CORPORATE GOVERNANCE AND IFRS ADOPTION BY BRAZILIAN COMPANIES

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ABSTRACT:

This paper evaluates the relation between corporate governance practices and the adoption of International Financial Reporting Standards (IFRS). We use data on the financial statements of Brazilian firms over the period 2008 and 2014. The sample consists of companies with an audit committee listed on the Stock Exchange of São Paulo. We evaluate the quality of financial information around the IFRS according to the transparency of the IFRS following local GAAP and the announcement in conformity with the IFRS rules. The results are in accordance with empirical evidence for other countries in terms of the importance of corporate governance for the transparency of IFRS. However, we find that Brazilian companies with the highest level of corporate governance do not necessarily disclose with higher quality the adoption of international accounting standards.

Keywords: Corporate Governance Practices; IFRS adoption; Disclosure; GAAP; BM&FBovespa.

1 INTRODUCTION

The International Financial Reporting Standards (IFRS) adoption is considered the most significant regulatory change in financial reporting around the world in the last 30 years (Chen, Tang Jiang, & Lin, 2010). Regulators and IFRS supporters suggested that the benefits intended with its use include increase in reliability, transparency and comparability of financial reporting, international investment flows and market efficiency (Jermakowicz & Gornik-Tomaszewski, 2005; Brown, 2011; Alon & Dwyer, 2014).

Several studies have shown that the application of IFRS regulations has led to an improvement in confidence for enterprises, the properties of accounting information and the transparency of capital markets (Barth, Landsman, & Lang, 2008; Zhang, 2011). Researchers confirmed the positive impact of IFRS on the accuracy of analysts' forecasts (Ashbaugh & Pincus, 2001), the quality of financial information (Chen et al, 2010; Yip & Young, 2012) and investment flow (Florou & Pope, 2012). Moreover, a number of authors have found that the results of the IFRS implementation are specific to the context and environment, rather than uniform (Sunder, 2011).

As IFRS have been formally adopted by many jurisdictions, research related to national accounting became of great academic interest over the last decade (Alon & Dwyer, 2014). Similarly, as the accounting regulation is an important corporate governance mechanism, researchers have examined the factors that contribute to the IFRS adoption in the organizational level (Baker & Barbu, 2007).

The search for a good corporate governance is associated with ethics in the business ambient, and for its implementation the field of accounting is a crucial factor. Corporate governance has become imperative condition for the stability of the economic ambient, as it ensures to partners-owners the strategic management of the company and the effective monitoring of executive management (IBGC, 2009).

Despite the growing importance of Brazilian firms, there exists few studies on the evolution of accounting practices and on the significant normative influences (Rodrigues, Schmidt, & Santos, 2012). In this context, the present study aims to analyze the relation between corporate governance practices with the IFRS adoption by brazilian companies from 2008 to 2014.

The choice of the period is due to change is regulation in the year 2007, when the formal start of the changes in Brazilian accounting standards took place with the enactment of Law n. 11.638/07, which amended devices of Law n. 6.404/76 (Souza Neto Salor, Vargas, & Demonier, 2013). The normative instrument established that the accounting standards in Brazil shoud be in line with international standards adopted in the securities markets.

Our study is motivated by research on Verriest by Gaeremynck and Thornton (2013), which used data for the years 2004 and 2005 in a cross-sectional sample of 223 european companies located in 15 countries. However, our study differs in terms of the sample years used as well as the country of interest. The justification is grounded in Dyckman and Zeff (2014), which, when considering the obligation to communicate the IFRS, say the first year in which data became available does not necessarily qualify as suitable for the sampling period.

The IFRS adoption requires companies to address the reasons for differences in accounting numbers under the two schemes, provide additional financial information and decide on the compliance options and voluntary disclosure (Verriest et al., 2013). In this context, it is expected that the governance mechanisms are associated with better compliance and greater disclosure on the IFRS adoption.

In this paper we evaluate the quality of financial information around the IFRS adoption from two different schemes: (1) transparency of IFRS from GAAP to IFRS location; and (2) disclosure in accordance with the specific IFRS standards.

This paper contributes to the literature in several ways. First, it adds to the literature about IFRS adotpion in Brazil, and most importantly, about the relationship between the adoption of good corporate governance practices and the IFRS adoption in the context of an important emerging market. Moreover, it contributes to a growing literature that seeks to discover the influence of best practices and corporate governance mechanisms on published financial reports.

2 LITERATURE REVIEW

International Financial Reporting Standards (IFRS) are a set of accounting standards based on the Anglo-American reporting framework. The way IFRS are integrated by the economies in transition is unclear as those are in general less advanced in the area of corporate governance (Reaz & Hossain 2007).

Rodrigues et al. (2012) explored the significant influences on Brazilian accounting and the way for the adoption of IFRS norms. When considering the growing global economic and financial integration of Brazil, the authors assessed that the convergence of national GAAP to IFRS was extremely important to improve the financial information of Brazilian companies. The accounting principles of the IASB seem to be more appropriate in the context of globalization of the Brazilian economy.

Data of brazilian companies listed in the period 1998-2004 indicated that the revaluation of fixed assets are negatively related to performance, future prices and returns. Furthermore, companies that adopt higher volunteers governance regimes are less likely to manipulate its financial statements (Lopes & Walker, 2012).

The IFRS adoption by Brazilian companies had a positive effect in the relevant value of net income in the range of companies that signaled corporate governance best practices (Lawrence & White, 2015). This indicates that the quality of corporate governance may result in more positive economic results for companies (Zéghal, Chtourou, & Sellami, 2011).

Misirlioğlu, Tucker and Yükseltürk (2013) evaluated whether the mandatory IFRS adoption by Turkish listed companies in 2005 was successful in practice. They found that, despite some improvements, the vast majority of disclosure items required by the IFRS was not disclosed.

Garrouch, Hadriche and Omri (2014) investigated how the mandatory adoption of new accounting standards influence on earnings management in 120 companies listed on the french stock exchange. They found that corporate governance mechanisms are not strong enough to enforce the application of IFRS in France. This may be due to the specific characteristics of the French context known for protection of rights of minority investors, even in the post-IFRS period.

A related study for Chinese companies suggested that Chinese capital market companies 2003-2009 that obscure information can weaken the effect of external monitoring mechanisms of corporate governance and of high quality accounting standards. Moreover, information does not increase the effect of monitoring governance mechanisms if it is not compatible with the institutional market environment (Cang Chu, & Lin, 2014).

Hassan, Rankin and Lu (2014) point out that the decision to adopt IFRS at national level is mainly economic, and their adoption is associated with desirable characteristics that support international business and globalization. Nevertheless, there is little empirical evidence to support this claim, since the existing research shows conflicting results (Judge, Li & Pinsker, 2010).

Hou, Jin and Wang (2014) analyzed how the mandatory adoption of IFRS affects the contractual benefits to determine the remuneration of executives in China. After controlling for firm characteristics and governance, they found strong evidence of the positive role of mandatory IFRS adoption on executive compensation.

Although the IFRS are likely to represent a significant improvement in the quality of financial reporting, their implementation and weak enforcement mechanisms can lead investors to disregard financial reporting (Beneish & Yohn, 2008). Thus, countries with low institutional governance quality may reduce the effect of adopting IFRS on foreign investment (Hail, Leuz, & Wysocki, 2010).

Ebrahim and Fattah (2015) examined the corporate governance factors and the quality of independent audit to determine compliance with the requirements of recognition and disclosure of IFRS accounting and income tax in Egypt. They found empirical evidence that corporate governance factors indicate that the level of management and owners sophistication and the perceived quality of the engaged auditor improve the performance of the company and the IFRS requirements.

Many studies have found that the effects of IFRS are not homogeneous and are connected to the national institutional environment of financial reports (Brown, 2011; Brüggemann, Hitz, & Sellhorn, 2013). This is not surprising given that the interpretation and the use of IFRS may differ between countries, reflecting substantial and long-standing differences in institutional settings (Whittington, 2005, Pope & McLeay, 2011).

In this line, Ball (2006) argues that isolated uniform standards are not able to produce uniform financial reporting. Including the regulation of financial reports should not be considered in isolation and independently of other elements of institutional infrastructure.

The IFRS adoption leads to increased disclosure and reduction of accounting choices, resulting in the loss of private benefits to members of the company. This loss depends on the institutional characteristics (ie, the investor protection level). Moreover, in countries with strong laws or extensive code of corporate governance, governance recommendations are as effective as the laws to encourage the adoption of IFRS (Renders & Gaeremynck, 2007).

Based on the literature review on corporate governance, it is assumed that companies with best corporate governance practices provide superior information during the transition from local standards to IFRS.

3 SAMPLE AND INVESTIGATION MEASURES

Section 3.1 describes the sample used in the study. Section 3.2 describes the two hypotheses of transparency and disclosure and the empirical strategy using panel data analysis.

3.1 Sample selection

Transparency and disclosure of International Financial Reporting Standards (IFRS) were checked on the notes of the Financial Statements (FS's). The sample consists of all the brazilian companies listed on the São Paulo Stock Exchange (BM&FBovespa).

The segments of the BM&FBovespa are: Traditional, Bovespa Mais, Bovespa Mais Level 2, New Market, Level 2 and Level 1. They were created in order to develop the brazilian capital market. They are necessary to have appropriate segments for different company profiles.

Table 1 – Population and Sample

Segment	Amount	Audit Committee	Financial Institution	Insurers	ADR Issuer	Final Sample
Traditional	247	16	9	-	1*	7
Level 2	20	6	4	1	-	1
Level 1	29	9	4	-	-	5
New Market	133	30	1	2	-	27
Bovespa Mais Level 2	1	-	-	-	-	0
Bovespa Mais	8	1	-	-	-	1
Total	**438**	**62**	**18**	**3**	**1***	**41**

* The company ADR issuer is a financial institution.
Source: Research data.

From the population of 438 companies, 378 were excluded because they did not have an audit committee. From there 62 companies with audit committee, 18 were excluded because they are financial institutions. Three companies were excluded because they are insurance companies. Such exclusion is due to the requirement of the constitution committee for these companies, following specific legislation or regulatory agencies.

Data from seven years of research were collected in electronic sites of the companies and BM&FBovespa. Thus, the final sample comprised 247 observations and 41 cross-cutting units in the range of 7 periods. Data were analyzed using Stata software.

3.2 Formulation of the hypothesis

The formulation of hypotheses of the study is exposed from two views: (1) transparency of IFRS from GAAP to IFRS location; and (2) disclosure in accordance with the specific IFRS standards.

3.2.1 Transparency of ifrs

Corporate governance in business organizations is a factor that contributes to the financial success and quality of financial information (Ebrahim & Fattah, 2015). Likewise, it is expected that the IFRS adoption will produce benefits such as greater transparency, international comparability and market efficiency (Barth et al, 2008; Brown, 2011; Zhang, 2011; Alon & Dwyer, 2014; Doukakis, 2014). Thus, arises the Hypothesis 1:

H1 - Transparency in the IFRS adoption is positively associated with the adoption of best corporate governance practices.

The TRANSPAR variable measures the transparency of companies in relation to local GAAP reconciliations to IFRS. It refers to the sum of four sub-indicators, namely: updated items, number of pages, number of years and update format. The highest values of TRANSPAR reflect more transparent and higher quality updates.

Updated items is an indicator with a maximum number of five, based on the presence or absence of information on the impact of adopting IFRS on five items of the financial statements: (i) Net Income for the year; (ii) Book value of net assets at the beginning of the year; (iii) Carrying amount of net assets at the end; (iv) Operating cash flow in 2005; and (v) Total revenue or sales of the year. It is attributed 1 point for each of the five items when the company disclose the differences between IFRS and local GAAP.

Number of pages measures the amount of updated information disclosed in the 2008 annual reports to 2014. It is said the number of pages in the notes dedicated to local GAAP update to IFRS. For a viable number to TRANSPAR, each observation divided by maximum release on the sample. Thus, number of pages is a score between 0 and 1. The companies with the highest relative number of pages to update from the average of the companies receive a score of 1.

Number of years measuring the number of years for which updated values between local GAAP and IFRS are disclosed. Thus, number of years takes the value of 1 if the companies provide updated information in 3 or more years and zero otherwise.

Update format captures the chosen format to disseminate updated information. The International Accounting Standard (IAS) 1 requires that the difference between the local GAAP and IFRS be assigned to individual patterns. Most companies provide a table that reconciles profit and shareholders' equity under local GAAP to equivalent amounts in IFRS (Iatridis & Valahi, 2010). In this case, companies indicate that standards are responsible for these differences in shareholders' equity and profit, as well as the values for each standard. Such companies receive a score 1. Companies that do not meet the requirements of IAS 1 receive 0. Some companies, however, disclose more information about the upgrade process, providing a detailed reconciliation for each item of the balance sheet and / or results report. It is considered this superior format to the alternative described above and score is assigned 2 in the update format for these companies.

The four sub-indicators total maximum score of to TRANSPAR. It is estimated as follows adapted model Verriest Gaeremynck, and Thornton (2013, p. 14):

$$TRANSPAR_{\mathrm{i}} = \alpha + \beta_1 GOVERNAN_{\mathrm{i}} + \beta_2 \Delta lPROFIT + \beta_3 lSIZE + \beta_4 lAGE + \beta_5 LOSS + \varepsilon_i \qquad (1)$$

In equation (1), GOVERNAN capture quality of corporate governance of the company. Add up control variables to the model (1). To control the absolute value of the impact of IFRS adoption on net income, is included ΔPROFIT, which represents the difference between net income under IFRS less net income in local GAAP at market value of the shares. the logarithm of this variable so that the results can be interpreted as elasticity is used.

The size of the company (SIZE) is measured as the logarithm of the market value at the end of 2014 and firm age (AGE) as the logarithm of the number of years since the company was founded. LOSS is a variable equal to 1 if the company has a loss and zero otherwise, to control the profitability differences.

3.2.2 Disclosure of ifrs standards

The IFRS adoption is a nationwide regulatory event which has as one objective to increase the quality of public disclosure (Kim, Tsui, & Yi, 2011; Kim & Shi, 2012). Furthermore, it requires that companies address the reasons for differences in accounting numbers under GAAP and IFRS, disclose additional financial information and decide on the compliance options and voluntary disclosure (Verriest, Gaeremynck, & Thornton, 2013). From this stems the Hypothesis 2:

H2 - Disclosure on IFRS adoption is positively associated with the adoption of best corporate governance practices.

The DISCLOSU variable measures the amount and type of information that companies provide in relation to six international standards Verriest, Gaeremynck, and Thornton (2013) used to transmit incremental information compared with local GAAP: disclosure of recognized income (IAS 1); Disclosure of Cash Flow Statements (IAS 7); disclosure of segment information (IAS 14); information on earnings per share (IAS 33); disclosure of transactions with related parties (IAS 24) and information on financial instruments (IAS 39). The quality and compliance of the disclosure of the six IAS measures are as follows:

The profit of the reporting (IAS 1) companies must provide the statement of changes in shareholders' equity for the current and prior periods, in addition to reconcile net income to comprehensive. Quality is measured by the following criteria: (i) detailed disclosure of all gains and losses through equity; (ii) Reconciliation of last year's change in equity and (iii) distinction between profit attributable to the(s) holder(s) driver(s) and minor(s). Attributed to a score of 1 if the disclosure meets the criterion and zero otherwise, so it corresponds to an indicator with a maximum value of 3.

In the Statement of Cash Flows (IAS 7) firms must provide a statement of operating cash flows, distinguishing them in finance and investment. Companies can determine the operating cash flows using the direct method or the indirect method (less transparent). The IASB suggests that companies using the direct method. Is assigned a score of zero if a company applies the indirect method, 1 if he uses direct and 2 method if he uses both methods. According to IAS 7, companies should also disclose the components of cash and cash equivalents. Attributed to the score of 1 if it is done and zero otherwise. Thus, the cash flow statement is an indicator with a maximum of three points.

The disclosure of segment information (IAS 14), companies must provide financial information by line of business and geographic area. For most companies, one basis of segmentation is primary and the other secondary;

considerably less disclosure required for secondary segments. For each of the primary and secondary segments is attributed to scoring 2 if the company reports more than required by IAS 14, if one says what is needed and 0 if it does not meet the requirements. When considering the two segments, the highest score of a company so far is 4. Also, is assigned a score of 1 if the company combines or tabula information by primary and secondary segment, and 0 otherwise. Additionally, it is considered a score of 1 if the company provides information for the previous segment, as well as for the current period. Thus, the disclosure of segment information has a maximum score of 6.

Earnings per share (IAS 33) is required to be disclosed in two ways: (i) in the income statement and (ii) a profit sharing per basic and diluted share. There are two voluntary disclosures: (i) information of earnings per share in a footnote and (ii) information separate earnings per share for the controlling and minority shareholders. Attributed to score 1 for each of these items totaling a maximum score of 4.

Disclosure of Related Party Transactions (IAS 24) is measured based on the following criteria: (i) separate footnote on related parties; (ii) information on related parties for the current and previous fiscal year; (iii) information on transactions with associates; and (iv) information on the remuneration of directors. Attributed to the score of 1 if the company complies with each of the four disclosure requirements and zero otherwise. Therefore, this indicator has a maximum score of four.

DISCLOSU is the sum of scores for disclosures related to the six accounting standards shown above with a maximum of 23 points. It is estimated as follows adapted model Verriest, Gaeremynck, and Thornton (2013, p. 18):

$$DISCLOSU_{\mathrm{i}} = \alpha + \beta_1 GOVERNAN_{\mathrm{i}} + \beta_2 \Delta lPROFIT + \beta_3 lSIZE + \beta_4 lAGE + \beta_5 LOSS + \varepsilon_i \qquad (1)$$

Attributed to the score of 1 if, regarding the disclosure of financial instruments (IAS 39), the company: (i) provide for separate footnote on financial instruments; (ii) provides information on financial instruments, both for the current fiscal year, as for the previous one; and (iii) provides quantitative information rather than descriptive in relation to financial instruments. Thus, the indicator financial instruments have a maximum score of 3 points.

3.2.3 Corporate governance

Effective governance requires accurate and reliable financial information. Historically, each nation has developed and used its own financial rules. However, as the financial markets have been consolidated in a global market, there is a need for a common set of financial rules. As a result, there is a movement towards harmonization of international financial reporting standards (IFRS) across the global economy (Judge, Li & Pinsker, 2010).

In Brazil, the Brazilian Institute of Corporate Governance (IBGC, 2009) lists several characteristics that the audit committee should have to contribute to the best corporate governance practices. Table 2 shows the main features of the committees and their recommendations IBGC. It is emphasized that these are only references and suggestions and not responsibilities.

Table 2 - Characteristics of the Committees and recommendations of the IBGC

Characteristics	IBGC Recommendations
1. Size committee	Minimum of three members
2. Committee is part of the Board of Directors	Preferably formed only by advisers
3. Independence	Preferably consisting of independent directors, or at least mostly
4. Expertise – knowledge in audit, accounting and finance	At least one must be a financial expert
5. Number of meetings	One meeting a month
6. Disclosure of reports committee meetings	Be disclosed
7. Disclosure of minutes of committee meetings	Be disclosed
8. Disclosure of report committee summary in the financial statements	Be disclosed
9. Rules of Procedure	Own regiment
10. Committee is provided for in the Bylaws	Be statutory

Source: IBGC (2009).

The IBGC (2009) suggests that the audit committee is preferably made up of members of the board and this must be formed of independent members. At least one of the committee members must have knowledge in the areas of accounting, auditing and finance (expertise).

In addition, the audit committee should hold separate or joint meetings, as it deems appropriate, with management, internal auditors, independent auditors and other members of the board. Regarding the number of meetings, the IBGC (2009) suggests at least monthly. It is recommended that the meetings are recorded in minutes drawn up during the meeting. The minutes shall be disclosed as required by the bylaws. In addition to the minutes, the committee may submit reports of their activities.

Additionally, the IBGC (2009) suggests the disclosure, along with the financial statements, a summary of the audit committee report. It should also adopt an Internal Regulation approved by the board. Finally, it is recommended that the committee's responsibilities are defined in the Bylaws of the company.

It is estimated GOVERNAN from 10 characteristics identified by the IBCG. The same score is assigned to each feature, so that the maximum score for each characteristic is 10 and the maximum possible score for each company in the sample is 100.

Table 3 – Characteristics to best practices in corporate governance

Characteristics	Punctuation
1. Size committee	10 ÷ maximum number of members x number of members
2. Committee is part of the Board of Directors	10 ÷ maximum amount of members on the board x number of members on the board
3. Independence	10 ÷ maximum amount of number of independent members x number of independent members
4. Expertise – knowledge in audit, accounting and finance	10 ÷ maximum amount of members with expertise x amount of members with expertise
5. Number of meetings	At least one monthly meeting = 10 and less than one meeting per month = 0
6. Disclosure of reports committee meetings	Meeting report disclosed: Yes = 10 and No = 0
7. Disclosure of minutes of committee meetings	Released disclosed: Yes = 10 and No = 0
8. Disclosure of report committee summary in the financial statements	Summary of the report released: Yes = 10 and No = 0
9. Rules of Procedure	It has regiment: Yes = 10 and No = 0
10. Committee is provided for in the Bylaws	Be statutory: Yes = 10 and No = 0

Source: developed by the authors.

Thus, GOVERNAN, measure of the overall quality of corporate governance, reflects several characteristics, as expressed in Table 3. It adopts the aggregate index because corporate governance is a multidimensional construct. This means that different governance practices tend to complement and empirical evidence suggests that aggregate indices measure more accurately than individual indicators (Davila & Penalva, 2006; Aguilera et al., 2008).

4 DATA ANALYSIS

This session highlights the analysis of data from 247 observations (41 companies times 7 years). Proceeds to the examination of the descriptive statistics and panel data regression.

4.1 Descriptive statistics

Table 4 presents the descriptive statistics of the dependent and independent variables used in the study. It considers the whole sample of observations during the study period (2008-2014).

Table 4 – Descriptive statistics

Variable	Average	Median	Minimum	Maximum	Standard deviation
GOVERNAN	44,678	46	10	73	13,751
ΔLPROFIT	8,5259	8,5899	5,0682	10,612	0,81237
LAGE	1,1936	1,2553	0	1,9031	0,51355
LSIZE	9,4208	9,4761	2	11,543	0,95531
LOSS	0,4878	0	0	1	0,50072
TRANSPAR	4,7143	5	0	8	2,1177
DISCLOSU	10,878	13	0	19	5,7757

Source: Research data.

It appears that the highest score of adoption of best corporate governance practices was 73, while the lowest was only 10. This result indicates a large amplitude between these two points. Note also, that the variables of transparency and disclosure showed minimum values of zero. This means that some companies do not exposed the adoption of International Financial Reporting Standards (IFRS) in accordance with the rules.

Highlights for the year 2010, in which 47.06% of grade 8 (max) occurred to TRANSPAR variable. Regarding DISCLOSU, the scores of 17, 18 and 19 are concentrated in the years 2010, 2011, 2012, 2013 and 2014. These findings are probably related to the enactment of Law n. 11.941/2009, which reinforced the need for disclosure of the equity situation of the companies in the notes. Moreover, the study Misirlioğlu et al. (2013) with Turkish listed companies, it was found that the majority of the disclosure items required by the IFRS has not been announced.

Table 5 shows the correlation matrix of discrete and continuous variables used in the regressions. As expected, corporate governance practices (GOVERNAN) are positively associated with transparency (TRANSPAR) and dissemination (DISCLOSU) of IFRS. Also, it is positively On the other hand, is negatively correlated with age (lAGE), size (lSIZE) and loss (LOSS).

Table 5 – Correlation Matrix

	GOVERNAN	ΔLPROFIT	LAGE	LSIZE	LOSS	TRANSPAR	DISCLOSU
GOVERNAN	1	-	-	-	-	-	-
ΔLPROFIT	0,083	1	-	-	-	-	-
LAGE	-0,065	0,255	1	-	-	-	-
LSIZE	-0,115	0,601	0,4686	1	-	-	-
LOSS	-0,0005	0,264	0,3851	0,3163	1	-	-
TRANSPAR	0,072	0,056	0,3325	0,2508	0,44	1	-
DISCLOSU	0,061	0,185	0,4053	0,3589	0,55	0,807	1

Source: Research data.

The dependent variables TRANSPAR and DISCLOSU are positively correlated with all independent variables. Continuous independent variables included in the regressions, namely ΔlPROFIT, lAGE and lSIZE not have correlation coefficients greater than 0.80 to each other, which indicates limited threat of multicollinearity. This is because, it is recommended multicolinearity less than 0.80 (Ismael Son, Borges Araújo Pereira Lima, Silva & Silva Junior, 2015).

4.2 Analysis of regressions

Table 6 shows the statistics of the regressions resulting estimation Hypothesis 1. The panel data regressions were made for models Fixed Effects, Random Effects and Pooled Ordinary Least Squares (POLS). The variable column includes GOVERNAN and the control variables.

Tabela 6 – Data Regression Results in panel with Dependent Variable TRANSPAR

Variable	Random Effects		Fixed Effects		POLS	
	Coefficient β	Sig.	Coefficient β	Sig.	Coefficient β	Sig.
CONSTANT α	4,6382	0,0000	3,0471	0,3981	4,6611	0,0000
GOVERNAN	0,0022	0,7321	Omitted		0,0016	0,7830
ΔLPROFIT	-0,0323	0,7800	0,0171	0,9009	-0,0276	0,8083
LAGE	0,1667	0,3597	0,1385	0,8416	0,1668	0,3211
LSIZE	0,0762	0,5581	0,2174	0,5886	0,0724	0,5539
LOSS	0,2855	0,0797	0,2330	0,2670	0,2824	0,0735
R^2	0,0399		0,2429		0,0433	
R^2 adjusted	0,0136		0,0303		0,0171	
Durbin-Watson	2,1557		2,4219		2,1120	
LM of Breusch-Pagan	$X^2 = 5,59$					
	Sig. $X^2 = 0,009$					
F of *Chow*	$F = 1,04$					
	Sig. $F = 0,416$					
Hausman Test	$X^2 = 110,35$					
	Sig. $X^2 = 0,000$					

Source: Research data.

The result of Hausman test is used to evaluate the adjustment effect models of fixed and random effects. In this case, X^2 value indicates that the fixed-made template is rejected in favor of the random effects. So is analyzed according to the results of the random effects.

Durbin-Watson statistic above 1.0 in the fixed effects models (2.1557), random effects (2.4219) and stacked time series (2.1120) indicates there is no problem of serial correlation of data.

The transparency of IFRS from GAAP to IFRS location is represented by R^2 of 0.0399 in the random effects model. This finding indicates that 3.99% of the variations in the transparency of the updated items, number of pages, number of years and update format are explained by variables regression.

The governance coefficient is positive, which does not reject the hypothesis 1. So when be distinguishes companies due transparency, it is stated that the adoption of IFRS had a positive effect on the best practices of corporate governance.

Moreover, it appears that Brazilian companies with larger size have a higher quality of disclosure. This result was also found by Verriest, Gaeremynck, and Thornton (2013) in the analysis of European companies.

The profit difference of logarithm of the ratio under IFRS and local GAAP demonstrates that transparency has a negative effect on the results of companies. On the other hand, studies by Lawrence and White (2015) and Zéghal et al. (2011) suggest that there is a positive economic effect on the adoption of IFRS on companies with the best corporate governance practices.

The old coefficients and loss shows that the time of maturity of the company and its losses (profitability control) have a positive effect on the transparency of IFRS.

Table 7 shows the regression of the statistics resulting from the estimation of Hypothesis 2. panel data regressions were also made by models Fixed Effects Random Effects and stacked series (POLS). The variable column comprises the constant and the other independent variables.

Table 7 – Data Regression Results in panel with Dependent Variable DISCLOSU

Variable	Random Effects		Fixed Effects		POLS	
	Coefficient β	Sig.	Coefficient β	Sig.	Coeficiente β	Sig.
CONSTANT α	-2,9605	0,4504	-55,0591	0,0000	0,0329	0,9922
GOVERNAN	-0,0230	0,3386	Omitted		-0,0220	0,2605
ΔLPROFIT	0,0555	0,8701	0,1229	0,7439	-0,0752	0,8423
LAGE	0,4588	0,4959	6,5946	0,0007	0,0269	0,9616
LSIZE	1,5544	0,0008	6,0857	0,0000	1,4202	0,0006*
LOSS	2,0938	0,0000	2,3530	0,0001	1,8793	0,0004*
R^2	0,2062		0,5880		0,2288	
R^2 adjusted	0,1844		0,4723		0,2076	
Durbin-Watson	1,4851		1,5840		1,3438	
LM of Breusch-Pagan	$X^2 = 5{,}59$					
	Sig. $X^2 = 0{,}009$					
F* of *Chow	$F = 3{,}49$					
	Sig. $F = 0{,}000$					
Hausman Test	$X^2 = 55{,}49$					
	Sig. $X^2 = 0{,}000$					

Source: Research data.

The result of the Hausman Test for this regression also shows that fixed-made model is rejected in favor of random effects. That model also includes the effect not observed directly.

The Durbin-Watson test of random effects (1.4851) reinforces the quality of the model, to demonstrate that there is no autocorrelation of the data and provide the continuity of implementation.

The disclosure in accordance with the specific IFRS is represented by R^2 of 0.2062 in the random-effects model. This state indicates that 20.62% of the variations in the exposure IAS 1, IAS 7, IAS 14, IAS 33, IAS 24 and IAS 39 are explained by the model.

For compliance and quality of disclosure, the governance coefficient is negative, which rejects the hypothesis 2. Thus, it is pointed out that the adoption of best corporate governance practices had a negative effect on the dissemination of international standards.

This result goes against the research from Gaeremynck and Renders (2007), where the IFRS adoption leads to increased disclosure and reduction of accounting choices. In the study of Verriest, Gaeremynck, & Thornton (2013) they found that corporate governance is positively associated with disclosure and compliance of IFRS.

5 CONCLUSION

This article aims to analyze the relation between corporate governance practices with the International Financial Reporting Standards (IFRS) adoption by brazilian companies in the period of seven years. To this end, we analyzed the Standardized Financial Statements (FS's) from 2008 to 2014. The sample consisted of 41 companies, which led to 247 observations. It was hoped that the governance mechanisms were associated with better compliance and greater disclosure on the IFRS adoption.

This research was inspired by the work from Verriest, Gaeremynck and Thornton (2013). They analysed data from 2004 and 2005, based on a sample of 223 European companies located in 15 different countries. However, our research differs mainly by the sample period which was used. We evaluated the quality of financial information around the transparency of IFRS from GAAP to IFRS location; and (2) disclosure in accordance with the specific IFRS standards.

Transparency was evaluated by means of the updated items, number of pages, number of years and update format. The disclosure was observed through recognition (IAS 1); Disclosure of Cash Flow Statements (IAS 7); disclosure of segment information (IAS 14); information on earnings per share (IAS 33); disclosure of transactions with related parties (IAS 24) and information on financial instruments (IAS 39). Corporate governance was evaluated by means of the Brazilian Institute of Corporate Governance (IBGC, 2009).

The results demonstrate that the IFRS adoption is positively associated with the use of best practices in corporate governance. In other words, companies that adopt best corporate governance practices tend to be more transparent in the adoption of international standards. This study confirms what the literature suggests in terms of benefits of corporate governance for transparency (Barth et al, 2008;. Brown, 2011; Zhang, 2011; Alon & Dwyer, 2014; Doukakis, 2014).

Moreover, it was found that the adoption of best corporate governance practices had a negative effect on the dissemination of international standards. This means that brazilian companies with the highest level of corporate governance, not necessarily disclose more quality their adherence to international accounting standards. This finding runs counter to the study Verriest et al. (2013), in which business enterprises that have adopted more governance practices, divulged more in accordance with IFRS.

The result of the disclosure is a warning to regulators, since the companies that should not apply the guidelines of international legal instruments. Also, it is important for users because the information companies can not allow the comparability of data.

This study has limitations on the sample, hypothesis and variables. The survey sample is limited only to brazilian companies that met the criteria from IBGC (2009). The hypothesis of the study aimed to investigate the relationship of corporate governance with the disclosure and transparency, but other aspects can be analyzed as a social responsibility, results, accounting choices, etc. The variables were measured according to some pre-defined items on the methodology, but others can be inserted to the analysis to better encompass them.

Finally, we suggest further study on the effects of corporate governance in accounting, for example, result in market value, the audit in compliance, etc. We also indicate to further explore the disclosure and transparency of IFRS, particularly by improving the variables of the analysis. Next studies should deal with the impact of the audit committee quality on transparency and disclosure of IFRS reporting in other countries.

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