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Earnings quality and IFRS: Analysis of Brazilian Companies of the Banking Sector Listed on the B3

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Qualidade de lucro e IFRS: análise de empresas brasileiras do setor bancário listadas na B3
Calidad de ganancias e IFRS: Análisis de empresas brasileñas del sector bancario que cotizan en el B3

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The objective of this research is to analyze whether there was an increase in the quality of the information of companies of the banking sector listed on Brazil, Bolsa, Balcão (B3), by the adoption of accounting standards of the IASB, and whether the earnings persistence of publicly held companies in the banking sector increased by the adoption of the IFRS standard and whether the fair value had any impact on this relationship. The sample comprises 25 companies from the banking sector of B3 over a period of 12 calendar years, i.e., from 2004 to 2009 and from 2011 to 2016. The tests were carried out considering net income. We used data from published financial statements made available to the general public on the B3 website. The results confirmed only the first hypothesis, which demonstrated that the quality of Brazilian banking sector earnings, based on persistence, increased by the adoption of international accounting standards. On the other hand, the results pointed out that the realization of the adjustment to fair value of financial instruments did not change the persistence of earnings of all 25 companies analyzed.

El objetivo de esta investigación es analizar si hubo un aumento en la calidad de la información de las empresas del sector bancario que cotizan en Brasil, Bolsa, Balcão (B3), mediante la adopción de estándares contables del IASB, y si la persistencia de las ganancias El aumento de las compañías que cotizan en bolsa en el sector bancario aumentó con la adopción de la norma IFRS y si el valor razonable tuvo algún impacto en esta relación. La muestra comprende 25 empresas del sector bancario de B3 durante un período de 12 años calendario, es decir, de 2004 a 2009 y de 2011 a 2016. Las pruebas se llevaron a cabo considerando los ingresos netos. Utilizamos los datos de los estados financieros publicados puestos a disposición del público en general en el sitio web de B3. Los resultados confirmaron solo la primera hipótesis, que demostró que la calidad de las ganancias del sector bancario brasileño, basada en la persistencia, aumentó con la adopción de estándares internacionales de contabilidad. Por otro lado, los resultados señalaron que la realización del ajuste al valor razonable de los instrumentos financieros no cambió la persistencia de las ganancias de las 25 compañías analizadas.

O objetivo desta pesquisa é analisar se o aumento na qualidade das informações das empresas do setor financeiro da B3, através da adoção de normas contábeis do IASB e se a persistência dos lucros das companhias abertas no setor bancário aumentaram com a adoção às IFRS e se o valor justo teve algum impacto nesse relacionamento. A amostra é composta por 25 empresas do setor bancário de B3, durante um período de 12 anos civis, ou seja, de 2004 a 2009 e de 2011 a 2016. Os testes foram realizados considerando o lucro líquido. Utilizamos dados das demonstrações financeiras publicadas, disponibilizadas ao público em geral no site da B3. Os resultados confirmaram apenas a primeira hipótese, em que a qualidade dos resultados do setor bancário brasileiro, baseada na persistência, aumentou com a adoção de normas contábeis internacionais. Por outro lado, os resultados apontaram que a realização do ajuste ao valor justo dos instrumentos financeiros não alterou a persistência dos resultados das 25 empresas analisadas.

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1. Introduction

The accounting standards of the ***International Accounting Standards Board*** (IASB) aims a convergence between international accounting standards and local standards through a single accounting mechanism. This would improve the accounting information of the user in general by an improvement in the quality of information through financial reporting. Thus, high-quality information, such as earnings, would have a better predictability of future dividend flows. It would be more useful to several users of financial statements, especially creditors and investors (Silva, Bonfim, Niyama & Silva, 2017).

The IFRS represents a standardized, high-quality and transparent set of accounting standards capable of neutralizing accounting differences among jurisdictions. As noted by Tweedie (2008), chair of the *International Accounting Standards Board* during that period, IFRSs were designed to provide an economic assessment of an entity on a particular date: they were meant to record the value of an entity today, not its past or future value.

Previous literature has shown different results regarding the adoption of the IFRS standard, *i.e.*, the adoption of international standards may improve or worsen the quality of information provided for in financial reports. On the one hand, there are studies showing that the adoption of IFRSs, a set of principles-based accounting standards, increases the management of results (Ashbaugh & Pincus, 2001; Bartov, Goldberg, & Kim, 2005; Elbannan, 2010; Jeanjean & Stolowy, 2008). On the other hand, there are studies arguing the contrary, *i.e.*, that the adoption of standards based on principles increases the quality of accounting information, reducing results management (Barth, Landsman, & Lang, 2007; Chen, Tang, Jiang, & Lin, 2010; Christensen, Lee, Walker, & Zeng, 2015; Iatridis, 2010; Paananen & Lin, 2009; Yoon, 2007).

The possible justifications consist of several factors influencing accounting policies and practices adopted by countries, such as the legal system, culture, type of capital market and social environment (Askary, 2006). By considering that Brazil is a country whose legal system is based on code law, whose studies indicate a greater tendency to the existence of GR, one can expect a lower quality of information. However, there are already results indicating that the adoption of the IFRS standard has improved the information quality of Brazilian companies listed on B3 (Silva et al., 2017).

The introduction of new standards, however, has implications for the banking sector (Adzis, Tripe, Dunmore, 2016), predominantly for the recognition of losses or gains related to the application of fair value to financial instruments in accordance with the Technical Pronouncement CPC 46 - Measurement of Fair Value. The positive implication of this approach, according to the CPC 46, is that it can make it possible to increase the quality of bank information to measure financial instruments so that they may reflect the economic reality of such assets. In contrast, the negative implication, due to professional judgment, is that the application of the pronouncement may enable the manager to be more open to opportunistic practices and to manage results. Along the same lines, the pro-cyclical behavior of provisioning of losses causes provisions to increase during economic recessions. Consequently, in bad times, an increase in losses could affect the bank's profit, weaken the bank's capital, reduce its lending activities to solvent borrowers, and eventually trigger a credit crisis that could worsen the economic crisis (Wall and Koch, 2000) .

KEY WORDS
Banking Sector, Fair Value, Information Quality, IFRS.

PALABRAS CLAVE
Sector bancario, valor razonable, calidad de la información, IFRS.

PALAVRAS CHAVE
Setor financeiro, Valor Justo, Qualidade da Informação, IFRS.

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C23; M49; M16

This study, therefore, examines the impacts of the adoption of the CPC 46 on the quality of accounting information by virtue of fair value measurement of financial instruments and, consequently, the recognition of gains and losses relating to fluctuations of prices of negotiable instruments. Brazilian companies are chosen due to environmental characteristics, above all emerging economy and adoption of international standards still at the adaptation phase when dealing with some technical pronouncements, such as the test of recoverability of assets, fair value and others.

Thus, even if the accounting standard of the IASB can be considered as having a high quality, the process of adaptation that would lead to such high quality of information can be gradual, but slow, even in financial institutions. Thus, the study of the effects of the CPC 46 may provide insights into the effects of more transparent accounting standards on the quality of financial reporting of financial institutions in Brazil. This provides a motivation to investigate whether the requirement of robust disclosure under CPC 41 influences the behavior of Brazilian banking companies in increasing or decreasing information quality.

In addition, regarding the banking sector, no research was found highlighting this relationship individually, *i.e.*, whether the adoption of the IFRS standard increased the quality of information. Tregenna (2009) and Alexiou, and Vogiazas and Nellis (2018) highlight the important relationship of the banking sector with the national economic growth. The banking sector, besides being representative in the Brazilian economy and in Ibovespa, has peculiar regulatory characteristics, which, in principle, are antagonistic to the management of results when a better information quality is expected (B3, 2018). English, Heuvel and Zakrajsek (2012) also highlight the importance of relationships of financial institutions for an economic equilibrium.

In this context, when considering the process of convergence of international accounting standards and the regulatory scenario, the following research question was elaborated: does the adoption of international accounting standards result in a higher quality of accounting information in the banking sector of B3? To answer this question, the objective of this research is to analyze whether there was an increase in the quality of the information of companies of the banking sector listed on B3 by the adoption of accounting standards of the IASB. Specifically, this study seeks to verify whether the quality of earnings, measured by persistence, increased by the adoption of the IFRS standard, as well as whether the measurement of financial instruments at fair value increased the quality of earnings (persistence) of companies of the banking sector listed on B3.

This research contributes to the existing accounting literature on the adoption of the IFRS standard, highlighting Gu, Ng e Tsang (2019) e Dal Maso, Kanagaretnam, Lobo e Terzani (2018), mainly in relation to the banking sector. Although some studies addressed the adoption of the IFRS standard in Brazil, this research seeks to demonstrate such adoption in the banking context. Otherwise, we try to demonstrate the relationships between fair value and quality of information for these companies.

This research is organized into five sections: the next, section 2, describes the theoretical foundation and the hypotheses; Section 3 presents the methodology used; Section 4 presents the empirical results and the main discussions; and, finally, Section 5 presents the final considerations and suggestions for future researches.

2. Theoretical basis

Financial reports should provide information about a company's financial performance over a determined period. In this sense, the information is used to predict profits, dividends and cash flows (Brigham & Ehrhardt, 2013). Thus, high-quality profits provide more information about a company's financial performance characteristics, which is relevant to the user's decision-making (Francis, LaFond, Olsson & Schipper, 2004; Dechow, Ge & Schrand, 2010; Dal Maso, Kanagaretnam, Lobo & Terzani, 2018; Bonacchi, Marra, & Zarowin, 2019; Xu, Dao & Wu, 2019).

A number of studies have pointed to the quality of profits considering several of factors, whether in the comparison between public and private enterprises (*e.g.*, Ball & Shivakumar, 2005) or audits (*e.g.*, Lennox, Wu & Zhang, 2016; Lambert, Jones, Brazel and Showalter, 2017; Chen & Komal, 2018), or company's liquidity (*e.g.* Farinha, Mateus & Soares, 2018), or corporate governance (*e.g.* Shiri, Vaghfi, Soltani & Esmaeli, 1994), or *accruals* (*e.g.* Izadi, 2016), and others (*e.g.* Chiang, Kleinman & Lee, 2017; Liu, Fang & Yu, 2018; Ma, 2017, Beyer, Guttman & Marinovic, 2018; Rezaee & Tuo, 2019). Dechow, Ge and Schrand (2010) expose the difficulty of verifying the quality of earnings by pointing out three prominent categories of proxies: (a) *properties of earnings*, (b) *Investor responsiveness to earnings*, and (c) *External indicators of earnings misstatements*, which are highlighted in the literature.

As noted by Bushman and Smith (2001), Healy and Palepu (2001) and Lambert, Leuz and Verrecchia (2007), higher quality financial reporting increases the efficiency of investments. In this same line, Biddle and Hilary (2006) and Biddle, Hilary and Verdi (2009) show that companies with a higher quality of financial reporting have a greater efficiency of investments, presenting less sensitivity of the investment flow. High-quality earnings provide more reliable information about the financial performance characteristics of a company. They are relevant to decision-making for several users since, in general, high-quality earnings will be better predictors of future dividends and better predictors of company bond prices (Dechow, Ge & Schrand, 2010).

In this same perspective, users of financial reports have an interest in evaluating the current and future performance of the company, even if the latter is made by subjective estimates. With the adoption of international accounting standards, what is expected is a decrease in information asymmetry (*see* Healy & Palepu, 2001) of banking firms, and a high level of evidence improves quality of information provided to the company's several users. In this respect, one of the main technical pronouncements affecting the banking sector was the CPC 46 - Measurement of Fair Value. The available-for-sale and for-trading securities would be measured according to this technique, affecting the results of companies and enabling (or not) a greater quality of information.

2.1. Proposal of the hypotheses

This section presents the hypotheses of the study considering companies in the banking sector of B3 and the improvement in the quality of companies' earnings in view of the convergence to the IFRS, and also the possible improvement in the quality of the companies' earnings by measuring the financial instruments at fair value.

2.1.1. IFRS and Earnings Quality

Previous studies suggest that companies using the IFRS standard generally have a higher quality accounting than those using local GAAPs (*Generally Accepted Accounting Principles*) (e.g., Barth et al., 2007; Houqe et al., 2012; Krishnan & Zhang, 2019) since the increase in the quality of information improves the comparability of book values after the adoption of the IFRS (Barth et al., 2012). The benefits to the capital market by the adoption of IFRS include reducing capital cost and improving liquidity (Daske, Hail & Leuz, 2008, Li, 2010), increasing foreign investment (Covrig, Defond & Hung , 2007), and reducing dispersion of forecasts of analysts (Byard, Li & Yu, 2010; Horton, Serafeim & Serafeim, 2013; Tan, Wang & Welker, 2011).

In general, these studies suggest that companies applying IFRS have a higher quality financial reporting and a greater comparability than those applying local accounting standards (Landsman, Maydew & Thornock, 2012). The implementation of the IFRS makes it possible to reduce the information asymmetry between informed and uninformed investors (Bushman & Smith, 2001, Gu, Ng & Tsang, 2019), in addition to reducing the level of investor uncertainty about the company's future performance, thus obtaining a lower cost of capital (Samarasekera, 2013). Reducing information uncertainty and asymmetry would facilitate communication between managers and other related stakeholders, such as shareholders, creditors, regulatory and supervisory authorities, and financial analysts (Iatridis, 2010). This tends to reduce agency costs that could arise (Bushman & Smith, 2001; Healy & Palepu, 2001), and, in turn, lead to an increase in stock returns, which could be related to the current financial performance of the company (Gelb & Zarowin, 2002). Therefore, the benefits of implementing the IFRS include the harmonization of accounting practices in all countries that adopt it, which in turn leads to a greater comparability, lower transaction costs and improved international investments. International standards also assist investors in making decisions and forecasts about the firm's future performance (Niyama, 2010; Nobes & Parker, 2010).

However, it is important to note that many conclusions about the advantages of implementing the IFRS derive from studies conducted in countries where the quality of information prior to implementation was lower, as was probably the case in Brazil. In countries where national standards have a good quality, as is the case of the United States, such advantages may not be evident or may even not exist. Another relevant aspect is the cost of adopting international standards. Such costs involve training, software change, regulations and others. Moreover, they may also include an increased presence of large audit firms in the internal market. These aspects were generally not considered as the central focus of the studies cited above, although they are relevant to the discussion (Niyama & Silva, 2013).

Otherwise, managers attempt to manipulate the information provided to users so that financial reports present poor quality information to decision makers. In the banking sector, for example, some studies have demonstrated this behavior. Financial institutions in several countries soften results (one of the result management modalities), adjusting their annual loan loss provisions (LLP) not only to their underlying credit risk, but also to their profit level (Bikker & Metzemakers, 2005; Fonseca & González, 2008; Pérez, Salas-Fumar & Saurina, 2008; Bouvatier, Lepetit & Strobel, 2014). Based on the previously highlighted context, it is possible to propose the following hypothesis:

> H_1= The quality of earnings (measured by persistence) of companies of the banking sector listed on B3 increased by the adoption of the IFRS standard.

2.1.2. Fair Value and Earnings Quality

Laux and Leuz (2010) highlight the importance of fair value for decision-making in crisis or economic equilibrium environments. Thus, the Technical Pronouncement CPC 46 - Fair Value Measurement (correlated to the IFRS 13 - *Fair Value Measurement*) establishes the procedures for determining fair value. If an asset or liability depends on its accounting unit for recognition or disclosure purposes, the accounting unit shall be determined in accordance with the Technical Pronouncement 46. The standard (*i.e.*, the technical pronouncement) requires that the fair value measurement be fully classified at the same level of fair value hierarchy as the lowest level information significant for the measurement as a whole (CPC, 2012; IFRS, 2011).

The measurement of the fair value of an asset or liability is defined by the CPC (2012) and the IFRS (2011) based on market price. The fair value estimates the price at which a non-forced transaction to sell the asset or to transfer the liability would occur between market participants at the measurement date, i.e., an exit price at the measurement date from the point of view of the market participant holding the asset or liability. If the market price is not followed, the fair value is measured using the assumptions that market participants would use when pricing the asset or liability, including risk premises. Thus, according to the standard, the assets should not be reported in the balance sheet by a specific measure of the entity, but rather by the fair value, thus evidencing the economic reality of the assets previously recognized.

The works of Penman (2007) and Soderstrom and Sun (2007) show that the adoption of *fair value* improves the quality of earnings. Fiechter (2011) conducted an empirical study with 222 financial institutions in several countries around the world, and found evidence that the adoption of fair value in financial statements improved the quality of earnings reported by the companies.

There is a long debate in the literature related mainly to the implementation of the IFRS and the quality of the result. The IFRS 13 requires entities to disclose information on the valuation methods and the inputs used to measure fair value, providing a greater transparency in fair value measurement and reducing the level of investor uncertainty about the future results of the companies (Samarasekera, 2013). The following research hypothesis arises from the researches studied:

> H_2 = the measurement of financial instruments at fair value increased the quality of earnings (persistence proxy) of the banking sector companies listed on B3.

3. Methodology

We used data from published financial statements made available to the general public on the B3 website. The sample comprises 25 companies from the banking sector of B3 and a period of 12 calendar years, *i.e.*, from 2004 to 2009 and from 2011 to 2016. The 2010 calendar year was not analyzed because it used the period of the last six years before convergence, and the last six current years. The years 2017 and 2018 were not included in the survey because: (i) the survey highlights the period before and after full IFRS with identical period (ie six calendar years), (ii) absence of IFRS changes in the period 2017 and 2018 compared to 2011 to 2016 and (iii) the period adopted in the survey did not incur micronumerosity. Several proxies are used to measure the quality of earnings (Ball & Shivakumar, 2005; Dechow & Dichev, 2002). Perotti and Wagenhofer (2014) point out that there is no *main* proxy accepted unanimously by the international literature. Dechow, Ge and Schrand (2010) pointed out three categories of proxies adopted in the literature, with an emphasis on *properties of earnings* - through *(i) Earnings Persistence*, *(ii) Abnormal Accruals and Modeling the Accruals Process*, *(iii) Earnings Smoothness* and *(iv) Asymmetric Timeliness and Timely Loss Recognition and Target Beating.*

In this context, several national and international studies highlight the proxy persistence of earnings (e.g., Fairfield & Yohn, 2001; Soliman, 2008; Hui, Nelson & Yeung, 2016; Lawson & Wang, 2016; Yao, Percy, Stewart & Hu, 2017; Kent & Routledge, 2017; Son, Palmon & Yezegel, 2018). Dechow, Ge and Schrand (2010) emphasize persistence as an important metric of expected cash flows, thus being useful for evaluation.

Thus, we used as a proxy of earnings quality the metric Persistence represented by the angular coefficient β of the regression **equation (1)** in order to observe the behavior of companies of the banking sector listed on B3. The basis for measuring profit is net profit (LL).

(1) $$LL_{i,t} = \alpha + \beta LL_{i,t-1} + \varepsilon_{i,t}$$

Where:

$LL_{i,t}$= net profit for the period t.
$LL_{i,t-1}$ = net profit for the period t-1.

Companies with more persistent profits have more sustainable earnings/cash flows, which will make them more useful in valuing stock prices (Dechow, Ge & Schrand, 2010; Perotti & Wagenhofer, 2014). We compared the persistence of earnings in the period before the IFRS (2004-2009) and after the IFRS (2011-2016) in order to verify which one presented a higher information quality.

In addition to the net profit from the income statement (IS), the effects of adjustments to fair value of financial instruments were excluded from the results. Thus, the angular coefficients β were estimated through the model of the equation (1) considering net profit and adjusted net profit in order to verify which one presents a greater persistence and, therefore, a higher quality of earnings.

Thus, the persistence of earnings after the IFRS (2011-2016) was compared with the persistence of this same period, excluding the effects of Fair Value on financial instruments, in order to verify which presented a greater persistence.

4. Analysis and discussion of results

In order to verify the persistence of earnings, net profit and income before income tax, as evidenced in the IS and adjusted by the variation of the fair value of financial instruments, were used. The analysis of descriptive statistics, shown in **Table 1**, presents (i) a high coefficient of variation for all the variables of this research (by mean and standard deviation), and (ii) the mean LL and LLSJ represent, respectively, 2.26% and 2.11% of the assets.

Table 1 - Descriptive statistics

VARIABLES	*Mean*	*Median*	*Maximum*	*Minimum*	*Standard Deviation*
LL	0.022603	0.016769	0.215998	-0.018736	0.025687
LLSJ	0.021135	0.016368	0.215998	-0.036069	0.026114

Source: Prepared by the authors.

The basic assumptions of the linear regression, *i.e.*, stationarity, residue normality, homoscedasticity and autocorrelation, were further analyzed. As for the unit root test for stationarity, the ADF-Fisher test was used, and the results did not present the existence of a unit root, I(0). Regarding the normality of residues, the Jarque-Bera test was performed, which indicated that the residues did not follow a normal distribution. However, the Central Limit Theorem, based on Gujarati and Porter (2011), was used as support. For samples greater than 100 observations, the normal distribution is assumed, *i.e.*, the assumption of normality is restricted to samples containing less than 100 observations.

As for the autocorrelation of residues, the Durbin-Watson test was used, which obtained values close to 2 for all regressions, evidencing the non-existence of autocorrelation of residues. For the assumption of homoscedasticity of residues, the Breusch-Pagan-Godfrey test was used, which demonstrated the existence of heteroscedasticity. However, in the estimation of the regression equation, the heteroscedasticity was corrected by the Coef covariance method - White cross-section.

The Breusch-Pagan, Hausman and F (Chow) tests were performed to detect the best model, and the results evidenced the existence of groupings and time effects (Wooldridge, 2015). Thus, a regression was performed on panel data from the fixed approach to estimate the coefficients and other statistics, and subsequently to compare them.

Table 2 shows the results of the estimated OLS regression of equation (1), in which the coefficients, t value and significance of coefficients for the variables ***LL*** and ***LLSJ*** were highlighted. The angular coefficients of the variable ***LL*** are presented in columns 1, 2 and 3. In column 1 and 2, the results of the variable as extracted from the IS are shown; in column 3, the results of regression coefficients after purging the effects of fair value in financial instruments measured at fair value are shown.

Table 2 - Regression analysis of variables - Persistence

VARIABLES	*LL_t*	*LL_t*	*$LLSJ_t$*
	2004-2009	*2011-2016*	*2011-2016*
	(1)	*(2)*	*(3)*
	Coefficient	*coefficient*	*Coefficient*
	t value	*t value*	*t value*
INTERCEPT	0.012318**	0.011781***	0.013107***
	2.549251	3.676746	4.843723
LL_{t-1}	0.413612	0.497627	-
	2.050654**	3.369776***	-
$LLSJ_{t-1}$	-	-	0.493211
	-	-	3.500872***
R²	*0.594106*	*0.697445*	*0.699750*
Adjusted R²	*0.481581*	*0.619798*	*0.622695*
F	*5.279761*	*8.982266*	*9.081145*
(sig)	*0.0000*	*0.0000*	*0.0000*

Note: *, **, ***, respectively, significant at 1%, 5% and 10%
Source: Prepared by the authors.

The persistence of net profit was lower in the period before the *IFRS* (2004-2009), coefficient 0.41, when compared to the period after the *IFRS* (2011-2016), coefficient 0.49. Based on this result, it can be inferred that the quality of earnings increased after the adoption of international standards, since the persistence of earnings was greater in the period after the *IFRS*. These results confirm the findings of (i) Landsman, Maydew and Thornock (2012), which included a sample of 16 countries with 20,517 observations on various business sectors; and (ii) Horton, Serafeim and Serafeim (2013), which analyzed 635 companies in several developed countries. Therefore, ***H1 is confirmed***.

When we estimated the coefficients for the period after the *IFRS* in a normal way with the exclusion of the variations related to fair value, as observed in columns 2 and 3, the results showed statistically significant differences between the coefficients, i.e., for the ***LL***, the coefficient was 0.49, and for the ***LLSJ*** (net profit without the effects of fair value), the coefficient was 0.49. Thus, adjustments to the fair value of financial instruments did not change the persistence of earnings. It can be inferred that the improvement in the quality of information does not refer to the adjustment of the fair value of financial instruments. These results that do not corroborate the findings of Fiechter (2011), obtained in several countries with a sample of more than 200 financial institutions. One possible explanation would be the characteristics of the countries selected in that study, *i.e.*, financial market development. Thus, ***H2 is refuted***.

5. Final considerations

The objective of this study was to analyze whether the quality of information, measured by persistence, of companies of the banking sector listed on B3 increased by the adoption of international accounting standards and whether the measurement at fair value of financial instruments exerted any effects on the higher or lower quality of information through secondary data and econometric analysis.

The results corroborated only the hypothesis 1, proving that the quality of earnings, based on persistence, increased in the period after convergence, i.e., a higher coefficient of independent variable, from 0.41 to 0.49, with a significance of 5% for 1%. However, the improvement in accounting quality cannot be justified by the use of the Technical Pronouncement CPC 46 in financial instruments, refuting hypothesis 2. Otherwise, the fair value did not influence earnings quality.

In general, the results of this research highlight the findings of other studies at an international level, since, in general, the adoption of the IFRS, high-quality international standards, tend to improve the quality of information provided to several users of financial information.

As a suggestion for further researches on the subject, we recommend to analyze other sectors, mainly non-regulated sectors, in order to compare them with our results. Otherwise, one can also analyze the effects of other Technical Pronouncements on the earnings quality of Brazilian companies. In addition, researches could be conducted on financial institutions from several developed and developing countries around the world. Another suggestion is the adoption of other proxies to measure the earnings quality aiming to confirm the results.

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