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The principles underlying the IFRS and the measurement bases of the elements comprising the financial statements

Los principios en los que se basa el IFRS y las bases de valoración de los elementos que componen los estados financieros

Os princípios subjacentes às IFRS e as bases de mensuração dos elementos integrantes das demonstrações financeiras

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Abstract

Purpose: This theoretical essay seeks to present concepts, arguments and discussions about the adoption and use of IFRS, focusing on their underlying principles and measurement bases.

Methodology: Literature review with presentation and discussion of arguments from authors who have researched the use of IFRS and its underlying principles and measurement bases.

Results: Principle-based accounting standards are seen by a number of authors as a possible solution to the problem of accounting harmonization. However, another stream of authors states that principle-based accounting standardization, although it may result in higher quality it is less assertive financial reporting, given the existence of subjectivity in the content of

financial statements. This fact leads to the conclusion that absolute harmonization of accounting standards would be impossible.

Contributions of the Study: The study proposes notes regarding the discussion on IFRS, which are responsible for increasing the quality of financial statements, while at the same time reducing the reliability of the information produced, in view of the difficulties inherent to the application of the concept of fair value.

Keywords: IFRS standards, principles, measurement, fair value.

Resumen

Objetivo: Este ensayo teórico busca presentar conceptos, argumentos y discusiones sobre la adopción y uso de las IFRS, enfocándose en sus principios subyacentes y bases de medición.

Metodología: Revisión de la literatura con presentación y discusión de los argumentos de los autores que han investigado el uso de las IFRS y sus principios subyacentes y bases de medición.

Resultados: Varios autores consideran que las normas de contabilidad basadas en principios son una posible solución al problema de la armonización contable. Sin embargo, otra corriente de autores afirma que la normalización contable basada en principios, aunque puede dar lugar a una información financiera de mayor calidad es menos asertiva, dada la existencia de subjetividad en el contenido de los estados financieros. Este hecho lleva a la conclusión de que la armonización absoluta de las normas de contabilidad sería imposible.

Contribuciones del Estudio: En el estudio se proponen notas relativas al debate sobre las NIIF, que son responsables de aumentar la calidad de los estados financieros, al mismo tiempo que reducen la fiabilidad de la información producida, habida cuenta de las dificultades inherentes a la aplicación del concepto de valor razonable.

Palabras clave: Normas IFRS, principios, medición, valor razonable.

Resumo

Objetivo: Este ensaio teórico busca apresentar conceitos, argumentos e discussões acerca da adoção e utilização das IFRS, com foco em seus princípios subjacentes e bases de mensuração.

Metodologia: Revisão da literatura com a apresentação e discussão de argumentos de autores que pesquisaram sobre a utilização das IFRS e seus princípios subjacentes e bases de mensuração.

Resultados: Os padrões contábeis baseados em princípios são tidos, por uma corrente de autores, como uma possível solução para o problema da harmonização contábil. Porém, outra corrente de autores afirma que a padronização contábil baseada em princípios, embora possa resultar em relatórios financeiros com maior qualidade são menos assertivos, tendo em vista a existência de subjetividade no conteúdo das demonstrações financeiras. Tal fato leva à conclusão de que seria impossível a harmonização absoluta da normatização contábil.

Contribuições do Estudo: O estudo propõe apontamentos a respeito da discussão sobre as IFRS, responsáveis por aumentar a qualidade das demonstrações financeiras, ao mesmo tempo em que diminui a confiabilidade das informações produzidas, tendo em vista as dificuldades inerentes à aplicação do conceito de valor justo.

Palavras-chave: Normas IFRS, princípios, mensuração, valor justo.

1 Introduction

Known as a millennial science, accounting has evolved over the years according to the different cultures where it operates (Nobes, 1983) and the needs of its users, notably the financial market. Such evolution implies changes in order to meet certain audiences, such as financiers, managers, investors, employees, customers, suppliers, government and even society or the local community. In general, these modifications gave rise to two distinct systems that define the accounting practices of each nation and differ from each other, that is, the accounting system that expresses itself through rules and the system based on principles. These systems, in turn, determine the measurement bases of the elements that make up the financial statements. However, even though the IFRS are aimed at standardization, there are significant differences in the way they are adopted by countries, as shown in the study by Kvaal and Nobes (2010). The authors concluded that the adoption of IFRS occurs differently in Australia, France, Germany, Spain and the United Kingdom.

Several studies have analyzed the pros and cons associated with this accounting model (Kothari & Barone, 2011; Tsunogaya, 2016; Aldredge, Cooley & DuBois, 2018; Kumar, 2015; Palea, 2018). Rules-based accounting is that which prescribes, as well as suggests the name, rules or procedures to be adopted and dictates the manner in which the elements should be measured. Principle-based accounting is that which expresses itself through principles that must be interpreted and judged, especially in light of the aspects of the transaction and the characteristics of the business, in order to find the best way to measure the elements of financial statements.

Regardless of the system adopted, the data and accounting information are essential in the decision making of administrators, investors and others involved with the organization, because their main objective is to report the results obtained by companies through the development of their activities (Tsunogaya, 2016; Aldredge, Cooley & DuBois, 2018; Kumar, 2015; Palea, 2018). In this context, the IFRS concepts are a way to bring improvements in the quality of accounting information, according to resolutions of the Financial Accounting Standards Board - FASB (2010) and the International Accounting Standards Board - IASB (2018), as well as the Conceptual Framework for Financial Reporting (Brazilian Accounting Standards - NBC).

Once the nations experienced a particular and distinct accounting evolution, initially, the companies started to follow the accounting regulation proper of each country. With the increasing globalization, the need to reduce the costs of preparation and dissemination of information and in order to facilitate the recommendations and monitoring of market analysts, as well as investors to have easy access to more standardized information, these distinct rules began to cause problems of comparability in business conducted worldwide.

That's why, in the 1970s, a movement emerged in the United Kingdom around the creation of an international accounting standard, inspired by FASB. In 2001, with the reform

of the International Accounting Standards Committee (IASC), which was founded in 1973 in London, the IASB was created, which became responsible for drafting and disseminating international accounting standards, i.e., the International Financial Reporting Standards (IFRS), which were incorporated into the International Accounting Standards (IAS) previously published by the IASC. The IASB was then created by the union of accounting professionals from various parts of the world, coming from the market.

Véron (2007) recapitulates the history of international standards, highlighting the prominent Henry Benson, a famous accountant in the 1960s who, upon assuming the presidency of the Expert Institute Accountants, strengthened ties with the United States and founded the IASC in 1973. This group included accountants from Germany, Japan, Mexico, the Netherlands, Canada, the United States, the United Kingdom and Ireland. In 1998, the final version of the set of standards that had been created and published periodically until then was published. The IAS was thus born, with 39 standards. At the beginning of the 2000s, the IASB was born in London, which became more influential in determining the standardization of international accounting standards. According to the same author, the IASB was criticized for being too focused on the interests of companies, having a limited space for public institutions.

Zeff (2014) and Camfferman and Zeff (2018) also explain how this process of evolution from the IASC to the IASB took place. European regulations for the application of IFRS began in 2002, but only came into force in 2005 in Europe and, in 2007, in Brazil, after revisions and the development of their standards applicable to small and medium-sized companies. The objective of adopting international accounting standards was to standardize accounting practices, reducing the cost of information asymmetry and, consequently, the cost of capital, in addition to facilitating the comparability of companies, especially for investors and market analysts, in an increasingly globalized world.

Initially, the standardization of accounting focused on improving communication between the company and investors, lenders and creditors, i.e., providers of capital, because the publication of accounting and financial reports should provide them with reliable information relevant to decision-making. According to Kumar (2015), when companies follow a certain accounting standard, their financial reports become uniform, facilitating comparison. This standardization based on principles allied to the Anglo-Saxon accounting model has specific measurement bases aimed at increasing the projection capacity of the company's cash flows.

It is important to point out that IFRS were first adopted by the countries and in a second moment there was the convergence of the accounting practices of each nation for the international accounting standardization. Thus, they were evolving, starting from the standardization, which was the creation of the standards, then there was the accounting standardization, with the unification of practices to create a standard model to be followed by all countries. Finally, there was the convergence of each nation's accounting to the international standards of IFRS.

In this context, the principles underlying the IFRS and the measurement bases of the elements that make up the financial reports are presented and discussed in this theoretical essay. The objective is to bring concepts, arguments and discussions about the adoption and use of IFRS, focusing on its principles - which are the implications arising from the process of adopting international accounting standards - and its measurement bases. This research is justified due to the importance of not only exposing the 'state of the art' of IFRS, but also highlighting the influences of country characteristics on the efficiency of their adoption. It should be noted that the existing differences are related to the legal systems of each country's

standard, which may be Common Law or Code Law, which interfere with the application of IFRS.

The paper is divided into four sections, the first section is this introduction. Section 2 presents the principles underlying IFRS, as well as the distinction between principles-based accounting models and rules and levels of regulation. Section 3 brings a discussion about the measurement basis of the elements of financial reporting as well as the concept of fair value, the cornerstone of the IFRS accounting model. Section 4 presents the final considerations of the work and finally the references.

2 Principles underlying IFRS

One of the main characteristics of IFRS is that they are based on principles rather than rules. As a counterpoint to international legal systems, it is important to highlight Common Law and Code Law. The former is a system based on common law, that is, it takes into account uses and customs, while the latter is a system of legalistic view, that is, it takes into account the provision in law. Thus, there would be greater implications in the adoption of IFRS, based on principles, in countries with a Code Law legal system, compared to countries with a Common Law legal system.

According to Carmona and Trombetta (2008), accounting standardization based on principles refers to the fundamental understanding about which one seeks to inform the transactions and economic events of a company. Under the principle-based system, this understanding dominates any other rule established in standardization. Thus, principles-based systems issue flexible accounting standards. And, unlike rule-based systems, these do not address controversial issues, as well as maintaining considerable ambiguity regarding important processes such as record keeping and measurement. Still according to the same authors, since IFRS are principle-based, their system offers flexibility to make global acceptance of the standards possible.

Since IFRS are based on principles, according to Lourenço, Delgado and Branco (2015), their adoption is associated with paradigm shifts in the countries that adopted them. In this context, a set of principles is applied instead of a set of rules regarding the provision of useful accounting information to decision makers. This change has led to an increase in the complexity of accounting that now requires greater judgment and interpretation by professionals in the area. In this sense, according to the IFRS Foundation, to guide the board that develops the IFRS standards, the IASB created and updated in 2018 the Conceptual Framework, which establishes the fundamental concepts for financial reports. Thus:

“sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.” (<https://www.ifrs.org>)

In this context, according to Braga (2017), the objective of the IASB is to develop a unique set of high-quality accounting standards that can be both understandable, enforceable and globally accepted. Flexibility is also inherent in the principles-based approach and can act as a more effective fraud deterrent. Greater comparability and transparency of financial statements also figure among the positive effects resulting from the adoption of IFRS (Castro & Santana, 2018). In this regard, empirical research (Daske, Hail, Leuz & Verdi, 2013; Barth, Landsman & Lang, 2008) suggests that companies that have voluntarily adopted IFRS have improved their accounting quality, as well as the relevance of accounting numbers, in addition

to reducing the cost of managing results. Daske *et al.* (2013), for example, found in their studies a positive effect in relation to the adoption of IFRS and the increase of information reliability. Barth *et al.* (2008; 2012; 2013; 2014; 2018) concluded that there was an improvement in the quality of accounting information. According to these authors, the adoption of IFRS has increased the relevance of the value of accounting numbers and decreased the time to recognize losses.

The principles underlying IFRS are also responsible for the relationship between the adoption of international accounting standards and the level of tax avoidance, i.e., legal actions aimed at reducing tax liabilities. According to Braga (2017), the adoption of IFRS leads to an increase in the aggressiveness of accruals or provisions derived from appropriations by competence. This occurs due to the greater flexibility of the manager, since he can explore the accounting discretion, that is, the option of choosing between two or more alternatives before the principles of IFRS. With this, accounting professionals have more flexibility in judgment and interpretation when preparing financial statements. That is why Carmona and Trombetta (2008) argue that investors can learn about an organization by observing the choices of its management. However, for this to happen, the adoption of IFRS requires accountants to have solid knowledge about the company's business and the economy as a whole.

According to Antunes, Grecco, Formigoni and Neto (2012), with the changes in accounting practices, accountants had to change the way they do financial reporting, exercising greater judgment. Benston, Bromwich and Wagenhofer (2006) point out that these professionals needed to learn how to avoid speculation by managers and even opportunistic accountants. Speculation can result in leeway and, in general, some principles offer such opportunities. In this context, according to Joshi, Yapa and Kraal (2016), the adoption of international accounting standards requires training and expertise on the part of these professionals so that IFRS will be beneficial for the economic growth of companies and will then be well used.

2.1 Principles *versus* Rules

Several studies discuss the differences between standards based on principles and rules (Schipper, 2003; Burgemeestre, Hulstijn, & Tan, 2009; Kothari & Barone, 2011; Mota, Oliveira, Niyama, & Paulo, 2016), however there is still no consensus in the literature about such distinction. Even if the rules issued by FASB are considered rules-based, authors such as Schipper (2003) defend the idea that such rules are fundamental to uphold the principles of relevance and reliability of financial reporting. In addition, the large number of exceptions that exist in the standards issued by the FASB ultimately make them rules-based.

According to Alexander and Jermakowicz (2006), the rules-based approach is generally condemned for being based on legislation rather than its own 'spirit'. Therefore, according to the authors, rule-based standardization is pejoratively compared to a cookbook - a term defended by IASB president David Tweedie, for whom such an approach is a way of telling accountants how to make their statements. This idea contrasts with the principles-based approach, which has no intention of telling the accountant or auditor what they should do, but rather how to decide what they need to do. However, despite the contradiction of approaches, both are necessary. Regarding the principle-based system assertiveness, these authors explain that the content of financial statements is inherently subjective, since accounting information can be perceived, presented and interpreted in different ways, especially when compared

between companies in different countries. Thus, the authors conclude that the absolute harmonization of accounting standards is impossible.

Among the studies focusing on IFRS, especially with regard to the principle-based system, the work of Agoglia, Douppnik and Tsakumis (2011) stands out. The authors analyzed the difference between principle-based and rule-based financial reporting with respect to the aggressiveness of audit committee oversight (in the positive sense of improving a company's bottom line). The result of their studies showed that the less accurate the asset classification (i.e. accounting model based on principles), the less assertive the reports are. This result may be an indication that having a principles-based accounting standard may result in better financial statements, but also less assertive. Still according to these authors, when the restrictions of rule-based standardization are removed, accountants can make the statements in a way that reflects economic reality. However, FASB recognizes that the principles-based approach can lead to abuse, i.e., principles may not be applied in "good faith".

On the other hand, Mota *et al.* (2016) criticize the principles-based approach as it does not provide sufficient guidance for standards to be reliable and operational. This criticism was made in a letter commentary on the Sarbanes-Oxley Act published by FASB in 2002. In the same document, which was the result of a study on the adoption of principles-based standards in U.S. financial reporting, there are also other criticisms. Among them is that the principles-based approach requires judgments in accounting for transactions, but does not provide sufficient framework for such judgment to be made. Therefore, according to Palea (2018), the adoption of an inverse process on the discussion of the regulation of financial information is necessary, that is, the accounting standards must be tested according to the specificities of each country's business system. For the authors, it is not enough to evaluate a certain accounting measure in itself, but rather to evaluate certain objectives of the company. Thus, there is no consistent accounting standard, universally agreed upon and that is appropriate according to the culture of each nation.

2.2 Levels of regulation

Alexander and Jermakowicz (2006) stress that it is important to keep in mind that the word "principles" is used with a wide spectrum of precise implications. Thus, they present three different levels of regulation, types A and B being based on principles. Type A is a concept generally regarded as fundamental and fully disseminated, it is, for example, the true and fair view, proper presentation and essence of form; Type B is a set of notions, conventions or thought paths which are consistently applied in familiar and unfamiliar situations, examples being the U.S. Statements of Financial Accounting Concepts (FASB), U.K. Statement of Principles (ASB, 1999) and IASB Framework (IASB, 1989); while Type C is the detailed provision of specific methods for dealing with all expected problems and situations, as examples the authors cite the French accounting plan, German company laws and tax regulation, the Soviet style of organizing accounting, the U.S. GAAP hierarchy, IFRS and the Accounting Pronouncements Committee (APC). According to the authors, type A concepts are qualitative characteristics of accounting information; type B concepts - regulation - are the principles and underlying premise of continuity; and type C concepts deal with regulation. It should be noted that although these authors characterize the IASB and FASB standards as rules-based, according to the IASB they are principles-based, according to their Conceptual Framework. Similarly, the APC 00 Conceptual Framework also has principles-based standards.

The FASB standards, according to the 2010 Conceptual Framework for Financial Reporting (<https://www.fasb.org>), have a conceptual reference, since it leaves a great deal of room for the judgment of accounting professionals when it comes to applying them. However, to provide more comparability and reliability to financial statements, the agency issued standards with bright lines (limits or demarcations), which met the desires of managers and auditors who expected a clearer response to certain accounting situations. Mota *et al.* (2016) explain that, although the FASB standards are based on concepts, there is a rich set of guides for interpretation and implementation. Therefore, there is a certain focus on rules, which leads to accounting solutions that may be in accordance with what is said in the standard. For the authors, even though the FASB standards have a conceptual reference, they end up being considered rules-based due to the peculiarities of US GAAP.

In the European Union, according to Alexander and Jermakowicz (2006), instead of having a set of guides for interpretation, the main legal requirement is that the financial statements offer a "true and fair view" - the essence behind the adoption of IFRS - of the company's situation and results. This is why UK accounting professionals criticize the bright lines of the rules-based accounting approach. They see them as obscure and far from highlighting the underlying principles and encouraging literal interpretation. On the fact that the bright lines are obscure, Benston *et al.* (2006) conducted a study in which they identified several gaps present in the principles-based accounting approach. The authors discuss the inconsistency between principles and orientation and therefore suggest as a possible solution to this inconsistency the inclusion of the concept "true-and-fair override" (practice of accounting standards that must follow premises that lead to the best possible, true and appropriate representation of the company's assets and their mutations) as a necessary requirement for any format that is more than just "principles". In addition, the authors concluded that it is inconsistent to combine principles-based standards with the concept of measurement based on the asset-liability approach with fair value. This is because, according to them, significant guidance for management judgment would be required. Thus, principles-based accounting would be above the law by considering the primacy of essence over form, since standards are only the means to an end, i.e., the publication of financial reports. Therefore, if the application of the law is detrimental to such purpose, it should not be applied. The authors stress that the "true-and-fair override" concept cannot be excluded from accounting standardization, as it is a necessary requirement for any approach to accounting standardization.

On the other hand, the study of Ho (2016) demonstrated that the use of "true-and-fair override" could lead to misleading financial statements. According to the author, the researched company (HSBC) registered a rights issue for shareholders as equity, although a strict interpretation of IFRS requires the transaction to be registered as a financial liability instrument, since the value was not in the functional currency of the issuing company. In this case, a strict application of the accounting standards would have made the financial statements misleading and, therefore, HSBC chose not to stick to the requirements of "true-and-fair override".

3 Bases of measurement of the elements integrating the financial reports

Whether a system based on principles or rules, before using the measurement bases of the elements integrating the financial reports, once there is a set of applicable rules, there must be a definition of the criteria to be considered in the process of recognition of the rules, as defined by APC 00. In this way, the new Brazilian accounting practices, in accordance with

the IFRS, made possible the measurement of the active patrimonial elements by the historical cost, but limited to the probability of recovery of the value of these assets in the future. The IFRS also introduced in the Brazilian accounting practices the use of fair value and, this way, the essence overcomes the form, since the revenues are recognized when the risks, benefits and control of the assets traded are transferred, regardless of whether they were passed to the name of the company or not.

According to the Accounting Pronouncements Committee (APC), an item should only be recognized if there are future economic benefits for the organization and if its cost can be reliably measured. According to the authors, the IFRS measurement bases recognize active items at the moment the company has control of such assets; that is, when the organization enjoys its benefits, paying its costs, even when the transfer to its name has not yet been made. In Brazil, for example, according to item IV of article 179 of Law 6,404/76 (wording given by Law 11,638/07), fixed assets are characterized as "the rights that have as their object tangible assets destined to the maintenance of the company's or company's activities or exercised for this purpose, including those resulting from operations that transfer to the company the benefits, risks and control of these assets". It is easy to understand by law the principle of "essence on form" with respect to accounting practices after the adoption of IFRS in Brazil. This is because an asset is only registered in the statements of a company if it has control over it and assumes its risks, without, however, necessarily holding its property.

According to Benston *et al.* (2006), although financial statements do not clearly specify how assets and liabilities should be measured in cases where there is no specification, the guidance is that measurement by fair values should be used. The authors point out that the big problem with fair value is the fact that it is a concept that requires many rules to provide sufficient guidance, which can lead to manipulation, often not identified by auditors. Therefore, they suggest replacing the asset-liability approach with the fair value approach for the traditional revenue/expense approach, since the traditional approach is more conducive to producing reliable and auditable figures.

It is important to highlight that one of the main objectives of adopting IFRS, according to Cairns, Taplin and Tarca (2011), is to improve the international comparability of financial reports. Comparability is one of the main characteristics of IFRS financial statements and requires that, among other things, the measurement of the financial result of transactions and similar events should be performed consistently for different entities. Thus, it is understood that the objective of the IASB is to require that similar transactions and events can be accounted for and reported in a similar manner; similarly, that different transactions and events should be accounted for and reported in a different manner, both within an organization over time and between organizations.

According to the FASB and IASB, the reliability of the measurement of the elements of financial reporting is fundamental and depends on the criteria used to quantify them. It is also essential for the relevance of an accounting value, as well as its capacity to produce relevant information for the evaluation of an organization. Therefore, it is necessary, according to Grillo, Lachini, Baioco, Reina and Neto (2016), that there is a coherent approach of the accounting information with the economic reality of the company. They explain that the search for an evaluation model of assets and liabilities is one of the main issues currently discussed within Accounting Science. Still according to these authors, the international accounting standardization has substantially changed accounting practices in the countries that have adopted it. One of the main changes was the way to measure equity elements, since fair value was considered an important means of valuing such elements. In many countries, as well as in Brazil, historical cost was used as the basis for measurement.

Papers published worldwide have showed the transformation of accounting practice with the adoption of IFRS (Gray, 1983, 1988; Saudagaran, 2001; Ding, Jeanjean, & Sotolowy, 2005; Radebaugh, Gray, & Black, 2006; Santos, 2012). Gray (1988), for example, classified the national systems according to their differences between four types of accounting values: judgment by the accounting professional versus governmental and statutory control; flexibility versus uniformity in the face of their own circumstances; level of transparency versus confidential information; and conservatism versus optimism in measurement.

According to Gray (1988), Beckman, Brandes and Eierle (2007) identified in Germany, for example, that traditional accounting has a tendency to express lower numbers related to profits and equity, in relation to IFRS and US GAAP. Similarly, Cordazzo (2008) conducted a study in Italy where it concluded that such results were also lower in relation to IFRS. O'Connell and Sullivan (2008) compared the statements made with the adoption of IFRS and with the local standard of the continental euro countries - Germany, Belgium, Spain, France, Italy, Netherlands and Portugal. The authors came to the conclusion that the financial reports showed higher profits when built by IFRS compared to local standards.

In the Brazilian context, Santos and Calixto (2010) analyzed the effects of IFRS after Law 11,638/07, applying the Gray Conservative Index (1983, 1988) in companies according to transparency and compliance related to the new standard. The results showed higher values than those of the previous standard, which confirmed the Brazilian accounting conservatism predicted by the index's author. In turn, Santos (2015) reached the conclusion that with the adoption of IFRS, there was a significant increase in both profits and equity of companies in Brazil.

Barth and Doron (2013) investigated whether the voluntary adoption of IFRS is associated with increased comparability of accounting values and the benefits of capital markets. The authors concluded that the adoption of IFRS, combined with its application by law, provided liquidity to the market. Brochet, Jangolizer and Riedi (2013) analyzed whether the mandatory adoption of IFRS leads to benefits for the capital market, through the improvement of comparability. The authors concluded that, since it increased comparability, it also decreased the asymmetry of information, benefiting the market by reducing the ability of insiders to exploit private information.

The study by Wang (2014), in turn, demonstrated that the harmonization of accounting standards facilitates the transfer of information between countries and suggests comparability as a direct mechanism for this. The author studied a sample of companies worldwide and the reactions related to the abnormal value of their share price. He concluded that the adoption of IFRS led to a greater market reaction when compared to the period prior to its adoption in the countries surveyed.

Petaibanlue, Walker and Lee (2015) also investigated the benefits of comparability for the accuracy of analysts' forecasts after the adoption of IFRS in the European Union. The authors concluded that the adoption of IFRS increased analysts' forecasting ability. Gatsios, Da Silva, Ambrozini, Neto and Lima (2016) studied the impact of the adoption of IFRS on the cost of equity of publicly traded companies in Brazil. They concluded that the adoption of IFRS does not contribute to the reduction of the cost of equity of Brazilian companies.

Lin, Riccard and Wang (2017) verified the impacts of the mandatory adoption of IFRS, the accounting principles generally accepted in the USA (US GAAP) and the convergence between US GAAP and IFRS on the comparability of financial statements. According to the authors, who researched companies in Germany, the adoption and convergence of both IFRS and US GAAP led to a significant increase in comparability after the 2005 regulation. Felski (2017) verified the impact on the countries that opted to modify

the IFRS, analyzing the environment of each nation and how their financial reports were prepared. He showed that the way countries modify IFRS leads to significant differences between countries that modify them and those that do not.

Finally, although the studies indicate that the adoption and implementation of IFRS will lead to an improvement in the comparability of financial statements, modifications made in certain countries may cause significant differences in results, compromising the analysis of investors and other stakeholders.

3.1 Fair Value

Through Technical Pronouncement APC 46, the Brazilian Securities Commission (BSC) defines fair value as "the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a non-forced transaction between market participants on the measurement date". This concept, according to Palea and Maino (2013), became a measurement criterion from the publication of IFRS 13, by the IASB - together with the FASB, in May 2011, when the guidelines for its measurement and disclosure were unified. The mandatory application took place from January 2013 for all countries that had adopted the IFRS. For these authors, fair value is responsible for increasing the transparency of financial reports, which results in accounting data with more relevant values, in addition to improving the ability of the financial markets to reflect on the current value of a company. On the other hand, according to Casta (2003), the concept of fair value given by the IASB is not without ambiguity. Therefore, it is difficult to know whether such concept as a figure of the market is a proxy for economic value, and not the opposite. The author explains that, in theory, the market value should equate to economic value, but in the real world the assumptions are not valid.

It is worth noting that in the early days of accounting, according to Iudicibus *et al.* (1992), when there was a need only to record, accumulate and interpret phenomena, with the aim of controlling assets and generating objective information, historical cost was used as the best measurement criterion. As time went by and accounting evolved, according to Mauss *et al.* (2013), it was necessary to think of a criterion that could measure the generation of information focused on past economic events that presented information inefficiency. Moreover, with the development of the economy and the growth of capital markets, there was a greater need to provide relevant information to investors. Aquino and Peterson (2008) complement this by stating that the fair value ended up fulfilling the limitations that the historical cost presented, with the aim of making this relevant information convey the economic essence of operations for decision making. According to these same authors, fair value became a measurement criterion when models based on current prices began to exist, greater complexity of transactions, greater volatility of financial instruments and markets, and the use of fair value by investors.

In this context, Jerman's (2013) statement about fair value stands out, which is a concept considered as financial interference in accounting practice. For the author, the fair value represents a conceptual accounting change due to recent changes in the world economy. Thus, faced with the primacy of the essence over the form, the accounting rules began to be guided by principles and no longer by a large framework of detailed rules. However, this resulted in a higher charge in relation to the judgment capacity of the accounting professionals.

Since fair value is one of the main concepts of the principles-based approach, according to Bernheim and Escaffre (1999), it has the following characteristics: predictability,

since it enables better forecasting of future cash flows; comparability, since it reflects the current value of the instruments, but without taking into account nature; coherence, since it enables active management of financial risks; reduced complexity, since it is a unique and simple valuation model; and neutrality, since it is determined through external references. According to these authors, the valuation at fair value of all elements of financial reports is based on the practice that an asset is sold and a liability is paid permanently. As there is no real transaction, in order to have the register, there are characteristics of assets and liabilities that alternate, in level of subjectivity, leading to a result with more or less subjectivity. Therefore, the evaluation of a company's performance includes the results to be achieved and those no longer achieved, which are determined according to market price or internal estimates. Thus, it is possible to list some of the main advantages of historical cost and fair value, as presented in table 1.

Table 1

Main advantages of historical cost and fair value

Historical Cost	Fair Value
The book value is based on records and can be checked at any time.	Allows the assets to be assigned current market values.
It is not based on estimated values, therefore, less subjective. In other words, the actual financial movements are the basis of its measurement.	Once the assets present their updated values in face of reality, the company is able to better inform the ability to obtain financial resources through disposal.
It is recognized by all users of the accounting information, facilitating its applicability.	With assets measured by current market value, the company can better inform the ability to meet its financial obligations.

Source: elaborated by the authors.

According to Cairns *et al.* (2011), investigating fair value measurement is critical as many accounting professionals have suggested that such a concept is more comprehensive in IFRS than in Generally Accepted Accounting Principles (GAAP). For a portion of these professionals, IFRS can be considered a fair value-based accounting framework, with some exceptions for historical cost. Thus, the authors researched the variability of fair value measurement after the adoption of IFRS and the comparability of financial statements between UK and Australian companies, i.e. whether there was assurance that similar assets and liabilities were measured in the same way. They concluded that IFRS allow the use of fair values in five sets of circumstances, they are: (1) for the measurement of transactions and other events and, therefore, for the measurement of assets, liabilities and equity items resulting in their initial recognition in the financial statements; (2) for the allocation of the total value at which a transaction or other event is measured between its component parts; (3) for the measurement of the estimated cost of some assets in the transition to IFRS of other accounting standards; (4) for the determination of the recoverable value of assets; and (5) for the measurement of assets and liabilities at each balance sheet date.

When studying fair value according to IFRS 13, Antunes *et al.* (2012) explain that fair value should not simply be equated to the concept of market value, since its calculation can be made in several ways, such as the net present value of discounted future cash flows. Moreover, one must bear in mind that not every asset can be valued at fair value, especially in the Brazilian market, because there are often serious difficulties in applying the valuation techniques, which causes many assets of Brazilian companies are still measured by historical cost.

In this sense, the study of Palea and Maino (2013) questioned whether fair value, as defined by IFRS 13, is an appropriate measure for equity and whether, in fact, it can improve

transparency and comparability in financial reporting. For these authors, the measurement of fair value does not take into account the liquidity of the financial instrument and the horizons of investors; both are fundamental for the evaluation of equity. Moreover, according to the same authors, market-based valuation techniques can be misleading for equity, whose performance is relatively different from publicly traded companies. However, not every asset can have its value measured correctly through fair value. Equity, for example, is generally earmarked for long-term investments, such as future business opportunities.

Still regarding the definition of fair value by IFRS 13, Sayed and Salotti (2014) argue that such definition presents serious problems such as the lack of an active market and of objectivity of information, since a large part of the financial assets and liabilities are not quoted in an organized and liquid market. In Brazil, these authors analyzed the relationship between market values, book equity and the use of fair value as the sole basis of measurement for financial assets and liabilities of banks. They came to the conclusion that the fair value approximates the book values of the assets to their market peers, however the equity is not influenced by the measurement of financial instruments according to fair value. In turn, Grillo *et al.* (2016) studied the effects of the use of the concept of fair value in the measurement of the elements of the balance sheet of Brazilian companies. The results showed that equity had greater relevance before the adoption of IFRS, which is justified by the subjectivity of fair value, which shows that the market showed less reliability with its use as a basis for measuring equity.

In a literature study on fair value, Toluwa and Power (2019) concluded that the adoption of IFRS affects the reliability of financial statements, but despite its shortcomings, international accounting standards are promising. Thus, the authors concluded that it is necessary to perform four steps for a more assertive fair value assessment. These are the four steps: (1) investigate the culture of the country where the accounting is being done; (2) seek to limit the uncertainty of financial markets; (3) encourage local government to create free trade agreements to improve the business environment; (4) ensure professionalism and training for professionals and professional accounting bodies; and (5) apply fair value valuation with caution, especially in times of financial crisis.

4 Final Considerations

Principle-based accounting and the measurement bases of IFRS permeated this theoretical essay, which sought to discuss arguments for and against the principles, especially with regard to the use of fair value as the main instrument for measuring accounting practices. Accounting standards based on principles are considered, by some authors, as a possible solution to the problem of accounting harmonization. However, other authors state that principle-based accounting standardization, although it may result in higher quality financial reports, is less assertive, given the existence of subjectivity in the content of financial statements. This fact leads to the conclusion that it is unlikely that there is absolute harmonization of accounting standards.

It is important to point out that the adoption of IFRS has brought about significant organizational changes. The accounting and operations departments, previously separated, had to unite for the necessary sharing of data and information. Even so, it is noticeable that with the changes in accounting practices, the accountants had to change the way they prepare their financial reports, exercising much more the capacity of judgment. This makes the accounting professionals constantly seek to have a broad orientation to deal with problems in relation to the principles-based approach.

One of the main problems associated with the adoption of IFRS is the use of fair value as an asset measurement attribute, since there is not always a market basis for measurement. Many times the real value of a certain asset can be different from the one measured by the market, which ends up generating in investors greater concern with the increase of subjectivity. This way, although an accounting system based on principles, such as IFRS, can increase the quality of financial statements and offer autonomy to the professionals responsible for decisions, it can also decrease the reliability of the information produced, considering the difficulties inherent to the application of the fair value concept.

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