IFRS in previous years. Companies in Brazil adopt CPCs, which are issued by CPC (Comitê de Pronunciamentos Contábeis). CPC was created in 2005 and translates (with assistance of auditor's institute) and issues IASB's Red Book part A in Brazil. CPC does not issue the part B-C of the standard.

The conjunction efforts of six entities that represent preparers, investors, capital markets, accountants, auditors and academia created CPC. The union of these associations

aimed to meet international convergence, with a centralisation in the issuance of standards. CPC is an autonomous entity whose products are the issuance of standards converged with IASB's Red Book. In addition, CPC issues orientations that should be aligned with IFRS.

The documents issued by the CPC will, subsequently, through hearing and deliberation processes, also be issued by regulators and accountant body in Brazil (CFC – Federal Accounting Council). Where, those that are under regulation, will have the obligation to adopt such accounting procedures. This means that a company in Brazil adopts CPC endorsed by its regulator or CFC.

With the enactment of Law 11,638, IFRS became mandatory for those entities that are subject to CVM (local market regulator) regulation. Among these, the listed public companies, composed in 2019 of approximately 355 companies, are subject to external audit. Other private companies should be in compliance with the accounting rules issued by the regulator, which in many cases (e.g., financial institutions, insurance, energy) are not in full alignment with IFRS, and by CFC, whom endorses all CPCs, making it mandatory. Therefore, accountants who do not follow CPCs will be subject to punishment on a gradual scale - warning, fine, temporary or permanent loss of the right to exercise the profession.

Given this, we have that Brazil did not adopt IFRS for all companies; legally, it is common knowledge that there is no way to compel private corporations to adopt IFRS or CPC; functionally, the obligation comes via the CFC's penalisation of accountants. Although, there is no inspection process set by CFC.

Additionally, IFRS has a complete set, in line with IFRS, and the simplified set, the IFRS standards for small and medium-sized companies. Brazil has also adopted IFRS for SMEs.

### ***Methodology***

As detailed on chapter I, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* present how accounting policies shall be applied on the use of derived, valid, sources – i.e., IFRS system. In the process of applying those accounting policies, management might choose local sources (e.g., legislative, regulatory, academia) instead of international. This would imply that “national traditions will continue as a way of filling any gaps in IFRS” (Nobes, 2006). Thus, financial statements comparability is challenged even for companies

that apply IFRS.

I intended to evaluate what is the relevance of the IFRS system guidances in comparison to other sources that are not considered within the system – like, market practices, Brazilian standard-setter orientations, academic literature; because, those were not to be expected to be applied widely or by companies in other jurisdictions. In addition, I evaluated the relevance of the guidances and the oversight of agents – e.g., Is there difference between guidances from current or non-current auditors? Are regulators requirements more relevant than other requirements within the IFRS system? Therefore, to visualize the guidances relevance I present a cluster analyze based on preparers use and perception when applying IFRS.

Considering its contribution, this research further evaluates the adoption process and the endorsement of local and IFRS system sources as an incentive to comply with IFRS in Brazil. I conducted a survey to preparers (e.g., chief-accountants, controllers and head of finance) to gather empirical data about their perception of each guidance within the IFRS system relevance. There is a total of 43 respondents. The survey was sent on-line on April 24 of 2020 and the last response was received on May 11 of 2020, through Google Forms platform. The pre-test was applied on 5 entities and extra guidances were proposed by the respondents; those guidances were inserted on the final survey.

The list of contacts, preparers from public and private entities, was gathered from Melhores & Maiores's magazine, Abrasca's and B3's database. I sent the survey to over 4,387 contacts, in 3,802 companies, but a great number had an error notification (e.g., the person was on vacation, the person did not work in the company anymore) – I received a message of error for 585 contacts, in 410 companies. Also, the survey was sent electronically during the COVID-19 pandemic and administrative staff from the companies were working remotely, under-staffed and dealing with impacts of the pandemic on the first quarter of 2020 (I have received responses from companies that did not answer because of COVID-19 implications). Then, the response rate of this study is below the expected (e.g., 14 respondents from 355 public entities – which is below 4%) – therefore, the sample of this survey does not represent the overall population of preparers from Brazilian entities, which means that the results does not reflect the overall population.

[Table 12 near here] List of respondents to the survey

The survey initiated with an explanation of the survey's objective, followed by questions about the profile of the respondent. Then, I asked if the preparer's company adopted IFRS as issued by IASB, CPC as issued by CPC and/ or IFRS/ CPC for SMEs. Those questions permitted to evaluate if the respondent/ company would meet the research's profile. Some respondents to the survey [22] adopted IFRS for SMEs and some only adopt CPCs [8] and were disregarded from the sample. Also, 9 respondents defined their selves as not preparers (e.g., lawyers, retired, audit partner, member of audit and fiscal committees) and were disregarded from the sample.

Based on the IFRS system and other guidances to consult explained in chapter I of this research, I have asked respondents: "In the process of compliance with IFRS Standards or CPC Standards, to what extent the guidance (mandatory or non-mandatory) is relevant to your organization?". A seven-points Likert scale was provided to the respondents, from one, 'Never considered', to seven, 'Always consulted'. A list of guidances (sixteen on total), including an open box for respondents to add any guidance that its organization use and is relevant, but was not considered, was presented to respondents.

- Standard, as issued by IASB and CPC
- Application guidance, as issued by IASB and CPC
- IFRS Conceptual Framework
- Illustrative examples of the Standard, as issued by IASB and IC
- Implementing Guidances, as issued by IASB and IC
- Orientations, as issued by CPC
- Basis for Conclusion, as issued by IASB
- Interpretation Committee's agenda declination, rejection or decision
- Educational materials issued by IASB
- Technical position by other standard board that uses similar framework of IASB
- General accounting accepted practices within the sector
- Current auditor firm's book
- Non-current auditor firm's book
- Regulator books and guidance
- Academic literature
- Local legislation

I have not asked respondents if they believe that tax requirements are relevant for the application of IFRS, or CPC, Standards. In fact, tax requirements shall be relevant when considering application of IAS 12 Income Taxes. In Brazil, companies prepare unconsolidated financial statements for tax purposes (i.e., for calculation of taxable income and deductible expenses), this means that tax requirements may be beside IFRS requirements and influence IFRS application. Since 2015, Law 12,973 ensure the tax convergence to IFRS, while permitting Brazilian IRS (“Receita Federal do Brasil”) to set extra requirements for taxation. Before the adoption of IFRS in Brazil, it is common sense that financial statements (for both public and private companies) were prepared primarily based on tax requirements. Law 12,973 has been set for taxation be based on corporate bookkeeping converged to IFRS, with adjustments made in extra bookkeeping (RFB, 2014). On the pilot-testing, none of the preparers have considered tax requirements as one of the sources. In addition, the survey permitted respondent to add requirements or interpretations that companies use and are relevant, but was not listed among the requirements (e.g., two respondents have answered that group’s policy accounting is relevant to application of IFRS), and no respondent has mentioned tax requirements.

I have additionally asked respondents for company’s aspects, to cluster analyse the data. The questions were: “Does your organization have an Audit Committee?”, “Is your organization audited by a Big4 audit firm?”, “Is your organization regulated? [and then presented a list of regulators in the jurisdiction]”, “What is your organization’s corporate structure? [and then presented a list of corporate structures in Brazil]” and “What is the sector that best describe your company? [and then presented a list of sectors]”.

### *Analysis*

The respondents were divided in seven groups, based on company’s aspects. The groups are:

- All respondents – a total of 43 respondents in the sample.
- Public entities and private entities – 33% and 67% of the sample, respectively,
- Entities audited by a Big 4 and Entities not audited by a Big 4 – 84% and 16% of the sample, respectively, and
- Entities with an established Audit Committee and Entities without an established Audit Committee – 47% and 53% of the sample, respectively.

[Table 13 near here] Population of respondents

Those groups represent different aggregation of companies based on their level of corporate governance incentives. Based on Daske, Hail, Leuz, and Verdi (2013) exist at least two groups of IFRS application: “serious” and “label” adopters. As I have chosen to contact a wide range of preparers, I separated entities that are more likely to be serious adopters, rather than label adopters of IFRS, based on those groups. Also, I believe that the use of guidances to apply with IFRS is linked with the level of internal and external oversight. It means that the fact that a Big4 audits an entity brings greater importance to the use of Audit firm’s books and the fact that an entity is publicly traded, and therefore regulated, brings greater importance to regulator guidances. Also, audit committees are an important internal oversight body and the entities that have one would, consistently, consult more guidances, and brings greater importance overall, to be in compliance with IFRS.

The above three criteria (i.e., public or private entity, with or without audit committee, audited or not audited by a Big 4 audit firm) are a selection among others corporate governance incentives which I have selected to classify the companies into low and higher incentives. The study of corporate governance is relevant, because it deals with “how to assure financiers that they get a return on their financial investment” (Shleifer and Vishny, 1997), and the evaluation of corporate governance can be done by several approaches. There are other incentives used by researchers (Tarca, 2012), like: listing status (e.g., cross-listing), ownership concentration, firm leverage clauses (i.e., covenants), the presence of foreign analysts and investors. I have selected those three criteria based on convenience – because, those are easier to answer by an accountant (which are the public of the survey).

The choice of presentation and grouping of guidances, based on the seven groups, was carried out by grouping them in similar clusters based on the level of consultation by the respondents. That is, I present the use of the sixteen guidances by the preparers among the most consulted, and thus more relevant, and less consulted.

One of the ways to group the guidances, in a visual way, is to evaluate its similarities and differences. The exploratory statistical technique that aims to group variables according to their similarity is a cluster analysis; the result being a presentation of dendrograms. I have prepared the cluster analyse using STATA, to group the guidances and requirements based on their relevance for preparers in Brazil into the seven groups. The groupings of guidances were

performed considering the seven groups, independently on the level of incentive to apply IFRS. In addition, to evaluate differences on the level of corporate governance incentives, I have evaluated the clusters based on the grouping of preparers from entities with higher incentives and of preparers from entities with lesser incentives, separately; i.e., I had a total of three cluster and dendrogram analyses.

The evaluation of dendrogram depends on the distance matrix (L2 or Euclidean) attributed to the variables. Also, to define the similarity between the clusters in the construction of the dendrogram, it is necessary to define how the similarity between the clusters will be measured. I chose Ward's method, which minimizes internal grouping variances. A cluster analysis seeks to maximize group's relations and classify related guidances and requirements in the same group, while differentiating with others that have been posted in other groups. For such an evaluation, the researcher must perform a test and determine the maximum distance to be evaluated, which will be determined in the verification of the number of applicable clusters. Based on the analyses of each dendrogram, the guidances were aggregated based on their relevance to all preparers in the sample in five clusters for all instances. The grouping was performed using STATA and the extra evaluation based on descriptive analyses.

The variables were calculated based on the average level of consultation to the guidance – between one and seven, one being ‘never consulted’ and seven ‘always consulted’; firstly, within the seven groups. In such a way, it is possible to determine which guidances are most consulted by all entities and order them within the consultation rate. All of the variables are measured based on seven-points Likert scale, but the level of consultation might be different when comparing groups with higher and lesser incentives; hence, the two extra dendrogram analyses. To standardize the variables, I have calculated the distance between the rate of consultation specified in the guidance by the guidance most used in the group; that is, I divided the value calculated to the guidance by the highest value in the group. This measure allows to assess the relevance of the guidance within the group and compare the use of each of the sixteen guidances with other groups of preparers.

[Table 14 near here] Variables for relevance of the guidances to preparers

[Figure 17 near here] Dendrogram for relevance of the guidance to preparers

- (1) Guidances that are always consulted by the preparers in the sample: Local legislation; Standard and Application guidance, as issued by IASB and CPC; and, Orientations, as issued by CPC.
- (2) Guidances that are consulted with frequency by the preparers in the sample: IFRS Conceptual Framework; Regulator books and guidance; and, General accounting accepted practices within the sector.
- (3) Guidances that are, also, consulted with frequency by the preparers in the sample, but lesser consulted in comparison to cluster 2: Current auditor firm's book; Illustrative examples and Implementing Guidances of the Standard, as issued by IASB and IC; and, Basis for Conclusion, as issued by IASB.
- (4) Guidances that are usually consulted by the preparers in the sample: Academic literature; Non-current auditor firm's book; and Interpretation Committee's agenda declination, rejection or decision; and, Educational materials issued by IASB.
- (5) Technical position by other standard board that uses similar framework of IASB, which is sometimes consulted by the preparers in the sample – i.e., the least consulted guidance.

The number of 100% (on Table 14) is the maximum rate, which means that all preparers in the group 'always consult' the guidance. The minimum number was 40.9% and was calculated based on the use of 'technical position by other standard board that uses similar framework of IASB' by preparers in companies not audited by Big4 audit firm. This number demonstrates that this guidance is 'few times consulted' by those preparers.

### ***Consideration***

The cluster analysis is based on the relevance of each guidance for the entities, considering their level of incentives. The level of incentives permits to study differences between the relevance and the usage of each guidance by each group. It was expected that for entities with higher incentives to comply with IFRS – hence, serious adopters – the 'usage' of the guidances would be higher. This means that for all IFRS system guidances the response rate (i.e., level of consultation) would be higher for groups with higher incentives when comparing to those with less corporate governance incentives. Based on Table 14, this proposition can be corroborated for mandatory and non-mandatory guidances issued by IASB, for audit firm's book and for technical position by other Standard-Setter – all parts of the IFRS system.

[Figure 18 near here] Dendrogram for relevance of the guidance to preparers with higher incentives to apply IFRS

[Figure 19 near here] Dendrogram for relevance of the guidance to preparers with lesser incentives to apply IFRS

The second cluster (for all entities) aggregates guidances from oversight agents (e.g., investors, regulators and auditors), except of the Conceptual Framework. Those guidances are more relevant than the non-mandatory guidances from IASB to the preparers; which is an interest result of this survey. Therefore, it is not far from reality to state that the competitors and regulators shape IFRS application. The audit firm's books, although they are positioned in the next cluster, they are so close to this cluster that when evaluating only entities with higher corporate governance incentives (see Figure 18) they move up to the second cluster, the position of GAAP within the sector. Therefore, auditors, also, shapes IFRS application.

When accessing the specificity of each group, the use of Generally Accepted Accounting Principles within the sector and the current audit firms have opposite incentives. The results of this research shows that for entities with more incentives to be in compliance with IFRS, the current audit firm's book is more relevant than the GAAP within the sector, while for private entities, entities not audited by a Big4 and entities without an audit committee, the GAAP within the sector is more relevant than the current audit firm's book. Therefore, it is possible to state that the entities with lesser incentives mimic the practices adopted by the "bigger" market players, while the public entities, entities with Big4 audit firm and entities with an established audit committee need to refer to other sources than the audit firm's book to set accounting policy.

The respondents corroborate the proposition that national tradition remain as a strong influence on the way countries use IFRS (Nobes, 2006), as the local legislation is the most relevant guidance used by the preparers, especially for entities with lesser corporate governance incentives. That is not to say that the Standard, its application guidance and Orientations that are issued by CPC are less relevant.

Lastly, the results of the survey demonstrate that, although the concept is to support consistent application of IFRS system (chapter I), harmonization on IFRS application remains a challenge. To deal with this challenge, the usage of non-mandatory guidances issued by IASB should be improved in jurisdictions where they are less consulted than local legislation

and regulatory guidances. Also, IFRS IC Agenda Decision and technical position by other (not CPC) Standard-Setter must be prevalent, or at least incentivized. That would assist the application of harmonized IFRS Standards, as the submerged parts of the IFRS System would come to light. Hence, I call attention to the need for formal endorsement in the jurisdictions of all materials issued within the IFRS system, both mandatory and non-mandatory, at least for those issued by IASB.

## **Final remarks**

This research has been conducted outside the, current, mainstream of positive research – it proposes an alternative approach by defining a ‘theory’ and then formulate appropriate research questions, retrieve data from practice and adopt appropriate research methods (Major, 2017). This process permitted to define the IFRS system: by defining the boundaries, standardization and application. The IFRS system proposition and its linkage to an “iceberg” was based on the academic literature and my practical experience, with years of accounting application and standard setting. I also sought a network of contacts with experience in preparation and oversight. Therefore, although some of the results of this research do not allow statistical generalizations, this study permits to evaluate practical standardization and application of international accounting in a way that impacts agents related to financial information making.

**As a concluding remark**, in exploring the limits (including the gaps) of IFRS, it was found that these are not restricted to guidances issued by the IFRS Foundation, but rather to a broader set issued by international and valid organizations. This interaction makes IFRS a complex system, because there was a need for limiting conventions to enable the practical application of IFRS standards. As an iceberg IFRS system have visible and non-visible parts – i.e., mandatory and non-mandatory guidances.

IFRS system has limits, therefore. Those delimit in a more detailed way the unity, coherence and completeness of this international Generally Accepted Accounting Principles system to a transnational market. However, there are cases of conflict between the derived sources (those, other than the IFRS Foundation, that issue IFRS guidances) and cases in which the application of this set will not represent useful information for the decision-making of certain agents, allowing non-application in these cases (carve-out).

In addition to the definition of the IFRS system, I have mapped the system, evaluated if IFRS are more, or less, principles-based, and evaluated how preparers use guidances to a converged IFRS application. I have tested the following propositions through content analyses, a survey and cluster analyses.

- More interpretations and more submerged parts have been developed over time by IASB, due to regulatory demands of more stakeholders that may influence IASB’s

agenda; and, Standards issued by the IASC demand greater expression of audit firms' opinions than those issued by the IASB.

- In the process of applying IFRS, a company might choose local sources (e.g., legislative, regulatory, academia) instead of the international guidances. Also, I have tested if the level of corporate governance incentives may impact IFRS application.

The content analyses, based on multiple documents, permits corroborate that the IASB has been filling the gaps of IFRS by issuing mandatory and non-mandatory guidances, attempting to increase its importance, but setting less principles-based standards. Although, the survey and cluster analyses permit to evaluate that (based on a sample of Brazilian preparers) only the mandatory guidances are always consulted by preparers. For those preparers, the non-mandatory guidances from IASB are less relevant than local legislation, regulator guidances, market practice and (current) audit firm's guidances. Lastly, preparers of companies with higher corporate governance incentives tends to use more (current) audit firm book (a derived source of the IFRS system); while companies with lesser corporate governance incentives tends to use more market practices (perhaps to mimic those bigger companies).

Considering that the goal of international accounting is for a common language, I believe that the conjunction of the results of this research shall bring attention to academia and practice. The results of this research permit to state that the non-mandatory guidances from IASB are bigger in proportion. Although, those have not, necessarily, a local endorsement in the jurisdictions and companies consult those guidances in fewer occasions. For example, for the sample of preparers in this research, local legislation and regulator guidances are considered more relevant than IASB's non-mandatory guidances. Therefore, to achieve a consistent application of IFRS across the globe and to enhance financial information comparability, I propose that the non-mandatory guidances from IASB (at least) shall have a local endorsement process by the jurisdictions.

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## **Appendices A: List of Insight**

### **List of Insight**

#### Insight 1 - IFRS system as a market-crafted regulation

The regulation theory<sup>8</sup> is based on the premise of rational actors pursuing their own interests, with the instrumental background frameworks of game theory (i.e., Optimal Pareto) and asymmetric information models (i.e., asymmetry costs). In the study of regulation, great effort is placed into making the regulatory drawings more realistic, recognizing not only the asymmetry of information and uncertainties but also transaction costs, opportunism, and the difficulty of establishing credible commitments by agents.

The starting point of the regulation process is the existence of market failure that implies the need for intervention by a regulatory agent (with approaches in governmental regulatory structures, while for marketcraft purposes there would be market responses). The positive political theory of regulation focuses on the fact that market failure and any policy that will be adopted to correct it will necessarily have distributive consequences. The various economic agents affected pursue their own interests and will act to prevent, to redirect, or to protect the policy being proposed according to the way it affects them. In most cases, there is no way to correct the market failure that is optimal for all the agents involved.

Therefore, positive regulation theory raises 5 questions applicable to the IFRS system genesis rationality:

- (1) How does regulation originate (and what determines how it evolves)?
- (2) What are the motivations of the actors involved? and
- (3) Who wins and who loses with regulation?

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<sup>8</sup> Two theoretical strings have been researched for this discussion: normative and positive (with sub-focuses on the demand for regulation, with researchers such as Stigler and Peltzman, and the supply of regulation by government agents).

Market failures may be lack of public goods, competition failure (monopolies), and existence of asymmetric information. It is my understanding that in international accounting, the market failures are cost constraints and information asymmetry. Thus, the literature provides a justification for regulatory intervention but not an analysis for effective regulatory practice. In this sense, the literature has developed propositions, some of which are applicable to studies in the area of international accounting:

- Balance of expectations between the IFRS Foundation and its constituents: The legislator will not grant a group all the benefits it would like to receive (i.e., regulation will not lead to an extreme point but would seek an intermediate point, taking into account the opposition generated by the groups that will be negatively affected by the regulation and reaching the point where the marginal support obtained is equal to the marginal opposition generated).
- Constituency groups and their participation in the (primary source of the IFRS system) due process: The IFRS Foundation has a due process procedure, overseen by the trustees of the IASB and its interpretations committee. The due process states phases and requirements of public participation by constituents; the underlying principle of the due process is transparency to all stakeholders. Therefore, the literature would analyze the following propositions: (i) the beneficiary group will tend to be numerically reduced because smaller groups are more able to avoid the free rider problem when organizing to offer support; and (ii) smaller groups with large per capita interests will be willing to invest more to influence the system than large groups in which regulation will mean a large absolute redistribution but a small per capita impact.

For the empirical evaluation of the effects of regulation, it is then assessed that the ultimate goal does not correspond to the political argument of fulfilling the demand for legislators to correct certain market failures but is to benefit certain groups and penalize others. To do this, researchers identify who wins and who, in fact, loses through the redistribution imposed by the regulation and seek to prove that these groups have effectively supported or opposed the change.

## Insight 2 - What are the goals of global accounting harmonization?

To a brief overview of rationality behind the global accounting harmonization, in the mind set prior to IASB's begin, I have reviewed media reports at that time. The data were extracted from LexisNexis Academic. The key word for research was 'international accounting harmonization'; using this key word, a total of 422 documents were obtained, with information from March 31, 1980 (The Globe and Mail, Canada) to April 15, 2019 (Business Monitor Online). Subsequently, only chapters published before 2002 were analyzed (i.e., the year of the IASB's first meeting).

[Table 15 near here] Market need for international accounting: Review of published chapters

Below, I present the results from the data extraction linked with literature that have studied, or presented, evidences at that time:

- Harmonization of markets (Thorell et al., 1994; Gélard, 2004): Most cases report concerns with cost constraints (i.e., reduction of the cost of compliance in multinational offerings). Other reasons concern developing a common language (i.e., accounting as the language of business), improving and standardizing financial reporting, the need for cross-border trading and investment from entities (i.e., investor need outside nations board), and increasing the efficiency of international commerce.
- Differences in accounting treatments: Investors seek to improve the comparability (Van Hulle, 1993; Thorell et al., 1994) of financial information, in a world where local standard-setters (common-law versus code-law) permitted too much variance in accounting systems, which made translating from one system to another too costly.
- Improvement of transparency (Van Hulle, 1992): Accounting is a tool within the corporate governance. Therefore, the improvement of comparability between financial statements will prevail over corporate finance crises (i.e.,

markets, and governments, should improve disclosure and accounting principles by approving worldwide accepted accounting principles).

These reasons can be considered the rhetoric to a process of self-regulation by the capital market and, thus, to the creation of the IFRS Foundation<sup>9</sup>. Preparers have influenced regulation to achieve their needs, for example, for dual listing and trying to promote the needs of other actors (e.g., investors and lenders need more transparency and consistency in accounting). Although global accounting harmonization intends to achieve a public good, however, the marketcraft happened only with the emergence of a committee—that is, the IFRS Foundation—considered competent and independent (i.e., legitimate) by these actors.

Other institutions coexisted before the existence of the IASB (e.g., UN Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting) (Hopwood, 1994). Created at the beginning of the 1970s, the International Standards of Accounting and Reporting (ISAR) had the participation of multiple national bureaucrats, who were invited to participate as a delegation (the IASC participated in the group from its beginning) (ISAR, 2009). In its favor, the ISAR had bureaucrats with legitimacy in their nations and with votes in the UN; that is, it seemed a legitimate group. In my opinion, however, the reason that the group did not thrive was that members were not technologically savvy and developed countries were afraid to lose control over accounting standardization. Therefore, IASC (while supported by IOSCO) was suited to meet the needs of stakeholders at that time, with changes to representatives (i.e., bringing in more technologically oriented members), if (only) minimum standards were provided by the standard-setter, permitting jurisdictions to coordinate local endorsement (Thorell et al., 1994).

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<sup>9</sup> The mission of the IFRS Foundation (2019.b) when developing IFRS standards is to bring transparency (i.e., comparability and quality of financial information), accountability (i.e., reducing the information gap), and efficiency to financial markets around the world (i.e., helping investors to identify investment opportunities and risks).

### Insight 3 - Who are the market actors that benefit from global accounting harmonization?

When markets set rules, and governments are overthrown by market needs (i.e., demand for more detailed financial information accompanying the increasingly complex transactions in which companies have been engaging), the debate about who shapes the accounting system becomes more relevant. The globalization of the world economy has accentuated the challenge of understanding each actor's needs regarding international accounting harmonization, a process that has accelerated in a short period. Through analysis of media reports, it is possible to explore the revealed interests of the agents involved: preparers, corporations, and audit firms as the front line of defense in the enforcement; investors and lenders as members of the public demanding self-market regulation; and governments and regulators to counterbalance their insulation. This analysis was summarized on Figure 2.

[Table 16 near here] Actors participation on international accounting harmonization

### Insight 4 - What was the sequence of events that led to the creation of the IFRS system?

Research reveals that there were events—consecutive crises (e.g., the Asian crisis in the 1990s) (Bhimani, 2008), corporate scandals (e.g., the Enron crisis), and globalization (e.g., increased capital market competitiveness and companies establishing branches and subsidiaries in other states) (Van Hulle, 1992; Leuz & Wysocki, 2016)—that sparked the need for international harmonization. In this sense, the adoption of IFRS originates from IOSCO's decision to endorse it to companies with shares around the globe and from the fact that governments and regulators have assigned the IASB the power to legislate standards (Jorissen, Lybaert, Orens, & Van Der Tas, 2013). Leuz et al. (2016) argue that many jurisdictions' adoption of IFRS standardization aimed to increase the harmonization and global convergence of accounting principles in accordance with investors' needs.

Outsourcing the production of accounting standards to a single (legitimate) entity seems to be rational, achieving cost reductions by lowering political costs (i.e., the capture of local standard-setters) and economic costs (e.g., filing financial statements

in a variety of versions of GAAP), while jurisdictions continue to have the right to decide to adopt IFRS. IFRS is considered legitimate because powerful, malleable international groups/regulators sponsor it. In such a way, Chua and Taylor (2008) defend the idea that international adoption can only be partially justified by economic motivations: the demand for legitimate action in the face of tightly coupled and complex global markets is at least equally important in supporting IFRS. This scenario is aligned with the harmonization of markets and, to some extent, governments' need.

Within the legitimization process of the IASB, however, its validity, with the participation of the constituent agents (Botzem, 2014), is important for the legislator to be considered the transnational standard-setter. Noel, Ayayi, & Blum (2010) argue that the way the IASB has functioned so far and its composition fail to meet the criteria of discourse ethics because even if there were a discourse to establish the conditions for the creation of discourse ethics (i.e., transparency of debates, consultation of different constituents involved at different levels), there are relationships of interest between the dominant economic agents/actors that are of great importance to a group of experts.

#### Insight 5 - Is the IFRS's due process legitimate?

Market forces clearly shape the regulation and application of international accounting standards harmonized with IFRS and have become a key piece in a globalized world with increasing uncertainty and informational asymmetry (Bhimani, 2008). In addition, they are an essential part of the IASB (Giner & Arce, 2012). These forces shaped even the predecessor body: the IASC lobbied on behalf of constituents and tended to support the majority positions held by those constituents, seeking acceptance from its constituency by adapting its position to that which was more palatable to the lobbyists (Kenny & Larson, 1993). Leuz et al. (2016) argue that the global adoption of IFRS represents one of the biggest regulatory events in accounting history.

IFRS governance is dominated by the G20 countries, and the IASB depends on financing by audit firms, the European Commission, and the G8 countries<sup>10</sup>, with different decisions to participate depending on the national regulatory background (e.g., for preparers in some jurisdictions) (Orens, Jorissen, Lybaert, & Van Der Tas, 2011; Teixeira, 2015). Although they are funded by local regulators, large international companies, audit firms, and educational entities, which gives such entities the opportunity to lobby directly, the staff strongly employs due process to gain confidence against claims from lobbyists (e.g., they survey users, test the consistency with which preparers are likely to apply a given set of words, and analyze comment letters) (Teixeira, 2015).

The sense of legitimacy is important for a board of technological experts who lack local enforcement in standardization (as Danjou & Walton stated in 2012, ‘The IASB writes the standards, and governments decide whether or not they want to use them’). In addition, legitimacy is not innate; it must be constructed and managed (Burlaud & Colasse, 2011) through strong due process. The IASB's due process allows for the participation of constituents, but actual participation is dominated by a few specialists (Wingard, Bosman, & Amisi, 2016) and by preparers with larger and more profitable businesses (Jorissen, Lybaert, Orens, & Van Der Tas, 2012); that is, although the IASB's due process may be considered transparent and strong, only those constituents with major financial and intellectual resources are expected to participate (Burlaud et al., 2011).

The process of making a standard code (or guideline) prompts an increase in the participation of constituents in multiple jurisdictions, but there is still little participation among non-English-speaking stakeholders and countries with values that are more similar to IFRS (Jorissen et al., 2013); even for the IFRS Interpretations Committee's agenda, this has been demonstrated (Larson, 2007). It is often said that a single agent (audit firms), due to significant participation in the financing of the IASB, is favored in the due process; however, Bamber & McMeeking (2016) found

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<sup>10</sup> Larson & Herz (2013) evaluated responses from multiple constituents to 57 IASB issues from 2011 through 2008 and found that countries with EU membership, G4+1 membership, donations to the IASB, and larger equity market development are associated with larger numbers of comment letters.

that the influence of audit firms is statistically lower. The members of the IASB consider the propositions made by audit firms, but most of the proposals are rejected compared with the acceptance rate of the propositions of other agents (e.g., preparers).

Jorissen et al. (2012) found that participation by constituents depends on whether the issue has a focus on (1) the accounting numbers of a company (with significantly higher participation by preparers, accountants, and standard-setters) or (2) disclosure issues (with significantly higher participation by stock exchanges and their supervisory authorities). Crawford, Helliar, and Power (2016) ascertained that stakeholders acted to influence the IASB's decision over the adoption of IFRS 8 depending on how much they were affected by the standard but that the IASB is not inclined to act on the concerns raised by certain audiences in relation to a particular standard. Participation can also differ according to the stage of debate on the IASB's agenda. Giner et al. (2012) evaluated (for the IFRS 2 project) that when the IASB started the project preparers participated more actively but that standard-setters increased their participation at the end.<sup>11</sup>

Researchers have been focusing attention on evaluating lobby in the primary source but have not seek information on derived sources of IFRS. This research should contribute to a new discussion of how to evaluate regulation, considering the sources that shapes IFRS.

#### Insight 6 - The regulators and their relationship to the IFRS system

Regulators relate to IFRS in several ways. First, accounting and its regulation work in a reactive way to society's demands. It is justifiable that there is a regulation in the case of IFRS, as reactive demand on capital markets and as an offer of regulators to a transnational market (i.e., market-craft regulation). Second, it is relevant that, as a

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<sup>11</sup> Studies in Brazil have also analysed the existence of lobbying (by the interest group theory) (Carmo, Ribeiro & Carvalho, 2014; 2018 and Carmo et al., 2016) based on analysing comment letters per standard for the influence of constituents. They have analysed subjects such as leasing and joint arrangement.

transnational system, local regulators retain some power to legislate. The adoption of IFRS comes from IOSCO's decision to endorse it to companies with shares around the globe and from governments and regulators having acknowledged the IASB as the source of standardization. In addition, local regulators are large funders of the IFRS Foundation.

Crises have prompted investors, lenders and regulators in the capital markets to realize the need for transparent (accounting) financial reporting. Transparency is one of the issues in the IASB committee's mission, and the agency's understanding is of the constant pursuit of a GAAP that improves the health and efficiency of markets; assists in efficient and informed decision-making of investors and lenders; makes investments more attractive; brings confidence to users that they are getting the information they need; and gives investors and lenders a basis for assessing how management used resources (stewardship) (IFRS Foundation, 2018.a).

The role of accounting, and the IFRS system in this scenario is to be “only one piece in the puzzle”, a small part of a larger picture. IFRS cannot be considered a systemic tool to avoid undesirable results, e.g., by creating an accounting rule to reduce leverage ratios or to recognize revenues before the actual transfer of control. Because, GAAP is intended to provide investors and lenders with useful information. The joint work between the regulatory sources and the regulators emerges as a rule of application, and the regulators and governance of the entity are creating appropriate rules to mitigate the results of business management by creating, for example, policies for distributing results to investors and employees (IFRS Foundation, 2018.a). Thus, accounting should not be an enclosure to mask the risks to which an entity is exposed.

Local market regulators (e.g., CVM) are major users and influencers of IFRS. For that purpose, they should consider issuing, or endorsing, all the guidances within the IFRS system. By applying agency theory and the contractual model of the firm, accounting has the function of measuring and informing the “slices” of stakeholders in a contractual relationship (Sunder, 1997). In addition, outcome of accounting may be the result of multiple factors such as financing needs, risks faced, legal limitations, incentives and remuneration policies and agreements. Thus, its application should not

be seen apart from the local system. For example, regulators may act within the IFRS system by interpreting and adapting the accounting to the local needs.

Regulators will continue to adjust their GAAP to meet jurisdiction needs. Regulated practices can be consistent with IFRS (Flores, Braunbeck, & Carvalho, 2017), but differences in implementation of practices and selections are expected to raise as a result of the regulatory agency. The regulator intention is to safeguard the needs of local users and creates policies aimed at the functioning of the local capital market. Therefore, their specific guidances shall not be interpreted as derived sources within the IFRS system for global application.

#### Insight 7 - Auditors and their relationship to the IFRS system

##### ***The normative interpretation of audit firms about gaps***

Accounting interpretation among audit firms tend to align, with rare, but still existing, circumstances of disagreement. Audit firms have an approximation when defining accounting and auditing standards in the international scenario (and in the Brazilian scenario, too), through its gathering on institutes. The institutes are responsible for searching for alignment in the interpretation of standards – i.e., to assist on consistent application of IFRS standards and accounting conventions. Nevertheless, the audit institutes have not issued normative documents, and the audit firms have the independence to issue their guidances.

Even so, some questions may be raised.

##### ***In cases of conflict between audit firms, for gaps in the standard, how should the accounting treatment of the entities proceed?***

In case of conflict between audit firms interpretation on how to apply IFRS for a specific situation, the main risk is to restate financial statements due to audit rotation. In the face of audit rotation, which is mandatory in certain jurisdictions (e.g., Brazil), there is a risk of restatements for material impacts of financial information by the change of audit firms. The re-presentation of financial information comparatively in another auditor's tenure requires the re-engagement, or a formal communication, with

the auditor that issued the audit report. This debate has “expensive” political negotiation cost to secure the financial information per the audit firm's guidance.

The “optimal” situation would be the implementation of a single document that demonstrates the alignment of the views of the audit firms, even when there are differences. Thus, it would be possible to raise and discuss divergences in the multiple gaps in international standards, to maintain the public good of assurance and to compare financial information. Even without legal enforcement, and still hierarchically “inferior” (in the context of IFRS system) to the IASB, the public awareness of the common (and divergent) views by the audit firms would be more useful than having their separated guidances. The IFRS system would be stronger and perhaps would be more legitimate.

***Is the normative interpretation of a Big 4 entity more “legitimate” than that of a non-Big 4?***

Yes, only the guidances issued by the Big 4 will rank at the level of international accounting sources. In the audit market, these firms have reputations and technical capacity with greater robustness than their smaller competitors. Even among two firms with identical technological capabilities, size is considered a determinant of audit quality. Firm size underscores the auditor's reputation and ability, reflecting a more robust client portfolio than its smaller competitors.

***Auditors and the IFRS system in the future***

In standards-based professions, society needs to decide about the disruptive effect of technology on certain processes and their barriers. When considering the self-regulation of the profession by auditors, it is assumed that this will remain the bridge of technical knowledge between the IASB and the entities that apply the accounting standards. Thus, the audit firms will remain one source of international accounting.

Even in an environment of highly technological interaction, auditing will continue as the source of assurance compliance of Generally Accepted Accounting Principles because of their importance to both accounting information users and capital market regulators. The demand for auditors to provide other services may arise, but it will

not diminish the importance of ensuring the financial information by auditing it. The audit service as provided now does not serve as a commodity.

#### Insight 8 - Considerations for distinctions between local accounting treatment and IFRS system sources

In some circumstances of local adoption of IFRS, divergences between local regulators and audit firms may arise. These circumstances are brought to the general public upon the formalization of the auditor's report. The most emblematic case in Brazil is the accounting of revenue in the real estate development sector.

For the presentation of consolidated financial statements in accordance with the standards issued by the IASB, the use of the IFRS system should predominate. That is, in case of material conflict, the audited entity will have published information that will not conform to international standards. It may also be necessary for the entity to provide information in accordance with the accounting principle of another standardizing body, a situation that does not benefit any party involved and increases compliance costs. As an example of the real estate development sector, Gafisa (a Brazilian public company with American Depositary Receipts) had to deposit its annual financial information (20-F) in the United States using the reconciliation of the information to the U.S. GAAP, even though the Brazilian rules and the North American market allows the delivery of information in compliance with IFRS.

Other, often non-public, examples demonstrate the central position of the audited and regulated entity between the “cross and the sword” (e.g., first adoption of IFRS and the postponement of initial adoption by local regulators).

#### Insight 9 - The local accounting treatment and the reduction of choices

##### *Business Combination under Common Control*

One project discussed in the IASB deals with “Transactions between Entities under Common Control.” The Brazilian Standard Board (CPC) has also analyzed the matter through a Technical Group created in 2015. The staff of the IASB has discussed the

topic in the committee since 2013, with intensification of the negotiations in search of a proposal for a document (DP *Discussion Paper*) for discussion in 2016.

In these cases, the source of the sources (IASB) does not determine how an entity counts the transaction. Considering that it is a business transfer under common control, IFRS 3 dealing with Business Combinations is not applicable. Nevertheless, this standard could be applied as an analogy to the specific norm of the primary source. That is, there is a dichotomy about which method should be applied in the acquisition of a business. In general, either the book method (cost) or the method of acquisition is applicable in such situations.

The U.S. GAAP determines that the acquirer in a business combination under common control should use the book value in its consolidated financial statement. Audit firms understand that the acquirer has an accounting choice in this case: applying the acquisition method (consistent with the specific standard, IFRS 3) or using the book value (cost) in the consolidated financial statements.

The technical staff of the Brazilian Securities and Exchange Commission consistently understand the application of the cost method (books) for such transactions (CVM, 2017).

#### *Other accounting policy restrictions*

Some practical accounting choices and expedients that exist in IFRS have been eliminated in Brazil, such as the revaluation of assets (because they are not provided for in Brazilian corporate law) and the exclusion of the case from evaluating whether there is a significant financing component in revenue in periods of less than 12 months (because there is a specific rule that deals with calculations at present value in the jurisdiction). Also, based on the adoption of the blue book, Brazil does not allow the early adoption of international standards (except for the amendment by the IASB that made it possible to measure subsidiaries using the equity method in separate statements).

Such differences between local accounting treatment and the international standard may reduce overall comparability between entities in that jurisdiction and entities elsewhere on the globe; however, they do not result in the information disagreeing

with the IFRS. On the other hand, the exclusion of the practical expedient from the significant financing component increases the comparability between entities in that jurisdiction.

#### Insight 10 - The process of financing the IASB

The IASB should have a budget independent of external pressures to maintain its independent technical positions and agenda. Considering the standardizing power of the IASB Committee and the Interpretations Committee (including the latter with the issuance of technical rejections), it is vital that their processes are independent of shadow interests and thus unclear. The committees and staff of the IASB should have autonomy in dealing with the multiple jurisdictions and with the technical groups set up to discuss the issues on their agenda. In this sense, the IFRS Foundation has been performing the work of transparency on the technical agenda.

Thus, the IFRS Foundation, a non-governmental and private entity, currently has multiple actions as its practice, including the disclosure of its agenda for the coming periods; the interaction with multiple jurisdictions and the public disclosure of their meetings; the opening of comments to the decisions of the committees; and the dissemination of bases for conclusion in the standards issued and debated by the committees, with the interaction within the green paper for the rejections of the IFRS IC agenda. These actions are important to maintain the flexibility, transparency and legitimacy of the body.

Nonetheless, there is concern about the still high rate of contributions by audit firms (which were 32% of the 2016 budget, 35% in 2017, 24% in 2018 and 20% in 2019)<sup>12</sup>. Even if the agreements with the jurisdictions and the internal publications, made by the Foundation itself, are the majority of appeals, in the technical bodies and most of the staff have (a past, present or future) relationships with the audit firms around the globe. When certain technical positions are deliberated, there is still

<sup>12</sup> The total contributions from international audit firms have been, in thousands, £7,645, £8,707, £5,379 and £3,968, respectively from 2016 to 2019. The total contributions to the Foundation have been £24,078, £25,084, £22,007 and £19,994, respectively from 2016 to 2019. (IFRS Foundation, 2020.d)

concern by certain constituents that question the proportion that is contributed by the auditors.

Although, I believe that this discomfort occurs in situations when ‘what was expected to be heard is not said’ by the committees – because there are situations when the opinion of the audit firms is not the outcome.

Thus, the IASB needs to value independence; because, it is an international organization that creates and maintains high-quality accounting standards, with multiple jurisdictional consultations, among other technical actions that aimed at transparency to the constituents. Nonetheless, I highlight concern about the IASB’s high technical dependence on the knowledge of the auditors – that can be seen in the way that staff’s technical positions are written, e.g., adding opinions or in the staff’s view. The IASB is not immune from this bias because audit firms have the structure to participate in all interactions with the body in public consultations, while other actors may feel able to interact on only few occasions. This is a cost of the standard-setter to an international accounting standards system that must be sustained by all constituents.

#### Insight 11 – Limiting conventions

IASC’s Statement of Developing a Common International Approach, from 1987, states that “accounting is to some extent a matter of convention”. The “job” of the standard-setter is to filter out those practices which are unsound, then reducing “the number of alternative accounting principles and so contributes to harmonisation of accounting standards” (IASC, 1987). This finding corroborates Sunder (1997) rationality for the standard-setting conventions:

*Once an accounting issue has been identified as a matter of convention, the standard setter can proceed expeditiously to select a standard to minimize the cost of adjustment because otherwise all options are equally desirable for all agents. (Sunder, 1997)*

Brazil 1986 Accounting Framework defined that principles guide the direction and sometimes the various parallel paths that can be taken. Conventions will, in the light

of each situation, instruct the final choice. Therefore, conventions delimit economic concepts consolidating all the experiences and common sense of the profession in the treatment of accounting problems. (CVM, 1986)

I have presented, in this research, three instances of accounting gaps or options that emerged conventions for IFRS application. On those, IASB has worked or is working to filter conventions to enhance international harmonization.

#### 1. Real estate revenue recognition in Brazil:

Since the adoption of IFRS 15, the real estate market in Brazil has debated the correct recognition of revenue – i.e., whether entities perform and transfer control to the customer over time, in accordance to paragraph 35 of IFRS 15, or at a specific point in time, in accordance to paragraph 38 of IFRS 15. Debates in Brazil about this matter have not come to a common conclusion (among preparers, supervisors and regulators). Therefore, CPC sent a letter to the international legislator with an expectation of arbitration on the matter. It was questioned whether the Brazilian development contract, a multi-residential model, “clearly” transferred the control of the project throughout the work or only at the end.

The IFRS Interpretations Committee (IFRS IC), for its September 2017 meeting, received the request – i.e., how to recognize revenue in a sale of a unit in a multi-unit residential complex. Specifically, a request for a question on the application of paragraph 35 of IFRS 15, that specifies when an entity recognizes revenue over time.

The IFRS IC in a document more detailed than usual expressed its interpretation that none of the requirements of paragraph 35 of IFRS 15 is met. So, an entity must recognize revenue at a specific point in time, applying paragraph 38 of IFRS 15 (IFRS Foundation, 2018.c).

#### 2. Business Combination under Common Control

In the current set of standards, IASB does not determine how an entity accounts business combination under common control. Considering that it is a business transfer under common control, IFRS 3 dealing with Business Combinations is not applicable. Nevertheless, this standard could be applied as an analogy to the specific

norm of the primary source. That is, there is a dichotomy about which method should be applied in the acquisition of a business. In general, either the book method (i.e., cost basis) or the method of acquisition (i.e., fair value basis) is applicable in such situations.

The IASB has an ongoing project to standardize how to account for in these transactions, because there is diversity in practice. The scope of the project is to standardize account for M&A (Mergers and Acquisitions) that are made within economic group (Under Common Control) as well as other transactions under common control that involve a transfer of control over one or more businesses. In a past analyzes (KASB, 2013), South Korea, United States, Hong Kong and Japan has positioned the use of ‘predecessor cost basis’; and, Canada and New Zealand has positioned the use of ‘fair value basis’; while, Germany, Australia and United Kingdom have in their jurisdictions both methods been applied. In Brazil, the regulator has standardized that companies shall apply the ‘predecessor cost basis’.

So far, IASB’s staff have proposed, and the Board has agreed, that fair value approach must be applied to all transaction based on whether the receiving entity’s equity instruments (i.e., shareholders) are traded in a public market – where the regulatory environment tend to particular scrutiny to protect NCI, independent on the nature or size of these shareholders.

### 3. Cash flow statement – the starting point and interest paid and received

The IASB published the Exposure ‘Draft General Presentation and Disclosures’ on December 2019 to improve the presentation of the statement of profit or loss. But, the IASB has also proposed “limited changes to the statement of cash flows” (IFRS Foundation, 2020.c). First, IASB proposed to remove the classification choice for interest. Second, the Board proposed to require as the starting point for reporting cash flows from operating activities the operating profit subtotal.

## **Appendices B: List of tables and figures**

### **List of tables**

Table 1—Evidence of practices in specific standards

<b>Opportunity for differences in IFRS</b>	<b>Descriptive summary of opportunity</b>	<b>Proposition</b>
<b>Evidence of GAAP within international standards, as per specific rule</b>		
<b>Accounting choices</b>	Prior to the creation of the IASB, the international standards of its predecessor (IASB) allowed a large number of choices. This was partly because many standards were written before the conceptual framework and because the committee needed a majority of votes. The members at that time were of diverse origins and were subject to (more) political pressure. One way to pass a rule in this context was to include options; these were gradually removed, particularly in 1993 and 2003, because of two ‘improvement’ exercises, although accounting choices over options still remain and have been a focus of research on accounting system classification. The research question is whether such options are systematically exercised differently, such that there are international accounting differences. These have generated a fertile field of research on the classification of accounting systems in the IFRS era (please refer to the specific section of this research for a review of published articles).	The choices in the international standards are adopted differently compared to the method previously adopted in the jurisdiction.
<b>First adoption or transition rules</b>	Certain choices in the transition to a new standard may exert short- and long-term effects on the financial statements. An example is the choice of the use of deemed cost or of retroactive impacts upon adoption that is allowed in a new standard or a change. Different treatment given by the entity before IFRS has a significant effect on financial statements.	Different treatment given by the entity before IFRS has a significant effect on financial statements.

Source: Adapted from Nobes (2006)

Table 2—International accounting policies that do not appear in a specific rule

<b>Opportunity for differences in IFRS</b>	<b>Descriptive summary of opportunity</b>	<b>Proposition</b>
<b>Possible GAAP that require usage of guidances</b>		
<b>Gaps</b>	Nobes (2006) states that there should be no gaps in international standards, since IAS 8 determines how the entity should proceed in accounting policies that are not included in a specific standard. Therefore, the choice of an entity, provided according to IAS 8.10, should conform to international standards. Nevertheless, these shortcomings allow considerable room for maneuvering and different practice choices. There are derived sources in the IFRS system that seek to contribute to the application of accounting principles when these situations arise.	For certain topics, there is no specific guidance in IFRS.
<b>Covert options, vague criteria, and interpretations</b>	The international GAAP can generate divergences on the understanding of concepts and adoption by the entities of criteria in different ways, such as understanding conservatism in applying	The covert options are

	<p>the ‘likely’ criterion. This is due to the IASB’s preference for issuing principles-based (Customary-law) rules rather than a rule-based (Roman-law) standard, with multi-scenario prescription, resulting in a wide range of interpretations in similar cases.</p> <p>The Interpretations Committee (IC) assumes the role of interpreting and presenting considerations about certain items presented to it. There is increasing pressure by regulators and preparers for further interpretation by the IASB in specific scenarios and situations. Although regulators have a tendency to coordinate their activities by the International Organization of Securities Commissions (IOSCO), different national interpretations may arise formally or informally. There is a risk of conflict between these guidances by jurisdiction and the derived sources (guidances of the audit firms) of the IFRS system under these circumstances, which damages the legitimacy of the IASB.</p>	adopted in a diffuse way.
<b>Accounting estimates</b>	The use of estimates by the entity’s management can be considered in the accounting management area. Estimates should be determined by tradition, convenience, and fiscal impacts.	The estimates in IFRS are judged differently.

Source: Adapted from Nobes (2006)

Table 3—Accounting principles by jurisdiction that diverge in international adoption

<b>Opportunity for differences in IFRS</b>	<b>Descriptive summary of opportunity</b>	<b>Proposition</b>
<b>Creation of GAAP beyond international standards</b>		
<b>Different versions of IFRS</b>	The declaration of direct compliance with IFRS is not required for individual financial statements; the GAAP by jurisdiction have become closer to IFRS, but they are not exactly the same. There are jurisdictions that are ‘converged to IFRS’, but full adoption of the international standard is not ensured. This may also occur in certain jurisdictions in consolidated financial information.	International differences in practice exist between companies that adopt international practice due to different versions of IFRS.
<b>Different translations from English to local languages</b>	The process of translating the standards into other languages can lead to changes or loss of meaning of the original version of the standards, which are written in English. The red book of audit firms is translated officially in some languages and made available on the IFRS Foundation’s website; nevertheless, there is a risk of divergences in the meaning of the translation, especially when a local standard-setter does a second tier of translation (e.g., Brazil).	For certain topics, different translations of the IFRS standards lead to different practices.
<b>Imperfect endorsement</b>	Despite the requirement to use IFRS in consolidated financial statements, the degree of application of the rules (and therefore their compliance) varies by inspection and regulation factors in certain localities.	The degree of adoption of the standard is different between the adopters.

Source: Adapted from Nobes (2006) and Nobes & Zeff (2016)

Table 4 – List of Standards for each topic

<b>Topic</b>	<b>Standard</b>
<b>Presentation issues</b>	IAS 1; 27
<b>Inventories</b>	IAS 2
<b>Statement of cash flows</b>	IAS 7
<b>Accounting policies, errors and estimates</b>	IAS 8
<b>Events after the reporting date</b>	IAS 10
<b>Income taxes</b>	IAS 12; IFRIC 23; SIC 25
<b>Property, plant and equipment</b>	IAS 16; IFRIC 1
<b>Employee benefits</b>	IAS 19; 26; IFRIC 14
<b>Government grants</b>	IAS 20; SIC 10
<b>Foreign transactions adjustments and Hyperinflation</b>	IAS 21; 29; IFRIC 7; 22
<b>Borrowing costs</b>	IAS 23
<b>Related party disclosures</b>	IAS 24
<b>Associates and the equity method</b>	IAS 28
<b>Earnings per share</b>	IAS 33
<b>Interim financial reporting</b>	IAS 34
<b>Impairment</b>	IAS 36; IFRIC 10
<b>Provisions, contingent assets and liabilities</b>	IAS 37; IFRIC 5; 6; 21
<b>Intangibles</b>	IAS 38; SIC 32
<b>Investment property</b>	IAS 40
<b>Biological assets</b>	IAS 41
<b>First-time adoption of IFRS</b>	IFRS 1
<b>Share-based payments</b>	IFRS 2
<b>Business combinations</b>	IFRS 3
<b>Extractive activities</b>	IFRS 6; IFRIC 20
<b>Non-current assets held for sale and discontinued operations</b>	IFRS 5
<b>Operating segments</b>	IFRS 8
<b>Service concession arrangements</b>	IFRIC 12; SIC 29
<b>Financial Instruments</b>	IFRS 9; IAS 32; 39; IFRIC 2; 16; 17; 19; SIC 7
<b>Consolidation</b>	IFRS 10
<b>Joint arrangements</b>	IFRS 11
<b>Disclosure of interests in other entities</b>	IFRS 12
<b>Fair value measurement</b>	IFRS 13
<b>Regulatory deferral accounts and first-time adoption of IFRS</b>	IFRS 14
<b>Revenue</b>	IFRS 15
<b>Leases</b>	IFRS 16

The data was sorted by the year the (main) Standard was originally issued.

Source: Adapted from KPMG (2020)

Table 5 – Data captured for each topic

Topic	Standard (1)	AG (2)	IE (3)	IG (4)	BC (5)	IFRS IC (6)	U.S. GAAP (7)	KPMG (8)
Presentation issues	174	-	43,697	-	209	20	82	15
Inventories	40	-	-	-	23	7	35	3
Statement of cash flows	61	-	16,033	-	27	6	31	10
Accounting policies, errors and estimates	55	-	6,370	-	34	3	18	3
Events after the reporting date	23	-	-	-	4	1	16	7
Income taxes	122	5	78,831	-	101	22	64	14
Property, plant and equipment	87	-	11,649	-	170	8	25	3
Employee benefits	236	-	11,759	-	357	28	100	12
Government grants	42	-	-	-	1	1	9	-
Foreign transactions adjustments and Hyperinflation	117	-	21,344	-	104	8	39	8
Borrowing costs	27	-	-	-	32	6	13	5
Related party disclosures	30	-	8,128	-	52	2	22	4
Associates and the equity method	50	-	-	-	76	6	46	29
Earnings per share	79	16	52,166	-	15	2	24	8
Interim financial reporting	47	9	21,193	-	9	2	20	1
Impairment	138	30	78,802	-	245	5	49	9
Provisions, contingent assets and liabilities	126	-	27,555	-	55	8	62	14
Intangibles	142	-	12,391	-	124	9	38	2
Investment property	71	-	-	-	88	-	26	3
Biological assets	49	-	11,496	-	97	4	15	1
First-time adoption of IFRS	26	71	-	69	157	3	-	-
Share-based payments	69	64	-	32	442	10	110	34
Business combinations	70	68	56,014	-	458	17	44	19
Extractive activities	41	-	-	-	78	1	37	3
Non-current assets held for sale and discontinued operations	51	1	-	-	106	7	39	3
Operating segments	35	-	-	7	64	1	6	-
Service concession arrangements	35	-	33,421	-	80	3	15	1
Financial Instruments	447	504	256,180	36	1,993	67	361	39
Consolidation	35	124	10,962	-	308	6	77	14
Joint arrangements	28	42	33,482	-	83	11	16	1
Disclosure of interests in other entities	43	25	-	-	141	2	11	-
Fair value measurement	99	47	68,876	-	236	1	21	2
Regulatory deferral accounts and first-time adoption of IFRS	36	28	27,913	-	69	-	-	-
Revenue	129	95	213,936	-	646	7	23	-
Leases	103	58	102,641	-	306	4	72	4

1 Standard, as issued by IASB and CPC

2 Application guidance, as issued by IASB and CPC

3 Illustrative examples of the Standard, as issued by IASB and IC

4 Implementing Guidances, as issued by IASB and IC

5 Basis for Conclusion, as issued by IASB

6 Interpretation Committee's agenda declination, rejection or decision

7 Technical position by other standard board that uses similar framework of IASB – U.S. GAAP

8 Audit firm's book

Source: Prepared by the author

Table 6 – Analysis example based on ‘Revenue’ topic

	<b>Data</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 4</b>
<b>Standard</b>	129	2,963	4.4%	10.1%
<b>Application Guidance</b>	95	1,187	8.0%	18.5%
<b>Illustrative Examples</b>	213,936	1,204,839	17.8%	41.0%
<b>Implementing Guidances</b>	-	144	0.0%	0.0%
<b>Basis for Conclusion</b>	646	6,990	9.2%	21.3%
<b>IC ADs</b>	7	284	2.5%	5.7%
<b>U.S.GAAP</b>	23	1,566	1.5%	3.4%
<b>KPMG’s views</b>	-	271	0.0%	0.0%
<b>Total</b>	<b>(data from Table 5)</b>	<b>Step 3</b>	43.3%	<b>Step 5</b> 100.0%

Source: Prepared by the author

Table 7 – Data, trendline of the iceberg from IASC to IASB

<b>Topic</b>	<b>IASB Guidances</b>	<b>Other sources</b>
<b>Presentation issues</b>	65%	35%
<b>Inventories</b>	56%	44%
<b>Statement of cash flows</b>	51%	49%
<b>Accounting policies, errors and estimates</b>	64%	36%
<b>Events after the reporting date</b>	25%	75%
<b>Income taxes</b>	68%	32%
<b>Property, plant and equipment</b>	77%	23%
<b>Employee benefits</b>	69%	31%
<b>Government grants</b>	76%	24%
<b>Foreign transactions adjustments and Hyperinflation</b>	64%	36%
<b>Borrowing costs</b>	55%	45%
<b>Related party disclosures</b>	52%	48%
<b>Associates and the equity method</b>	26%	74%
<b>Earnings per share</b>	67%	33%
<b>Interim financial reporting</b>	75%	25%
<b>Impairment</b>	74%	26%
<b>Provisions, contingent assets and liabilities</b>	53%	47%
<b>Intangibles</b>	77%	23%
<b>Investment property</b>	57%	43%
<b>Biological assets</b>	80%	20%
<b>First-time adoption of IFRS</b>	100%	0%
<b>Share-based payments</b>	67%	33%
<b>Business combinations</b>	72%	28%
<b>Extractive activities</b>	45%	55%
<b>Non-current assets held for sale and discontinued operations</b>	62%	38%
<b>Operating segments</b>	95%	5%
<b>Service concession arrangements</b>	82%	18%
<b>Financial Instruments</b>	81%	19%
<b>Consolidation</b>	65%	35%
<b>Joint arrangements</b>	90%	10%
<b>Disclosure of interests in other entities</b>	90%	10%
<b>Fair value measurement</b>	89%	11%
<b>Regulatory deferral accounts and first-time adoption of IFRS</b>	100%	0%
<b>Revenue</b>	97%	3%
<b>Leases</b>	79%	21%

Source: Prepared by the author

Table 8 – Data captured by topic for alternative measure (quantity of characters)

Topic (*)	Standard (1)	AG (2)	IG (3)	BC (4)
Presentation issues	94,613	-	-	142,762
Inventories	19,712	-	-	9,262
Statement of cash flows	29,933	-	-	14,596
Accounting policies, errors and estimates	29,784	-	-	20,052
Events after the reporting date	12,714	-	-	2,896
Income taxes	96,982	2,324	-	60,845
Property, plant and equipment	47,406	-	-	114,624
Employee benefits	142,111	-	-	246,443
Government grants	17,440	-	-	1,431
Foreign transactions adjustments and Hyperinflation	60,628	-	-	67,444
Borrowing costs	12,023	-	-	19,816
Related party disclosures	17,162	-	-	33,873
Associates and the equity method	30,650	-	-	46,493
Earnings per share	40,944	13,040	-	8,563
Interim financial reporting	30,276	3,644	-	5,351
Impairment	88,076	17,679	-	213,791
Provisions, contingent assets and liabilities	55,472	-	-	39,852
Intangibles	81,690	-	-	100,605
Investment property	40,654	-	-	68,191
Biological assets	22,686	-	-	68,751
First-time adoption of IFRS	16,679	50,247	36,352	123,146
Share-based payments	52,152	39,256	24,811	287,556
Business combinations	39,564	63,559	-	387,240
Extractive activities	15,946	-	-	49,366
Non-current assets held for sale and discontinued operations	27,866	2,149	746	65,627
Operating segments	25,064	-	3,122	33,239
Service concession arrangements	15,754	1,119	-	57,812
Financial Instruments	317,333	452,200	27,371	1,505,756
Consolidation	12,478	99,452	-	193,633
Joint arrangements	8,865	31,959	-	59,504
Disclosure of interests in other entities	23,568	14,738	-	84,752
Fair value measurement	58,079	45,584	-	174,807
Regulatory deferral accounts and first-time adoption of IFRS	18,411	20,277	-	57,200
Revenue	80,581	59,116	-	562,448
Leases	42,955	34,561	-	245,618

1 Standard, as issued by IASB and CPC

2 Application guidance, as issued by IASB and CPC

3 Implementing Guidances, as issued by IASB and IC

4 Basis for Conclusion, as issued by IASB

(\*) For the other data, please refer to Table 5.

Source: Prepared by the author

Table 9 – Data captured for extra topics

Topic	Standard (1)	AG (2)	IE (3)	IG (4)	BC (5)	IFRS IC (6)	U.S. GAAP (7)	KPMG (8)	
Old Revenue	108	3	38,699	0	56		0	67	12
Old Leases	99	-	8,335	4	83		1	52	13

1 Standard, as issued by IASB and CPC

2 Application guidance, as issued by IASB and CPC

3 Illustrative examples of the Standard, as issued by IASB and IC

4 Implementing Guidances, as issued by IASB and IC

5 Basis for Conclusion, as issued by IASB

6 Interpretation Committee's agenda declination, rejection or decision

7 Technical position by other standard board that uses similar framework of IASB – U.S. GAAP

8 Audit firm's book

Source: Prepared by the author

Table 10 – Proposition test for all codification measures

	<u>Count of items</u>				<u>Count of characters</u>			
	<u>IASB</u>		<u>Other sources</u>		<u>IASB</u>		<u>Other sources</u>	
	Mandatory	Non-mandatory	U.S. GAAP	Audit firm's	Mandatory	Non-mandatory	U.S. GAAP	Audit firm's
pre Lease	20%	31%	20%	29%	16%	44%	16%	23%
Leases	29%	50%	16%	5%	23%	55%	17%	5%
H1:	Accepted	Accepted			Accepted	Accepted		
H2:				Accepted				Accepted
pre Revenue	24%	24%	26%	26%	21%	25%	27%	28%
Revenue	29%	68%	3%	0%	25%	71%	3%	0%
H1:	Accepted	Accepted			Accepted	Accepted		
H2:				Accepted				Accepted

Source: Prepared by the author

Table 11 – Data captured by topic for less principles-based content measures

Topic (*)	Standard (1)	AG (2)	IG (3)	BC (4)
Presentation issues	173	-	-	179
Inventories	11	-	-	6
Statement of cash flows	35	-	-	10
Accounting policies, errors and estimates	42	-	-	16
Events after the reporting date	20	-	-	2
Income taxes	96	5	-	37
Property, plant and equipment	73	-	-	91
Employee benefits	197	-	-	258
Government grants	25	-	-	-
Foreign transactions adjustments and Hyperinflation	73	-	-	51
Borrowing costs	17	-	-	21
Related party disclosures	18	-	-	27
Associates and the equity method	35	-	-	34
Earnings per share	56	2	-	5
Interim financial reporting	61	4	-	8
Impairment	124	8	-	146
Provisions, contingent assets and liabilities	77	-	-	18
Intangibles	96	-	-	65
Investment property	68	-	-	34
Biological assets	31	-	-	54
First-time adoption of IFRS	37	125	54	129
Share-based payments	140	44	36	115
Business combinations	103	67	-	244
Extractive activities	39	-	-	31
Non-current assets held for sale and discontinued operations	75	5	14	57
Operating segments	62	-	9	40
Service concession arrangements	20	3	-	31
Financial Instruments	526	312	66	788
Consolidation	24	97	-	97
Joint arrangements	23	37	-	36
Disclosure of interests in other entities	56	29	-	102
Fair value measurement	115	30	-	111
Regulatory deferral accounts and first-time adoption of IFRS	45	57	-	44
Revenue	162	95	-	247
Leases	132	41	-	144

1 Standard, as issued by IASB and CPC

2 Application guidance, as issued by IASB and CPC

3 Implementing Guidances, as issued by IASB and IC

4 Basis for Conclusion, as issued by IASB

(\*) For the other data, please refer to Table 5.

Source: Prepared by the author

Table 12 – List of respondents to the survey

	<b>Contacts</b>	<b>Companies</b>
<b>Number of contacts to whom the survey was sent to</b>	<b>4,387</b>	<b>3,802</b>
<b>Error notification (e.g., Out of office message, Message blocked)</b>	<b>(585)</b>	<b>(410)</b>
<b>Messages sent without an error notification</b>	<b>3,802</b>	<b>3,392</b>
<b>Number of contacts that have not answered the survey</b>	<b>(3,721)</b>	<b>(3,315)</b>
<b>Number of responses to the survey</b>	<b>81</b>	<b>77</b>
<b>The company is not an IFRS adopter</b>	<b>(6)</b>	<b>(6)</b>
<b>The company is an IFRS SME adopter</b>	<b>(22)</b>	<b>(22)</b>
<b>The respondent is not an IFRS specialist</b>	<b>(3)</b>	<b>(3)</b>
<b>More than one respondent from the same company</b>	<b>(2)</b>	<b>-</b>
<b>Responses received after May 11 of 2020</b>	<b>(5)</b>	<b>(3)</b>
<b>Total of responses considered for cluster analyses</b>	<b>43</b>	<b>43</b>

Source: Prepared by the author

Table 13 – Population of respondents

Respondent	With an Audit Committee?	Audited by a Big4?	Private or Public entity?	Sector
1	No	Yes	Private	Energy
2	Yes	Yes	Private	Transportation
3	Yes	No	Private	Real estate
4	Yes	No	Private	Infrastructure
5	Yes	Yes	Public	Energy
6	Yes	Yes	Public	Consumer Staples
7	Yes	No	Private	Transportation
8	Yes	Yes	Public	Oil & Gas
9	No	No	Private	Consumer Staples
10	Yes	Yes	Private	Insurance
11	Yes	Yes	Private	Insurance
12	Yes	Yes	Private	Industrials
13	No	Yes	Private	Utilities
14	Yes	Yes	Public	Transportation
15	Yes	Yes	Private	Industrials
16	Yes	No	Private	Oil & Gas
17	Yes	No	Private	Industrials
18	No	No	Private	Industrials
19	Yes	No	Private	Consumer Staples
20	Yes	Yes	Public	Energy
21	Yes	No	Private	Agribusiness
22	Yes	Yes	Public	Utilities
23	No	No	Private	Health Care
24	Yes	No	Private	Agribusiness
25	Yes	No	Private	Consumer Staples
26	Yes	No	Private	Transportation
27	Yes	No	Private	Utilities
28	Yes	Yes	Private	Industrials
29	No	No	Private	Consumer Staples
30	No	No	Private	Financials
31	Yes	Yes	Public	Transportation
32	Yes	No	Private	Communication
33	Yes	No	Private	Transportation
34	Yes	Yes	Public	Financials
35	Yes	No	Private	Financials
36	Yes	Yes	Private	Consumer Staples
37	Yes	No	Private	Energy
38	Yes	Yes	Public	Health Care
39	Yes	Yes	Public	Utilities
40	Yes	No	Public	Financials
41	Yes	Yes	Public	Health Care
42	Yes	No	Public	Industrials
43	Yes	No	Public	Utilities

Source: Prepared by the author

Table 14 – Variables for relevance of the guidances to preparers

<b>Guidance</b>	<b>All entities</b>	<b>Public entities</b>	<b>Private entities</b>	<b>Auditted by a Big4</b>	<b>Not auditted by a Big4</b>	<b>With an Audit Committee</b>	<b>Without an Audit Committee</b>
<b>Standard</b>	100%	100%	99%	100%	95%	100%	98%
<b>Application guidance</b>	98%	98%	97%	98%	91%	97%	96%
<b>Framework</b>	91%	90%	91%	91%	91%	93%	88%
<b>Illustrative examples</b>	85%	88%	84%	85%	84%	88%	81%
<b>Implementing guidances</b>	84%	91%	80%	84%	82%	90%	76%
<b>CPC orientation</b>	96%	93%	97%	94%	100%	95%	95%
<b>Basis for conclusion</b>	81%	86%	78%	81%	77%	86%	75%
<b>IFRS IC AD</b>	70%	71%	69%	69%	70%	75%	62%
<b>Educational material</b>	70%	67%	71%	70%	66%	69%	69%
<b>Technical position by other Standard-Setter</b>	58%	61%	57%	61%	41%	57%	59%
<b>Market practice</b>	90%	87%	91%	87%	98%	86%	91%
<b>Current auditor</b>	89%	91%	87%	90%	77%	90%	86%
<b>Not current auditor</b>	76%	83%	72%	77%	68%	75%	75%
<b>Regulator's Requirement</b>	89%	93%	86%	88%	89%	88%	88%
<b>Academic literature</b>	77%	64%	83%	76%	80%	73%	79%
<b>Local legislation</b>	100%	99%	100%	99%	100%	98%	100%
<b>Quantity of respondents</b>	<b>43</b>	<b>14</b>	<b>29</b>	<b>36</b>	<b>7</b>	<b>20</b>	<b>23</b>

Source: Prepared by the author

Table 15 – Market need for international accounting: Review of published chapters

Category	Sub-Category	Publication	Year	Quotation
<b>Harmonization of markets</b>	Cost constraint; and Make international commerce more efficient	The Globe and Mail (Canada)	March 31, 1980	<i>While international accounting standards harmonization is a worthwhile effort, it is not of such critical importance as some would like to suggest. International trade is certainly not going to grind to a halt for lack of international standards. But international trade and investment would be less costly and more efficient with some reasonable degree of harmonization than without any harmonization at all.</i>
<b>Harmonization of markets</b>	Improve and standardize financial reporting	The New York Times	July 8, 1980	<i>(...) international agencies and the major accounting firms to “agree on program of action to improve and standardize financial reporting by multinational companies.” However, such harmonization will likely prove to be slow process</i>
<b>Harmonization of markets</b>	Common language; and Make international commerce more efficient	The New York Times	February 8, 1981	<i>The ever-quicken pace of international trade has given rise to a call to establish a global set of accounting standards. Accounting, advocates of such a system say, is the language of business, and it should speak with a common vocabulary, which would make international commerce more efficient.</i>
<b>Harmonization of markets</b>	Cost constraint – multinational offering	The Globe and Mail (Canada)	July 1, 1988	<i>One accounting standard acceptable in all jurisdictions would simplify the preparation of a prospectus for a multinational offering.</i>
<b>Harmonization of markets</b>	N/A	The Financial Post (Toronto, Canada)	July 21, 1988	<i>We believe the ground internationalization of financial markets makes this an increasingly important issue.</i>
<b>Harmonization of markets</b>	Cross-border trading	The Nikkei Weekly (Japan)	October 24, 1994	<i>Securities regulators from around to world agreed last week to cooperate more closely over increasing cross-border trading.</i>
<b>Harmonization of markets</b>	Cross-border investment	Investor Relations Business	September 22, 1997	<i>The call for more harmony in capital market financial reporting and disclosure can be expected to continue as investors have broadened their horizons beyond national borders, said the chief accounting of the Securities and Exchange Commission in a recent speech.</i>
<b>Harmonization of markets</b>	IOSCO	The Financial Post (Toronto, Canada)	September 27, 1996	<i>Harmonization of international disclosure and accounting standards, to create a common language for primary and secondary investing around the globe, is one major issue with which the committee is dealing</i>

<b>Harmonization of markets</b>	Influence of investors; and Influence of SEC to encourage countries in international accounting harmonization	The Washington Post	September 30, 1997.	<i>SEC Chairman Arthur Levitt Jr. called for international accounting standards based on the needs of investors and capital markets, and said harmonization will only succeed if it provides "credible information grounded in transparent financial reporting." At a conference of the Inter-American Development Bank, Levitt acknowledged that accounting standards shaped by the needs of investors and capital markets won't be the easiest form of harmonization.</i>
<b>Harmonization of markets</b>	Cost constraint; Investing in U.S. stock exchange	<i>Investor Relations Business</i>	March 20, 2000	<i>Increased foreign listing on U.S. exchanges is becoming inevitable as the New York Exchange and Nasdaq plan to go public this year, and foreign companies represent an important market. NYSE Chairman Richard Grasso recently said that the Big Board intends to add 2,000 listings by foreign companies this year. Foreign companies that list in the U.S. currently have to reconcile their financial reporting with U.S. Generally Accepted Accounting Principles (GAAP), which many have complained is costly and inconvenient. By allowing looser international accounting standards, the SEC would encourage more foreign companies to list in the U.S., offering investors greater choice, Ruder said (SEC Chairman David Ruder).</i>
<b>Harmonization of markets</b>	N/A	National Post (Canada)	April 02, 2001.	<i>In response to globalization, we increasingly set accounting standards with a view to global harmonization.</i>
<b>Harmonization of markets</b>	Cost constraint	<i>Daily Deal (New York, NY)</i>	June 8, 2001	<i>The hope is that the international effort to harmonize accounting standards takes the best ideas of the different national standards boards and is willing to do away with those accounting principles that unduly burden issuers and increase cost of capital.</i>
<b>Improve transparency</b>	Comparability of Financial Statements	The Globe and Mail (Canada)	September 24, 1982	<i>Investors and creditors of such companies need to be able to evaluate financial statements on a comparable basis.</i>
<b>Improve transparency</b>	Promote better corporate governance	The Nikkei Weekly (Japan)	March 15, 1999	<i>Application of greater transparency and information disclosure in government regulations and processes, especially with regard to harmonization of international standards – such as in accounting – to improve openness and promote better corporate governance.</i>

<b>Improve transparency</b>	Corporate finance scandal	The Daily Yomiuri (Tokyo)	May 9, 2000	<i>Japanese financial accounting principles remain inconsistent and obscure, and market value accounting for current assets and liabilities is not adequately enforced. It is imperative that the Japanese government does all that it can to promote financial transparency, as improper disclosure and accounting principles undermine confidence in the financial system and act as barriers to increased investment in the Japanese economy. Wherever possible, accounting and disclosure practices should be consistent with the accepted international standards as set out by such bodies as the Organization for Economic Cooperation and Development.</i>
<b>Differences in accounting treatments for similar transactions</b>	Too much standardization	Forbes	December 7, 1981	<i>Differences in accounting abound. Some nations allow far more reserving than we do, for example. That means their earnings probably aren't as low as they look. Others, such as the Dutch, have long used inflation accounting, which also depresses reported earnings by our standards. In most cases, the level of disclosure is significantly less than that in the U.S. Ideally, the answer would be to convince everyone to standardize accounting. (...) one of the basic problems has been a drive for too much standardization. After all, corporations must respond to the varying social, political and economic pressures of their individual nations, and cannot be expected to subscribe to an all-purpose accounting system, What they can be expected to do is to make translatable the system they are using.</i>
<b>Differences in accounting treatments for similar transactions</b>	Comparability	The Washington Post	July 26, 1991	<i>In a growing number of areas, accounting rules now shape both the perception and reality of competitiveness.(...) it's clear that disparities in accounting rules can have a disproportionate impact on both a company's and an industry's ability to compete in global markets.</i>
<b>Differences in accounting treatments for similar transactions</b>	Cost constraint; Global harmonization	The Financial Post (Toronto, Canada)	August 12, 1997	<i>Canada's accounting profession wants to eliminate differences between Canadian, U.S., and international accounting rules and discourage creation of new ones. With increasing globalization of business activities and capital markets, greater harmonization of accounting principles and practices</i>

				<i>would be useful. It also seems inevitable.</i>
<b>Differences in accounting treatments for similar transactions</b>	Influence of IOSCO and SEC to encourage countries in international accounting harmonization	Venture Capital Journal	April 01, 2001.	<i>The new SEC rules are significant because they adopt international disclosure standards of the International Organization of Securities Commissions. The SEC said it adopted them to encourage other countries to follow suit. Although the SEC expects the new rules to eventually lead to harmonization of disclosure standards, they actually modestly increase rather than relax non-financial statement disclosure requirements for non-U.S. companies and leave strict U.S. financial statements requirements intact. Many companies are not waiting for adoption of international accounting standards and, bowing to market forces, complying with international standards voluntarily in a manner that minimizes any differences from U.S. Generally Accepted Accounting Principles (GAAP).</i>
<b>Differences in accounting treatments for similar transactions</b>	Cost constraint	<i>Daily Deal (New York, NY)</i>	June 8, 2001	<i>(...) without harmonization of accounting standards from country to country, investors face uncertainty when evaluating investment opportunities and companies face costly compliance with varying accounting standards when filing financial disclosures.</i>

Source: Prepared by the author

Table 16 - Actors participation on international accounting harmonization

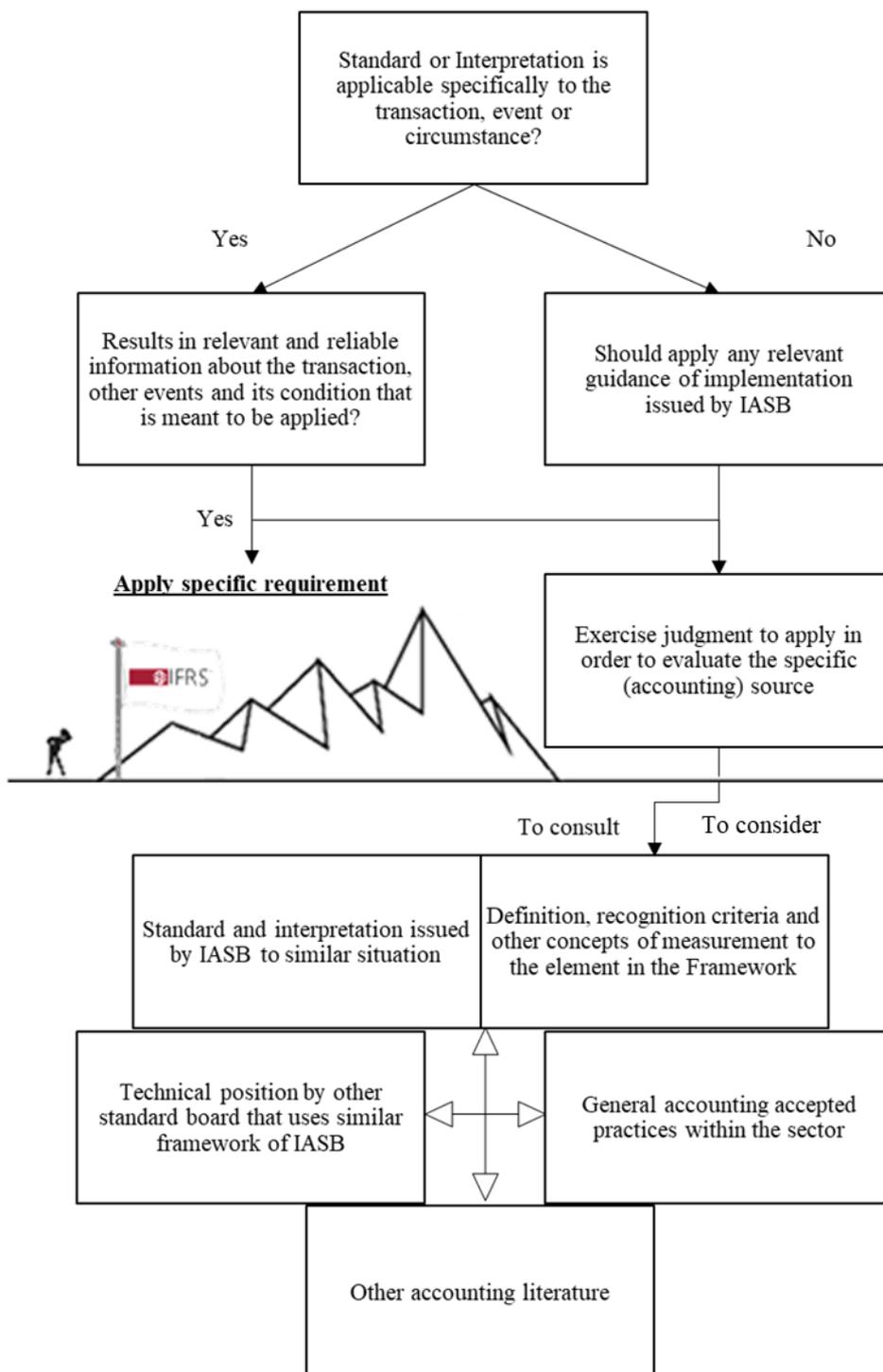
<b>Agents</b>	<b>Interest</b>	<b>Downside</b>
<b>Preparers and corporations</b>	<ul style="list-style-type: none"> <li>• Reduce cost of capital</li> <li>• Reduce cost of compliance (i.e., varying accounting standards when filing financial disclosures)</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of influence in the standard-setter (post-Enron environment)</li> </ul>
<b>Audit firms</b>	<ul style="list-style-type: none"> <li>• Consistency on accounting implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of influence in the standard-setter</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>• Freedom of markets to decide the needs of their investors – accounting standards shaped by and to protect their interest</li> <li>• Analyze current real value and future prospects (i.e., investment opportunities)</li> </ul>	<ul style="list-style-type: none"> <li>• Fight between accounting standards (i.e., international vs. US GAAP)</li> </ul>
<b>Regulators</b>	<ul style="list-style-type: none"> <li>• Cooperate to cross-border trading</li> <li>• Common language for investing around the globe</li> <li>• Analysis of acceptability of standards for use in local markets</li> </ul>	<ul style="list-style-type: none"> <li>• Counterbalance to SEC sovereignty – dictating the terms</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>• Co-operative government efforts to achieve uniformity</li> <li>• In some countries accounting standards are not issued by private bodies, but instead are determined by government</li> </ul>	<ul style="list-style-type: none"> <li>• The growth of markets will reduce certain economies influence (e.g., French, British, and U.S.)</li> <li>• Certain countries are not prepared to much cooperation, since it would mean some erosion of national sovereignty</li> </ul>

Source: Prepared by the author

List of figures

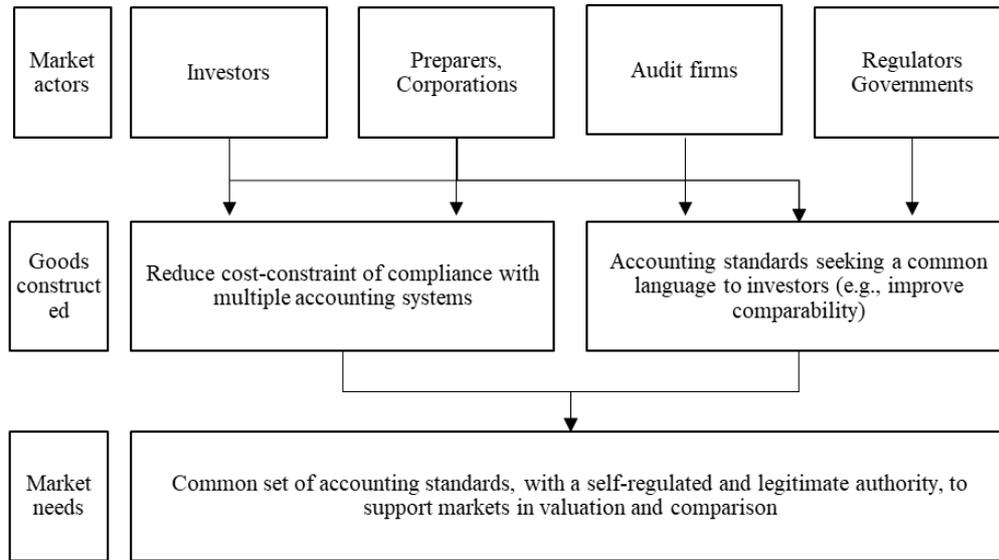
Figure 1—Applying the IFRS system

Applying IAS 8.7-12: The IFRS system



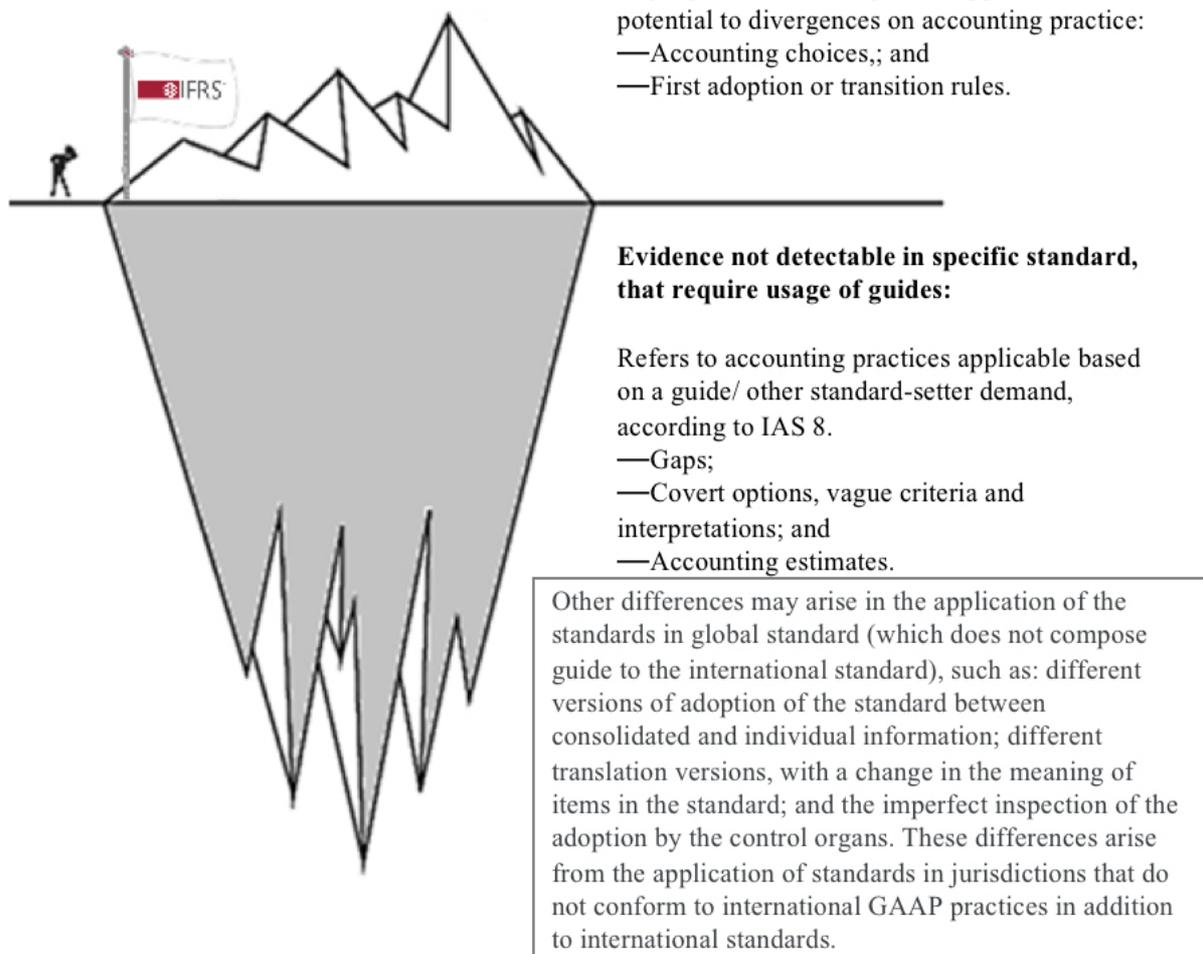
Source: Adapted from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Figure 2— Summary of international accounting marketcraft



Source: Prepared by the author

Figure 3—IFRS and its research opportunities

**How to look the IFRS system**

Source: Prepared by the author

Figure 4—Applying the theory of sources in the transnational accounting system

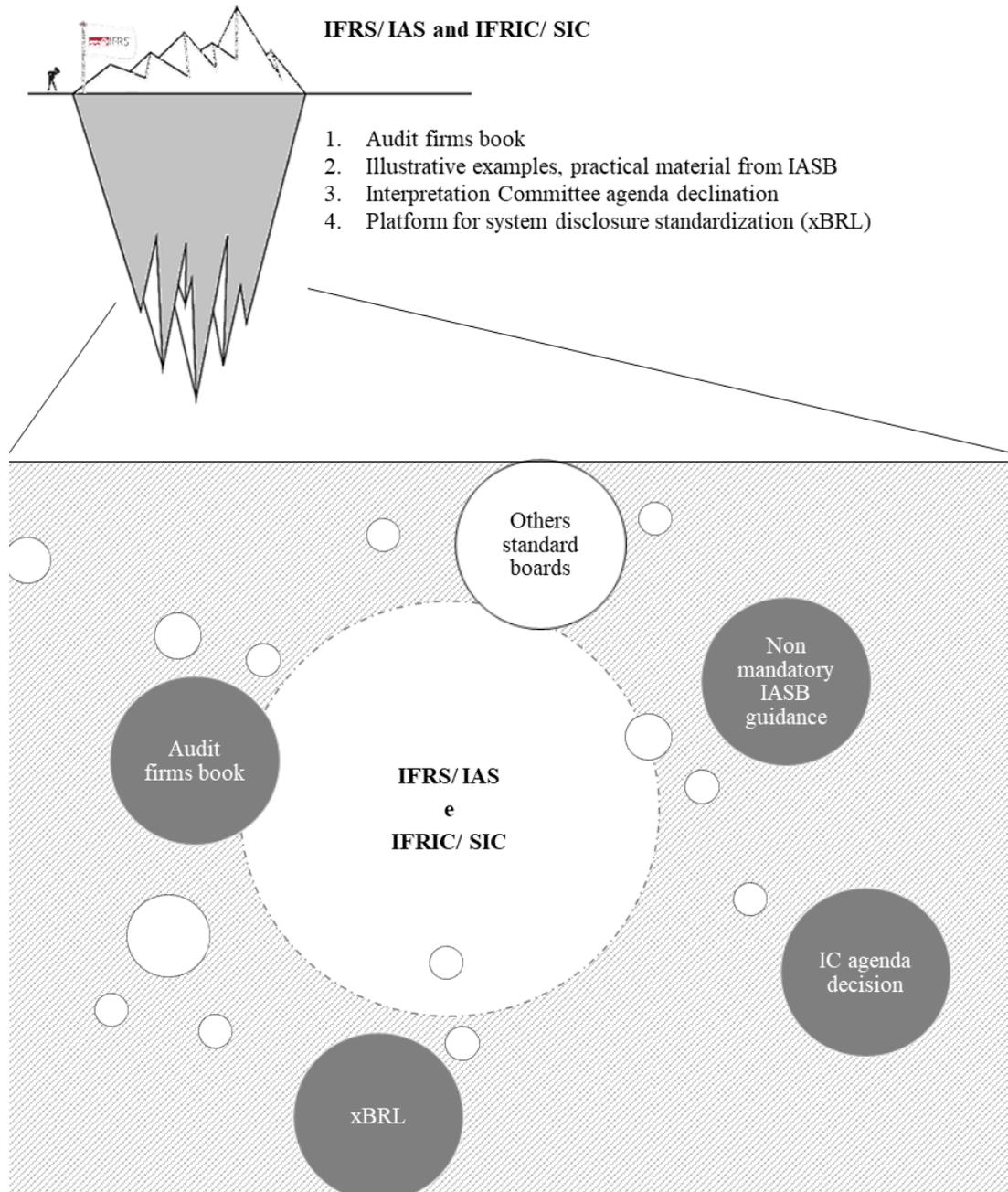
**The founts of standardization: The IFRS system**



Source: Prepared by the author

Figure 5—The IFRS system: limits and boundaries of the gap

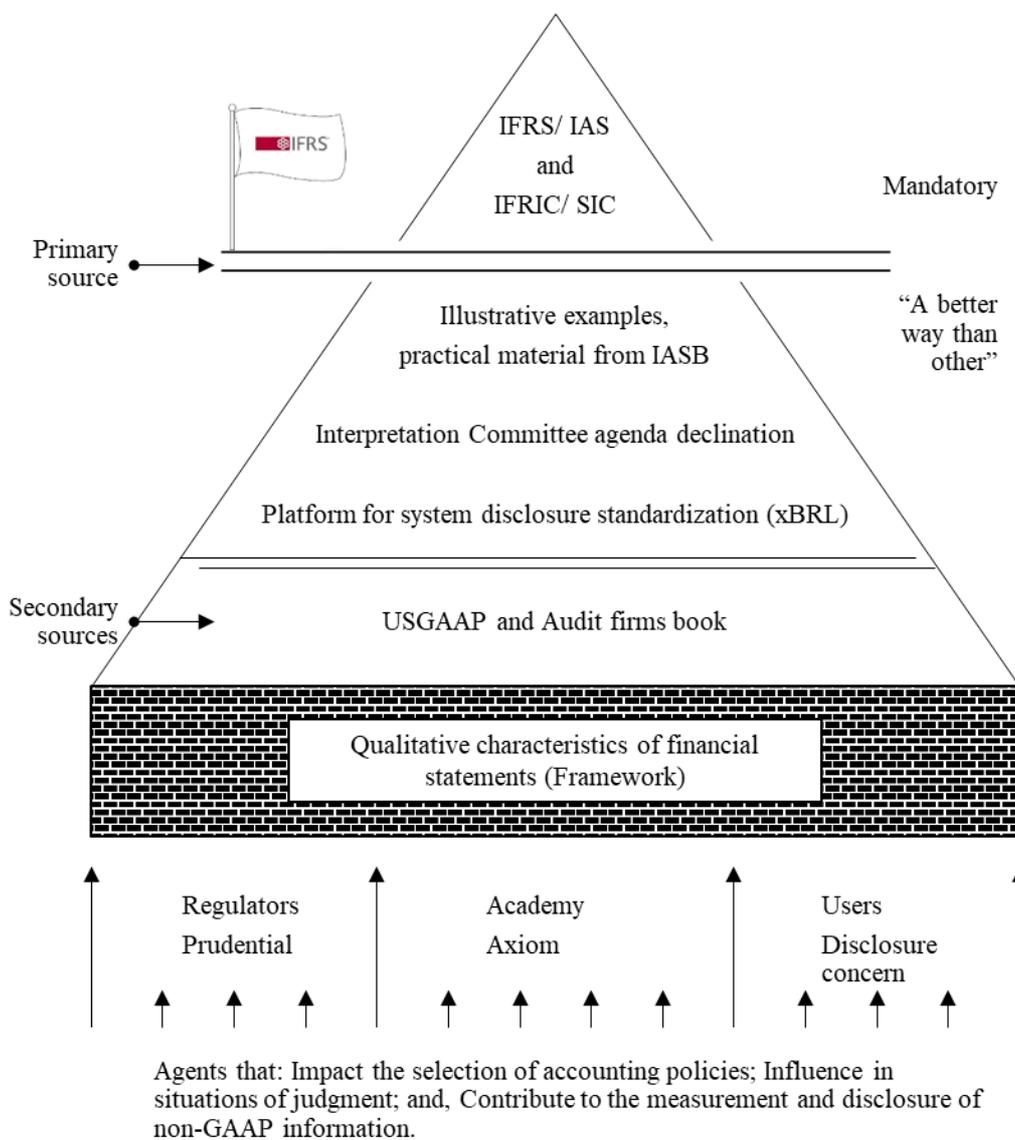
**Sources of accounting practice: The IFRS system**



Source: Prepared by the author

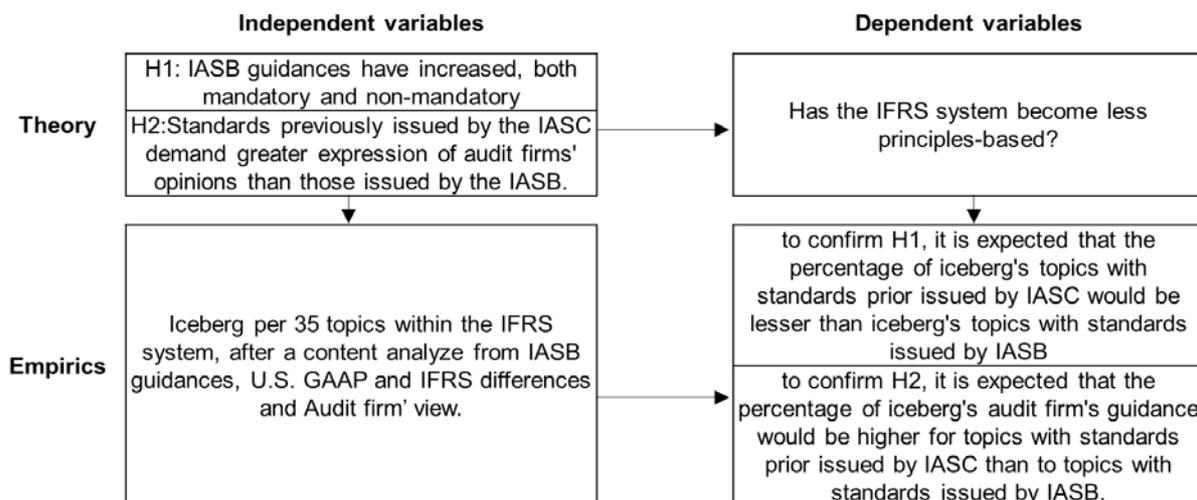
Figure 6—Hierarchy of the IFRS system

**Hierarchy of IFRS system**



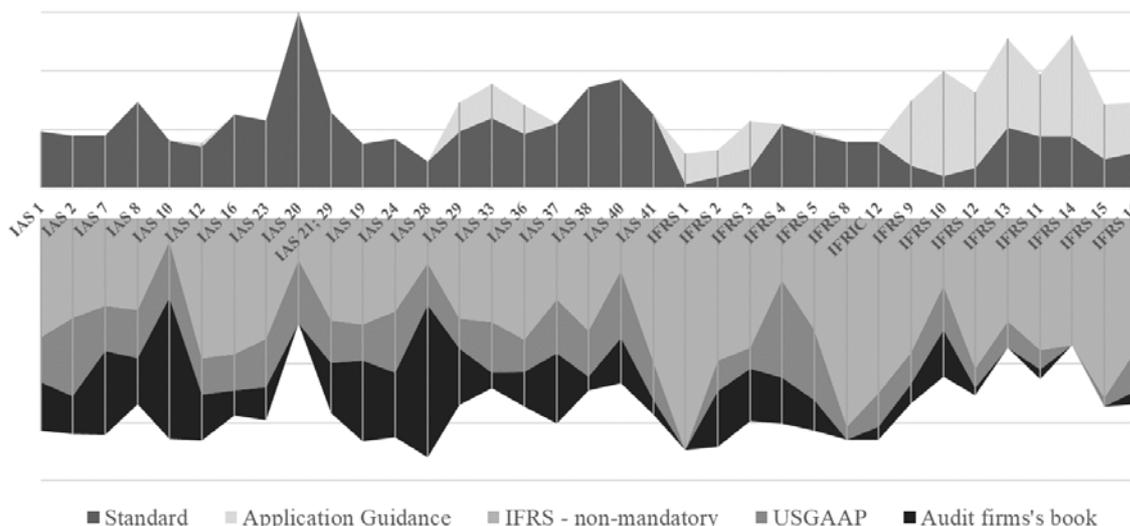
Source: Prepared by the author

Figure 7— Predictive value of mapping the IFRS system iceberg



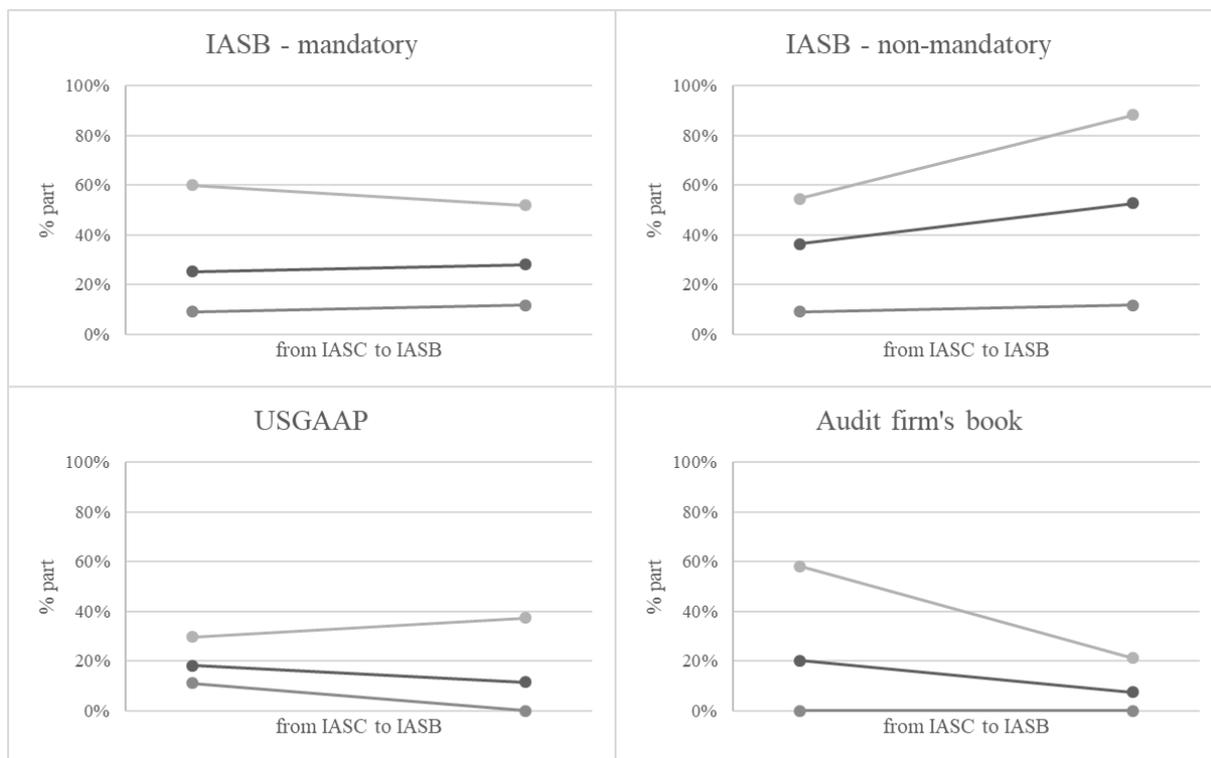
Source: Prepared by the author

Figure 8— The IFRS system iceberg: mapping the iceberg by topic



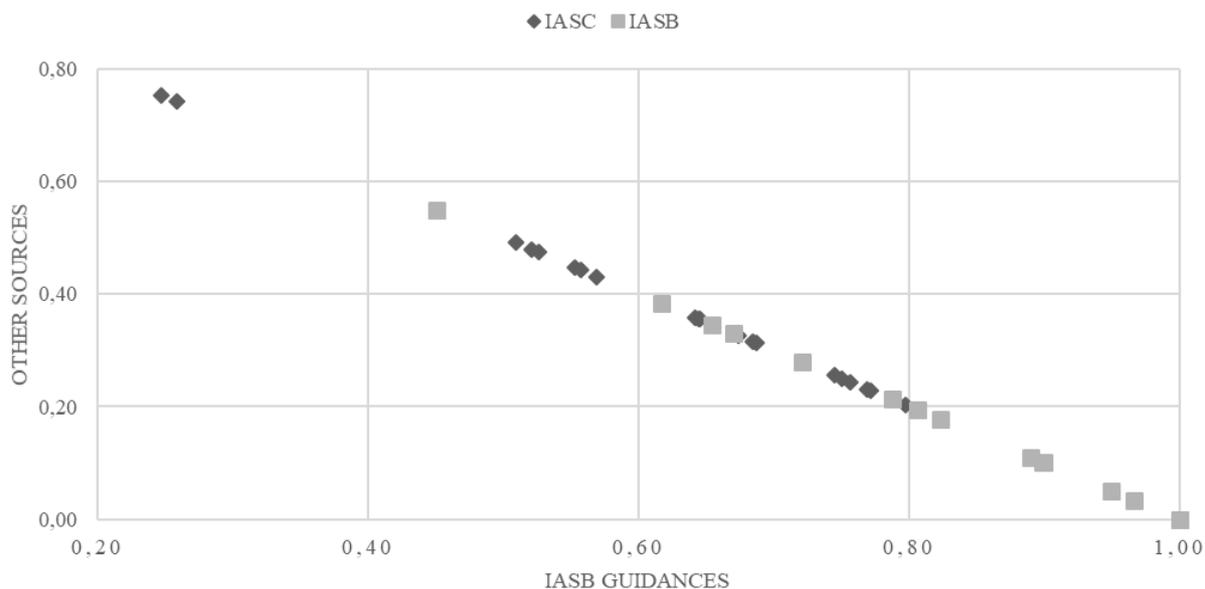
Source: Prepared by the author

Figure 9— Effects analysis of IFRS system: from IASC to IASB



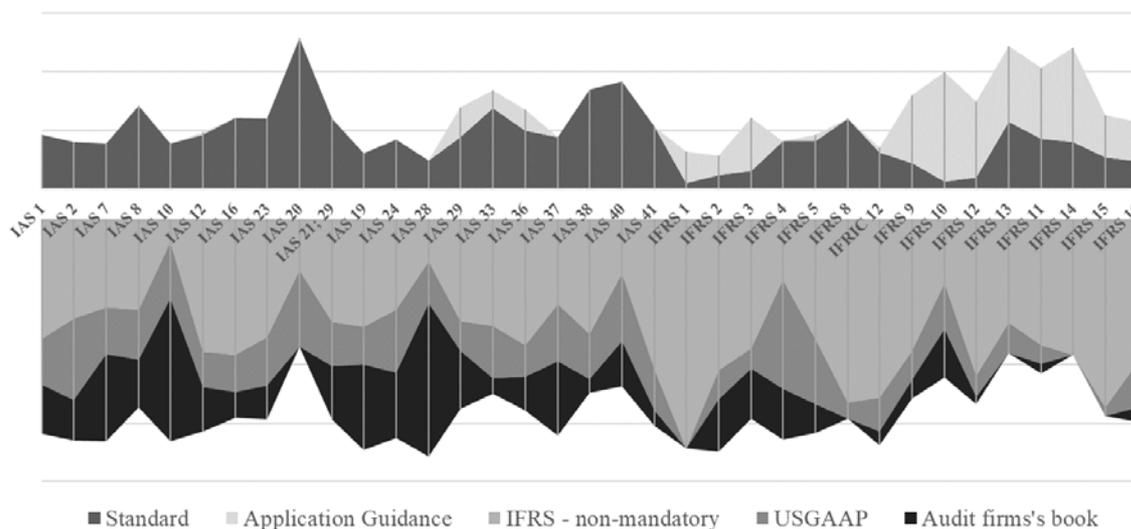
Source: Prepared by the author

Figure 10— Trendline of the iceberg from IASC to IASB



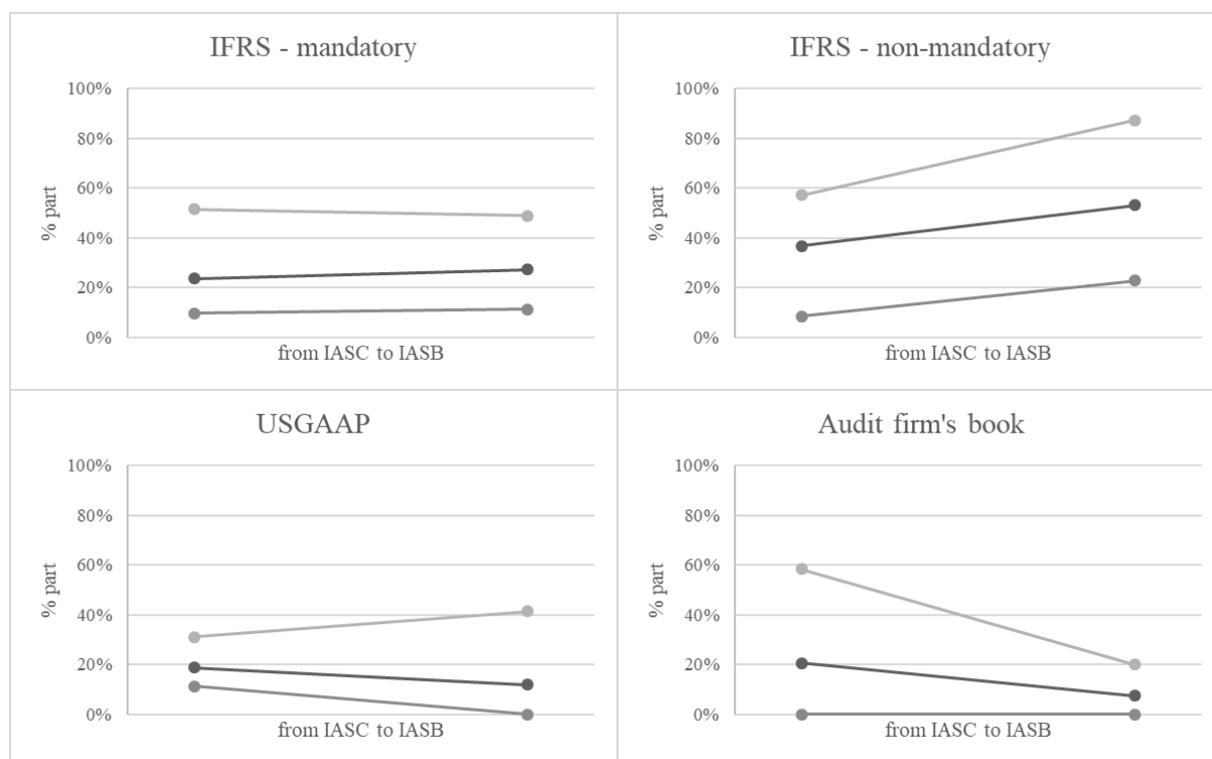
Source: Prepared by the author

Figure 11— The IFRS system iceberg: mapping the iceberg by topic – robust analysis based on counting of characters



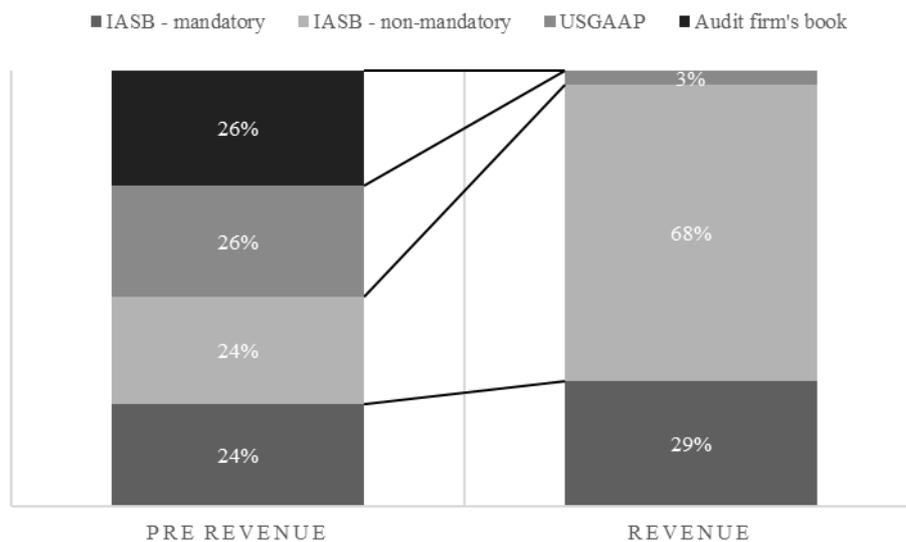
Source: Prepared by the author

Figure 12— Effects analysis of IFRS system: from IASC to IASB – robust analysis based on counting of characters



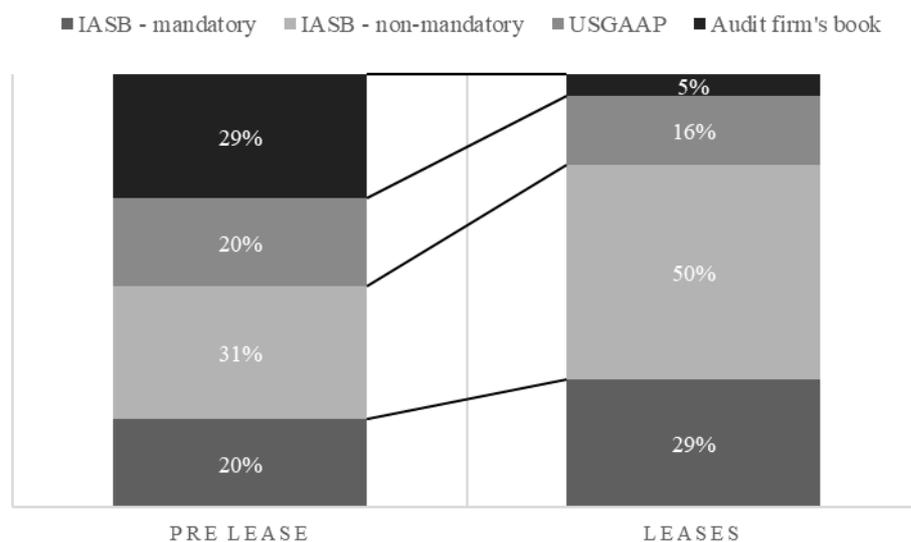
Source: Prepared by the author

Figure 13— The IFRS system iceberg: comparison the iceberg for each topic – Revenue



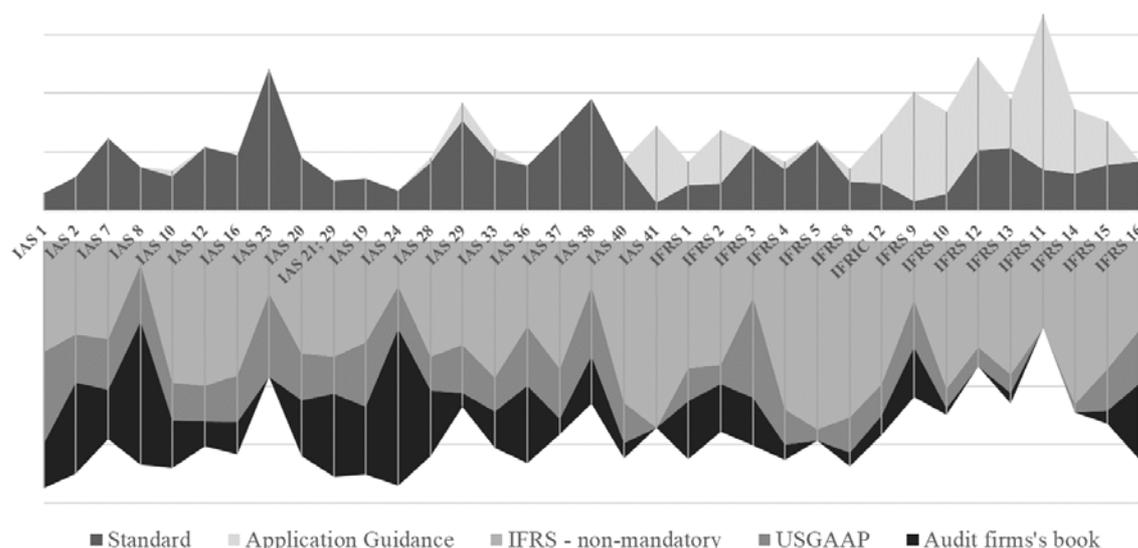
Source: Prepared by the author

Figure 14— The IFRS system iceberg: comparison the iceberg for each topic – Lease



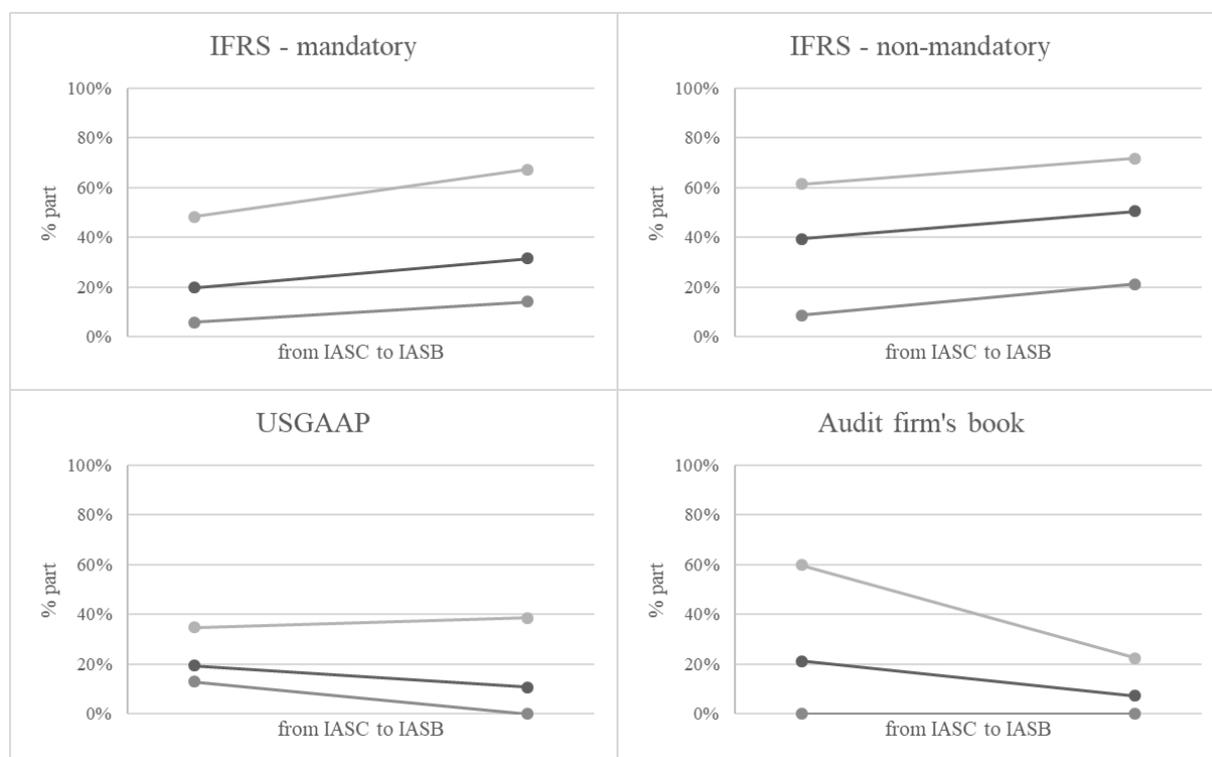
Source: Prepared by the author

Figure 15— The IFRS system iceberg: mapping the iceberg by topic – robust analysis based on counting of labels



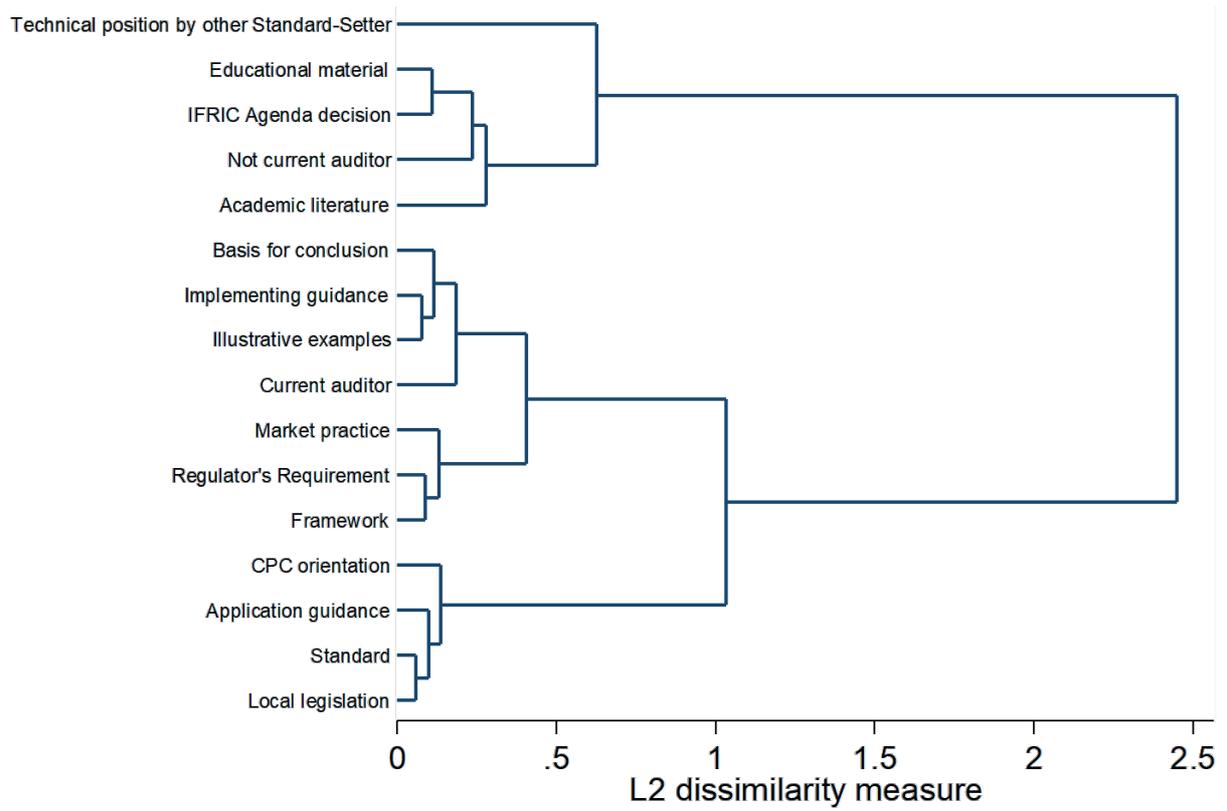
Source: Prepared by the author

Figure 16— Effects analysis of IFRS system: from IASC to IASB – robust analysis based on counting of labels



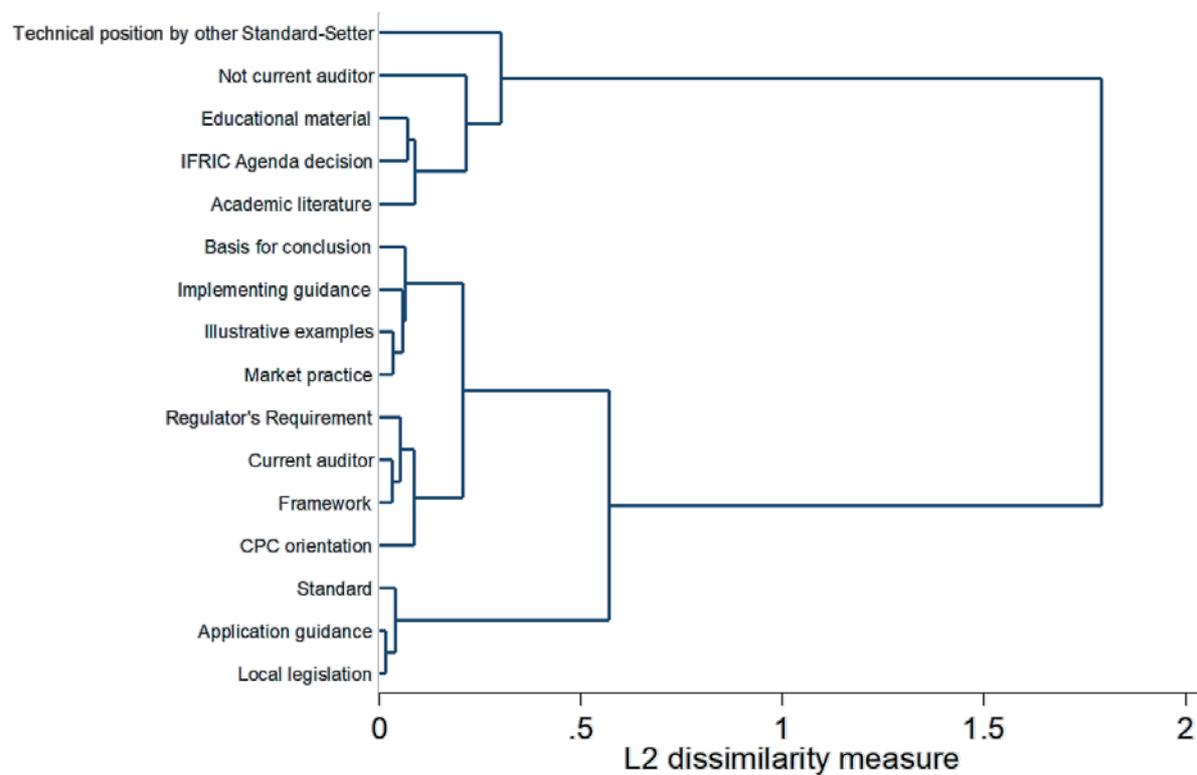
Source: Prepared by the author

Figure 17— Dendrogram for relevance of the guidance to preparers



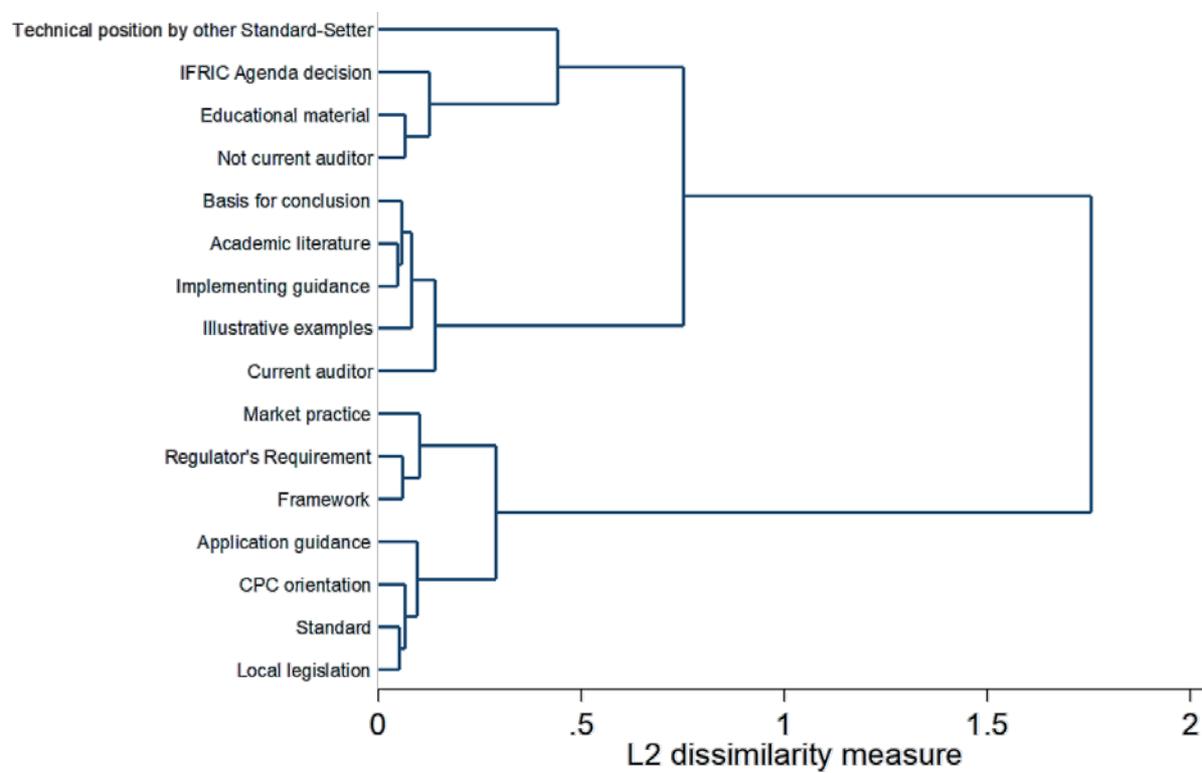
Source: Prepared by the author

Figure 18— Dendrogram for relevance of the guidance to preparers with higher incentives to apply IFRS



Source: Prepared by the author

Figure 19— Dendrogram for relevance of the guidance to preparers with lesser incentives to apply IFRS



Source: Prepared by the author

## **Appendices C: Survey to preparers**

\* The survey was sent on-line, through Google Forms platform

\*\* The survey was sent in Portuguese

Este questionário busca avaliar as orientações usadas pelos adotantes das normas IFRS®Standards e/ ou CPC. Pretendemos avaliar a aplicação consistente das normas internacionais nas companhias, no Brasil, quando adotam o sistema IFRS em suas demonstrações financeiras. Para conhecer os guias aplicados pelas empresas brasileiras para conformidade com as regras contábeis internacionais, este projeto de pesquisa acadêmica coleta as a experiência dos preparadores para examinar a situação. Portanto, precisamos da sua ajuda. As informações dos principais contadores, controladores e CFOs sobre os múltiplos guias existentes para as empresas que aplicam o IFRS e/ ou o CPC no Brasil são de extrema importância para responder à nossa pergunta de pesquisa. Para nos permitir estudar o assunto, gostaríamos de convidá-lo como especialista em contabilidade (por exemplo, contador-chefe, controlador ou contador-chefe,...) que tenha conhecimento sobre a preparação das demonstrações financeiras em conformidade com as regras internacionais e as normas brasileiras.

Responder ao questionário levará aproximadamente 10 minutos.

O retorno do questionário será considerado consentimento para usar as informações para fins de pesquisa acadêmica.

Em troca de sua participação, enviaremos a você um relatório detalhado sobre as conclusões do estudo, que poderá ajudá-lo com maior conhecimento sobre a extensão de guias constantes nas normas contábeis internacionais e brasileira. Se você deseja receber este relatório, mencione isso no formulário de solicitação de informações no final da pesquisa on-line. Se você precisar de informações adicionais ou tiver alguma dúvida, sempre poderá entrar em contato. Todas as informações incluídas na pesquisa serão tratadas de maneira confidencial. Em nossos relatórios e documentos, todas as informações são tratadas de maneira anônima, nenhum nome único da empresa será mencionado. Todos os resultados serão sempre apresentados de forma agregada, para que nunca uma situação individual seja relatada.

\*Obrigatório

Nome ou Iniciais \* \_\_\_\_\_

Qual é a sua idade? \*

21 ou menos

21 a 29

30 a 39

40 a 49

50 a 59

60 ou mais

Qual é o seu cargo? \*

Executivo responsável pela contabilidade

Gerente Contábil, mas não responsável pela contabilidade

Controller

Diretor Financeiro

Outro: \_\_\_\_\_

Nome da organização \* \_\_\_\_\_

Anos de experiência com IFRS \*

0-5

6-10

11-15

16+

Sua organização adota as normas IFRS emitidas pelo International Accounting Standards Board (Conselho) – IASB? \*

Sim

Não

Sua organização adota as normas CPC emitidas pelo Comitê de Pronunciamentos Contábeis? \*

Sim

Não

Sua organização adota as normas IFRS e/ ou CPC para Pequenas e Médias Empresas? \*

Sim

Não

No caso em que a sua organização adota as normas IFRS e CPC, há divergências entre as práticas contábeis adotadas? \*

Sim

Não

Não Aplicável

Quando a sua organização realizou a adoção inicial (completa) das IFRS/ CPC? \*

antes de 2005

2005-07

2008-09

2010

após 2010

**No processo de conformidade com as normas IFRS ou CPC, até que ponto o requerimento (obrigatórios ou não obrigatórios) é relevante para sua companhia?**

Essa questão é para a lista de requerimentos abaixo. A relevância deve ser considerada mesmo sem um processo explícito de adoção local.

Norma, como emitido pelo IASB e CPC \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Orientação de aplicação, como emitido pelo IASB e CPC \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado

Não Aplicável

Estrutura Conceitual \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Exemplos ilustrativos das normas, emitido pelo IASB e Comitê de Interpretações \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Guias de implementação, emitido pelo IASB e Comitê de Interpretações \*

1=Nunca considerado

- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Orientações emitidas pelo CPC \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Bases para conclusão, como emitido pelo IASB \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado

- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Decisões de Agenda do Comitê de Interpretações \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Materiais educacionais do IASB \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado

Não Aplicável

Posição técnica de um organismo emissor de normas internacionais com uma estrutura conceitual similar do IASB \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Práticas contábeis geralmente aceitas no setor \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Livro da firma de auditoria do auditor atual \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Livro da firma de auditoria de outro auditor \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado
- 4=Algumas vezes consultado
- 5=Normalmente consultado
- 6=Consultado com frequência
- 7=Sempre consultado
- Não Aplicável

Manuais Regulatórios \*

- 1=Nunca considerado
- 2=Uma vez consultado
- 3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Ofícios Regulatórios \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Literatura acadêmica \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Legislação local \*

1=Nunca considerado

2=Uma vez consultado

3=Poucas vezes consultado

4=Algumas vezes consultado

5=Normalmente consultado

6=Consultado com frequência

7=Sempre consultado

Não Aplicável

Adicione qualquer requerimento/ orientação que sua organização use e seja relevante, mas não foi considerada acima. \_\_\_\_\_

A sua organização é auditada por uma firma de auditoria considerada Big4? \*

Sim

Não

A sua organização possui Comitê de Auditoria? \*

Sim

Não

A sua organização é regulada por um (ou mais) dos órgãos reguladores?

CVM

BACEN/ CMN

ANEEL

SUSEP

ANS

ANTT

ARTESP

ANAC

Por favor, nos fale um pouco mais sobre a estrutura societária da sua empresa. \*

Subsidiária de empresa estrangeira

SA aberta

SA fechada - Grande Porte

SA fechada - Outro

Ltda – Grande Porte

Ltda – Outro

Qual setor melhor descreve a companhia? \*

Bens Industriais

Comunicações

Consumo Cíclico

Consumo não Cíclico

Financeiro

Materiais Básicos

Petróleo, Gás e Biocombustíveis

Saúde

Tecnologia da Informação

Transportes

Utilidade Pública

Outro: \_\_\_\_\_

Obrigado por completar esse questionário. Todas as respostas serão tratadas com confidencialidade e os resultados serão relatados de forma agregada. Eu gostaria de ver os resultados dessa pesquisa. \*

Sim

Não

Se você deseja ser informado sobre o andamento desta pesquisa, forneça detalhes de contato abaixo. \_\_\_\_\_

**Muito obrigado por seu tempo**

Agradecemos por participar desse questionário e esperamos que você nos ajude a desvendar o sistema IFRS aplicado pelas empresas no Brasil.

Source: Prepared by the author