An Analysis Of Cultural Differences Based On The Replacement Project Of IAS 39: Financial Instruments – Recognition And Measurement

Abstract

The accounting culture of individual countries is frequently considered as an obstacle to complete accounting harmonization. This study intends to analyze the differences in terms of culture based on the respondents' participation in the issuing/change process of the standards of the International Accounting Standard Board (Iasb). Therefore, the comment letters sent to the Iasb where analyzed in the context of the first part of the replacement process of the International Accounting Standard (IAS) 39: Financial Instruments - Recognition and Measurement by the International Financial Reporting Standard (IFRS) 9. The respondent countries were identified in function of the classification proposed by Gray (1988). Next, the collected data were submitted to the non-parametric chi-square test. The results of this study evidence the existence of cultural differences in the responses obtained from the countries, particularly in the context of the accounting value of conservatism, without identifying evidences of these differences for the values of secrecy, professionalism and uniformity. Thus, it is concluded that the countries classified as conservative prefer more conservative measuring practices, based, namely, on the cost or amortized cost, to the detriment of fair value-based measuring criteria. These study results are intended to support decision making by international standard setters and the national entities responsible for subscribing to these standards.

Keywords: Culture, Harmonization, International Accounting Standards, Accounting Systems.

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1. Introduction

In recent years, as a consequence of globalization, the circulation of people and goods is increasingly free and international transportation networks have developed, as well as commercial interdependence among the continents. The globalization, associated with the complexity of the commercial transactions among companies and the concentration of businesses in an international competitive environment, lead to a search for funding from different investors (Alves & Antunes, 2010). In that context, particularly in the capital markets, the financial information gains a relevant role as the base for users' decision making. Hence, companies' internationalization on the one hand and the need for new investors on the other highlight the importance of the quality and comparability of financial information, so as to minimize the differences in accounting practices among different countries.

One of the main objectives of the accounting harmonization is to achieve comparability among the financial reports published by the countries that are members of different accounting systems. In the accounting harmonization process, the work of the International Accounting Standards Board (IASB) is emphasized, a setter of high quality accounting standards accepted almost all over the world.

The issuance of European Regulation No. 1.606/2002 by the European Parliament and Council, on July 19th, which determined on the compulsory preparation of the consolidated accounts of companies whose stock is traded on the European Union's (EU) regulated market in compliance with the international accounting standards issued by the Iasb, was an important step in the accounting harmonization movement on the European continent.

There are, however, obstacles for the implementation of appropriate harmonization all over the world, deriving from the differences in accounting systems, nationality and language of the adopting countries, in line with Elnathan and Krlich (1992).

Different researchers analyzed the main causes underlying the different practices and, consequently, the different accounting systems (Baydon & Willett, 1995; Doupnik & Salter, 1995; Gray, 1988; Nobes, 1998), including, among others, the factors related to the legal system, the fiscal system, the culture and the economic system.

Among these factors, experts have mainly focused on the culture, identifying vast literature in this respect (e.g. Baydoun & Willet, 1995; Chanchani & Willett, 2004; Ding, Jeanjean & Stolowy, 2005; Doupnik & Riccio, 2006; Finch, 2006; Gray, 1988; Hope, 2003; Hope, Kang, Thomas & Yoo, 2008; Jaggi & Low, 2000; Perera, Cummings & Chua, 2012; Tsakumis, 2007).

The Iasb's standardization process can be influenced by the stakeholders' opinion, as the Iasb offers different forms of participation to anyone interested (e.g. meetings and comment letters). Authors like Carmo, Ribeiro & Carvalho (2011) and Jorissen, Lybaert and Van de Poel (2006), defend that the participants in this process have distinct (and often opposite) interests, leading to variations in the answers obtained.

The increasing accounting harmonization would tend to put an end to the culture's influence on the financial information preparers' professional judgment, in view of their objectives. The introduction of the standards in the national context, however, without taking into account cultural and institutional aspects, can turn the accounting convergence into a mere matter of formality (Carmo, *et al.*, 2011).

This study aims to investigate the cultural differences, departing from the cultural values proposed by Gray (1988), based on the respondent countries' participation in the issuance/change processes of the International Accounting Standards Boards' standards. Therefore, the issues the Iasb raised for discussion by the standard setters and financial information users and regulators will be analyzed, considering the first phase of the replacement project of the International Accounting Standard (IAS) 39 – Financial Instruments: Classification and measurement by the International Financial Reporting Standard (IFRS) 9.

The study of the culture-related international differences in Accounting is important for the countries and entities engaged in the international accounting harmonization process, as it permits perceiving the main bottlenecks to achieve full harmonization.

Even in an advanced phase of the harmonization process, this and other studies in this research area are expected to continue providing the support needed for decision making by the international standard setters and national entities responsible for subscribing to these standards.

2. Theoretical Background

The main objective of accounting harmonization is, as mentioned earlier, to eliminate the differences in the accounting systems, so that the financial statements of companies from different countries gain comparability. The Iasb is appointed as the main responsible for the dissemination of the international accounting harmonization through the issuance of high-quality international standards. The application of the international accounting standards results from a diverse set of strengths, among which the professional segments' pressure, the national and international political decisions and the engagement of the different sectors active in the market stand out. The accounting practices differ from country to country, giving rise to different standards, reflecting the social, economic, cultural, legal and political environment of the country they are part, resulting from the interaction among different environmental factors. Hence, each country has an accounting system that is appropriate to its reality (Carmo, *et al.*, 2011).

Nobes (1998) considers that the financial system and the colonial heritage are the main influences of the accounting systems. The author distinguishes between two accounting systems, the first of which corresponds to the so-called Anglo-Saxon countries (United Kingdom, United States, Ireland) and the second to the continental European countries (France, Germany, Italy). The Anglo-Saxon countries are characterized by less conservative accounting practices, with less fiscal influence and a highly developed capital market, representing the companies' main source of funding, in which the main financial information users are the investors. On the other hand, continental European countries have a more conservative accounting, accounting practices that comply more with the fiscal rules and a financial system whose capital mainly derives from the banking system, in which the main financial information users are the creditors, tax authorities and investors.

According to the classification proposed by Nobes (1998), the IAS/IFRS and the generally accepted accounting principles in the United States of America (USA) are of Anglo-Saxon origin. The colonial heritage may affect a country's accounting practices to the extent that smaller, less developed countries or former colonies are often the target of strong external influences, becoming culturally dominated. These countries normally use the accounting system adopted in the influencing country, even if it is inappropriate to their needs (Nobes, 1998).

Among the studies related to the accounting differences among several systems, the work by Gray (1988) is highlighted who, based on Hofstede's theoretical model (1980), developed a study that relates the culture with the accounting practices. The objective proposed by Hofstede (1980) was to identify the structural elements of the culture that most strongly affect the behaviors in professional situations in organizations and institutions (Gray, 1988). Therefore, the author analyzed preexisting questionnaires (applied between 1967 and 1973) on the workers' attitude, aimed at a sample of more than 116,000 employees of IBM in 39 countries. Through these questionnaires, and based on statistical techniques, four dimensions of social values were defined which each country can be part of, namely (Hofstede, 1980):

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1. **Individualism *versus* collectivism** – the fundamental issue addressed by this dimension is the degree of interdependence a society maintains among individuals;
2. **Large *versus* small power distance –** the fundamental issue addressed by this dimension is how a society handles inequalities among people when they occur;
3. **Strong *versus* weak uncertainty avoidance –** The fundamental issue addressed by this dimension is how a society reacts on the fact that time only runs one way and that the future is unknown;
4. **Masculinity *versus* femininity –** The fundamental issue addressed by this dimension is the way in which a society allocates social (as opposed to biological) roles to the sexes.

Gray (1988), in turn, proposed a relation between Hofstede's cultural dimensions (1980) and the countries' different accounting systems, based on the identification of the accounting values that permit classifying a country's accounting based on its culture. The relation between the social culture and the accounting subculture is identified, based on the analysis of how these values influence the development of the accounting systems. Figure 1 represents a model of this process.
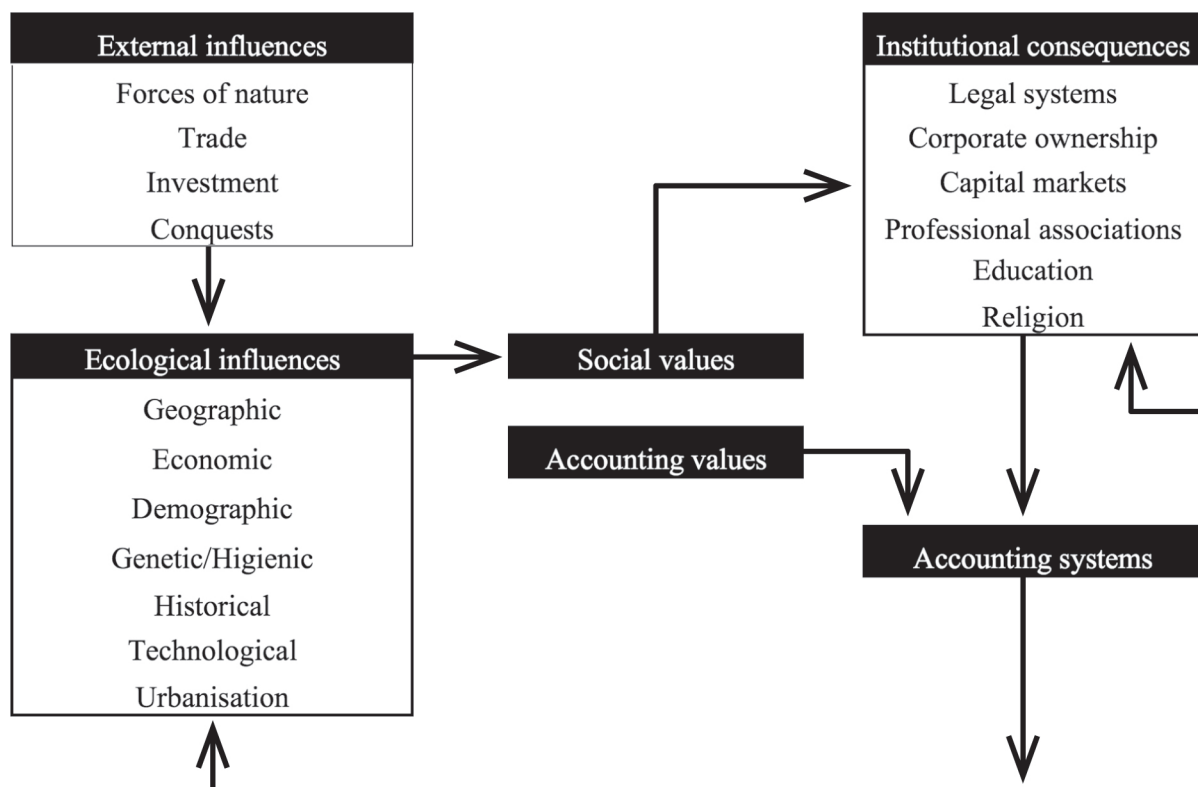
Figure 1. Relation between Hofstede's model (1980) and Gray's model (1988)

Source: Radebaugh and Gray (1996)

In this model, the social values are determined by specific elements in each country (internal influences), such as the geography, economics, demography, genetics, history, technology and urbanism which, in turn, receive external influences, such as international trade and foreign investments. The society's values, which underlie the accounting values, entail institutional consequences in the form of the legal and political systems, the nature of the capital markets, professional associations, education, religion and influence the accounting values. The institutional consequences strengthen the internal influences which, together with the accounting values, determine the countries' classification in terms of accounting systems.

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In his study, Gray (1988) identified the following accounting values:

1. **Professionalism *versus* Statutory Control** – a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.
2. **Uniformity *versus* Flexibility** – a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.
3. **Conservatism *versus* Optimism** – a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach.
4. **Secrecy *versus* Transparency** – a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.

Based on the social values identified by Hostede (1980) and the accounting values identified in his study, Gray (1988) developed four hypotheses of relationships between the two models:

H1: *The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of professionalism.*

H2: *The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of uniformity.*

H3: *The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more like!y it is to rank highly in terms of conservatism.*

H4: *The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of secrecy.*

Table 1 illustrates the link between Hofstede's model of cultural dimensions (1980) and Gray's accounting values (1988), indicating 13 relationship hypotheses among the variables that author proposes.

Table 1

Relationship hypotheses between Hofstede's model (1980) and Gray's model (1988)[1]

| Cultural dimensions	Professionalism	Uniformity	Conservatism	Secrecy
Power distance	-	+	?	?
Uncertainty avoidance	-	+	+	+
Individualism	+	-	-	-
Masculinity	?	?	-	-

Source: Radebaugh and Gray (1996)

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1   The symbol "+" indicates a direct relation between the relevant variables; the symbol "-" indicates an opposite relation. The question mark indicates an undetermined relation.

After formulating the hypotheses regarding the social values and the accounting values, Gray (1988) related the accounting values with the countries' accounting practices (Baydoun & Willett, 1995). Thus, he distinguished between the accounting systems' authority, that is, between the extent to which the national entities determine a country's accounting, including professional associations, and the measuring and information disclosure characteristics. According to Gray (1988), the accounting values that are more directly related to the accounting entities, in the context of the accounting systems, are professionalism and uniformity, as these are related to the regulatory capacity and compliance. The accounting values associated with the measuring and degree of disclosure, in turn, are conservatism and secrecy.

Based on these elements, Gray (1988) identified each accounting system's position in terms of the accounting values. Figure 2 presents the position of the accounting systems in terms of authority and professionalism.

It can be observed that, with regard to the accounting system's authority, the Anglo-Saxon countries' culture contrasts with that of the Germanic and more developed Latin countries with regard to the accounting value of uniformity, in which the former are more flexible. What the accounting value of professionalism is concerned, the Anglo-Saxon countries' culture differs from that of the less developed Latin countries and of the Asian countries, as accounting in the latter is more influenced by statutory control.
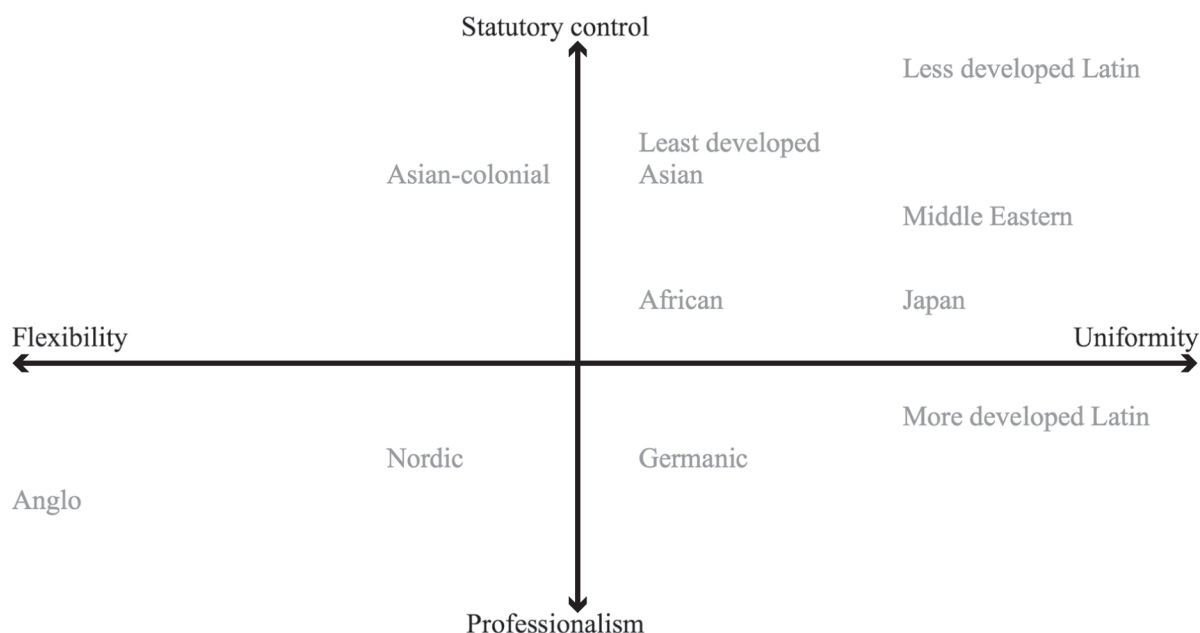

Figure 2. Accounting systems: Authority and enforcement

Source: Gray (1988)

It is observed that, according to Gray (1988), Portugal fits into the set of the less developed Latin countries and is therefore identified as a country with high levels of uniformity, statutory control, conservatism and secrecy.

Figure 3 presents the position of the accounting systems in terms of secrecy and conservatism.
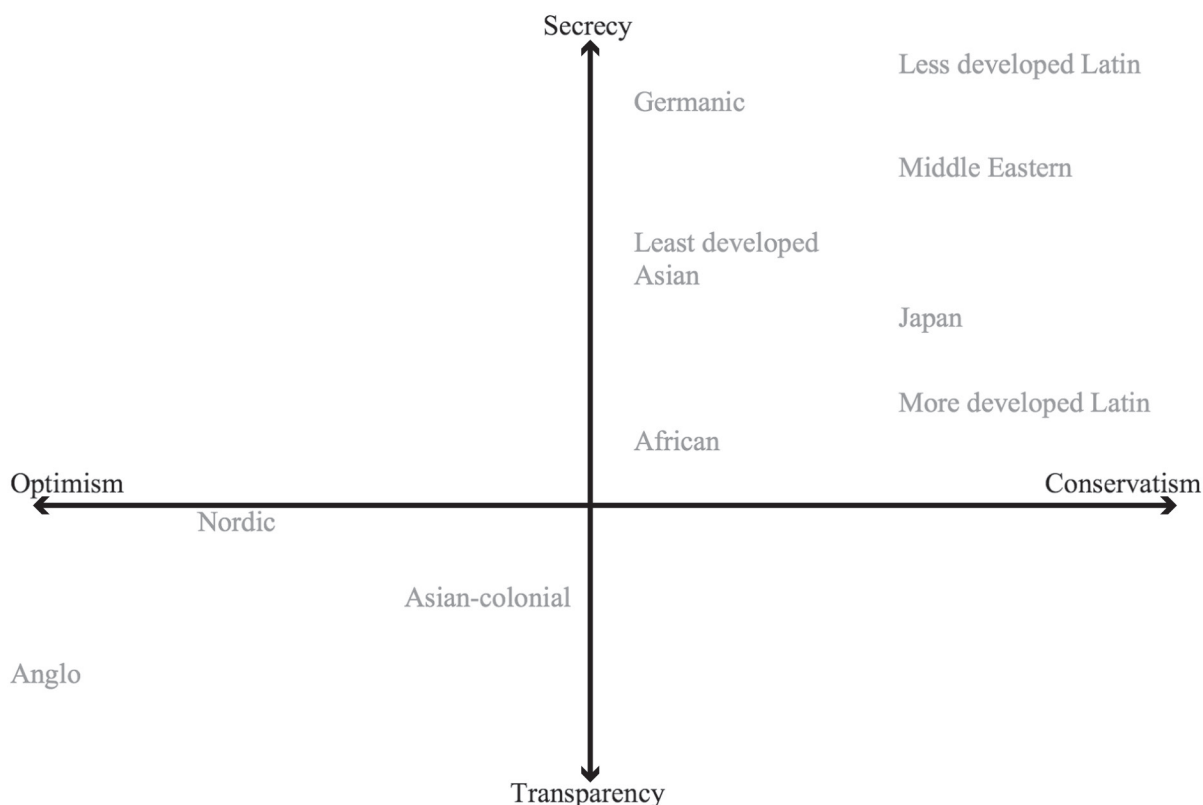
Figure 3. Accounting systems: Measurement and disclosure

Source: Gray (1988)

Regarding the measurement and disclosure, Gray (1988) identifies that the Asian-colonial culture are closer to the Anglo and Nordic cultures, with more optimistic measurements and more transparent disclosures, in contrast to the Germanic, Latin, African and less developed Asian cultures, which present more conservative measurements and more secrecy in the disclosures.

Despite introducing a new approach with regard to the relation between the accounting systems and the social values, Gray (1988) did not test the hypotheses he had formalized. His work served as a reference for several further studies though (Baydoun & Willett, 1995; Chanchani & Willett, 2004; Hope, 2003; Tsakumis, 2007).

To verify whether the French accounting system imposed measuring and disclosure practices that were irrelevant to the financial information users in Lebanon, Baydoun and Willett (1995) related Gray's accounting values (1980) in the context of the country's accounting system, considering Lebanon's cultural position as proposed by Hofstede (1980). When comparing Hofstede's cultural values (1980) between Lebanon and France, the authors conclude that, in Lebanon, the uncertainty avoidance is low and the masculinity is high when compared to France; the power distance is low in relation to France; both countries are similar with regard to individualism, which means that, using the hypotheses proposed by Gray (1988), accounting in Lebanon should be less uniform, less conservative and less secret when compared to accounting in France. Like Gray (1980), however, Baydoun and Willett (1995) did not put their hypotheses in practice. Chanchani and Willett (2004) undertook an empirical study to apply this model.

The study by Chanchani and Willett (2004) presents the results of a questionnaire applied to financial information users and preparers from New Zealand and India. In that study, the authors found reasonable support for the values of uniformity, professionalism and secrecy. For conservatism, they found less support and the possible existence of two values that may be related to conservatism; progressive-traditionalist orientation, related to technical issues of measuring and disclosure; and ethical orientation, related to issues like justice and honesty (Chanchani & Willett, 2004).

Hope (2003) investigated the relation between culture and legal origin and the companies' level of disclosure. For this purpose, he examined the reports and accounts of companies from 39 countries (42 in some tests), concluding that, what the existence of other factors is concerned that influence the disclosure level, culture is an important explanatory factor.

The work by Tsakumis (2007) investigates the influence of the culture on the interpretation and application of the accounting rules in different countries, particularly emphasizing the accounting values of conservatism and secrecy proposed by Gray (1988). Based on that objective, the author selected Greece as a representative of high levels of conservatism and secrecy, and the USA as a representative of low levels of conservatism and secrecy. Investigations were conducted to analyze the influence of culture on the recognition and disclosure decisions of contingent assets and liabilities of Greek and American accountants. In that study, Tsakumis (2007) observes that, concerning the recognition decisions, no significant differences were found between the two countries. As regards disclosure, however, the results reveal that the Greek accountants are less prone than the Americans to disclose the existence of contingent assets or liabilities in the attachments. These results made Tsakumis (2007) conclude that the culture influences the disclosure practices more strongly than the measuring practices.

In Portugal, Albuquerque and Almeida (2009) put in practice the theory of the cultural relevance proposed by Gray (1988) through the analysis of the answers obtained on a questionnaire applied to a sample of Portuguese Chartered Accountants. It is reminded that, according to Gray's model (1988), Portugal fits into the set of the less developed Latin countries, with high levels of statutory control, uniformity, secrecy and conservatism. The results obtained in the study by Albuquerque and Almeida (2009) suggest reasonable support for Gray's theory (1988).

Different environmental factors influence the practices and, consequently, the accounting systems, including the culture and the legal, political, economic and financial systems. Among all the factors that are considered as influences of the accounting practices, the researchers have focused most strongly on the culture, producing considerable literature in this respect (*e.g.* Abdolmohammadi and Sarens, 2009; Amat, Blake, Wraith and Oliveras, 2010; Baydoun and Willet, 1995; Chanchani and Willet, 2004; Ding, Jeanjean and Stolowy, 2005; Doupnik and Riccio, 2006; Finch, 2006; Gray, 1988; Hope, 2003; Hope, Kang, Thomas and Yoo, 2008; Jaggi and Low, 2000; Perera, Cummings and Chua, 2012; Tsakumis, 2007).

The importance of the culture in the influence and explanation of behaviors in the social systems has been recognized and explored in a wide range of sources, mainly in Anthropology, Sociology and Psychology (Gray, 1988).

The Iasb's standardization process allows all stakeholders in this process to participate in the public discussions and issue opinions through comment letters, which can be influenced by different factors, including the culture. In that sense, authors like MacArthur (1996), Jorissen, Lybaert and Van de Poel (2006) and Carmo *et al.* (2011) relate the answers obtained in the format of comment letters with different explanatory factors, including the cultural values identified by Gray (1988) and proposed for this study.

Table 2 summarizes the explanatory factors the above mentioned authors used in their analysis of the answers the Iasb obtained through comment letters on their proposed or changed standards:

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Table 2

Earlier studies that relate the answers in the comment letters with explanatory factors

Studies	Explanatory factors
MacArthur (1996)	• Hofstede's cultural dimensions (1980); and • Gray's (1988) accounting values
Jorissen *et al.* (2006)	• Hofstede's cultural dimensions (1980); • Costs of non-compliance (accounting and fiscal); • Strength of audit companies; • Preparers' interests: dimension and interests of companies; • Earnings management practices among countries; and • Financial information level disclosed in journals and articles.
Carmo *et al.* (2011)	• Classification of legal systems proposed by La Porta, Silanes, Shleifer and Vishny (1996).

Among the earlier studies, the work by MacArthur (1996) is highlighted, which is more related to the present study's objective and which investigates the influence of the cultural factors in the answers in the form of comment letters, submitted by 47 companies from nine countries (Australia, Canada, France, Germany, the Netherlands, United Kingdom, South Africa, Switzerland and the USA) to the International Accounting Standard Committee (Iasc) in the sequence of changes to 12 of the most important IAS proposed in E32. E32 proposed changes related to the valuation and presentation of inventories, changes in accounting policies, estimates and errors, research and development costs, construction contracts, tangible fixed assets, leases, credit recognition, employee benefits, exchange rate changes, business combinations, costs of loans and investments.

The author tried to relate the country of origin of the answers with Hofstede's cultural dimensions (1980) and Gray's cultural values (1988). The results were consistent with the expectation that the culture and the accounting subculture affect the accounting preferences of the accounting professionals in the respondent companies. As regards the cultural dimensions, the results showed consistency for the dimensions power distance and individualism while, for uncertainty avoidance and masculinity, the hypotheses were only partially supported. For the values of the accounting subculture, strong support was found for the companies of Nordic and Anglo-Saxon origins while, for the Germanic and developed Latin companies, the support found was more limited. More particularly, the presence of high levels of uniformity and secrecy were less evident that expected for the latter two origins.

It is highlighted that, besides the reference framework of Hofstede-Gray, other models developed in the cultural sphere, like Schwartz (1994) and further developments proposed, have been widely used to explain the social phenomena that affect Accounting, fundamentally based on the use of cultural value indices to classify the countries. What the continuing application of the models is concerned, particularly Hofstede's model of cultural dimensions (1980), the models based on indices have been harshly criticized, so that these results should be considered with due caution (Baskerville, 2003).

In that sense, Gray's theoretical model (1988) and its application proposed by MacArthur (1996) are appropriate for the objectives proposed in this study, namely to identify the cultural differences among the countries that responded to the Iasb through the comment letters. For this purpose, the questions the Iasb put up for discussion by the financial information preparers and users and the standardizers will be analyzed, considering the first part of the first phase of the replacement project of the International Accounting Standard (IAS) 39 – Financial Instruments: Classification and Measurement by the International Financial Reporting Standard (IFRS) 9. The choice of this theme is due to the fact that the accounting treatment of financial instruments is considered a complex theme, involving problems in which the influence of factors like the culture or professional interests can be identified. Another fact underlying this choice is the high participation level, in view of the interest the theme arouses among different stakeholders (preparers, financial information users and standardizers).

Next, the methodological guidelines are presented, followed by the development of the empirical study proposed for this paper.

3. Method

This study intends to investigate the cultural differences, based on the cultural values proposed by Gray (1988), namely conservatism, professionalism, uniformity and secrecy, based on the respondent countries' participation in the issuance/change processes of Iasb standards. The data for this study will be collected through the comment letters sent in response to the Exposure Draft – Financial Instruments: Classification and Measurement, regarding the replacement project of IAS 39 by IFRS 9 (first part of first phase of the project).

Hence, in view of the specific objectives defined earlier and based on the theoretical framework presented in the previous part, the following general hypothesis (H) was defined:

H1:   *Significant cultural differences are found according to the countries' classification in terms of the accounting values proposed by Gray (1988).*

Operational definitions (H1.1 to H1.4) were defined though, related to the accounting values of conservatism, professionalism, uniformity and secrecy:

H1.1: *Significant differences are found in terms of conservatism, according to the countries' classification proposed by Gray (1988).*
H1.2: *Significant differences are found in terms of professionalism, according to the countries' classification proposed by Gray (1988).*
H1.3: *Significant differences are found in terms of uniformity, according to the countries' classification proposed by Gray (1988).*
H1.4: *Significant differences are found in terms of secrecy, according to the countries' classification proposed by Gray (1988).*

The method used to analyze the comment letters was content analysis, through which the data needed to elaborate this study were obtained. This analysis is defined by Weber (1990), as cited in Yen, Hirst and Hopkins (2007), as a research method that uses a set of procedures to elaborate inferences based on a certain text. For the author, the content analysis is particularly useful, as it permits transforming and coding the text in order to conduct the research.

To develop the proposed study, the questions were analyzed through their transformation into dichotomous variables, so that the analysis of the answer as "yes" (agreement) or "no" (disagreement) to each of the questions was considered sufficient to achieve the proposed study objectives, similar to the proposal of Carmo *et al.* (2011).

First, the 15 questions presented in the exposure draft were analyzed and fragmented to avoid the existence of multiple questions on a single point. This fragmentation resulted in 60 final questions. Only 20 of these were analyzed, in view of the possibility of their coding in the most objective manner possible, in line with the agreement or disagreement from the proposed question. Hence, the questions that required alternatives and additional explanations were excluded for the sake of this study. Those questions were thus considered as the dependent variables in this study. Each of the questions analyzed was associated with one of Gray's accounting values (1988).

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Table 3 presents the questions analyzed, as well as the classification of the question in terms of Gray's accounting values (1988), relevant for the proposed study. The signal "+" in Figure 3 indicates that the agreement with the proposed question evidences greater compliance with the underlying definition of the accounting value identified, while "-" evidences the opposite.

Thus, and for the sake of the analysis proposed for this study, the respondent countries will be identified in terms of greater or lesser compliance, with the accounting values (conservatism, professionalism, uniformity and secrecy), in view of the respondent country's classification (independent variable) proposed by Gray (1988), so as to validate the existence of differences between the answers obtained for the distinct groupings proposed for each of the values.

Table 3

Relation between accounting values and ED questions (2009)

Nº	Question	Cultural Value
1.1	Does amortized cost provide decision-useful information for a financial asset or financial liability that has basic loan features and is managed on a contractual yield basis?	(+) Conservatism
2.1	Do you believe that the ED proposes sufficient, operational guidance on the application of whether an instrument has 'basic loan features' and 'is managed on a contractual yield basis"?	(+) Professionalism
3.1	Do you believe that other conditions would be more appropriate to identify which financial assets or financial liabilities should be measured at amortized cost?	(+) Conservatism
3.2	If financial assets or financial liabilities that the exposure draft would be measured at amortized cost do not meet your proposed conditions, do you think that those financial assets or financial liabilities should be measured at fair value?	(-) Conservatism
4.1	Do you agree that the embedded derivative requirements for a hybrid contract with a financial host should be eliminated?	(-) Conservatism
4.2	Do you agree with the proposed tranches?	(-) Conservatism
5.1	Do you agree that entities should continue to be permitted to designate any financial asset or financial liability at fair value through profit or loss if such designation eliminates or significantly reduces an accounting mismatch?	(+) Uniformity
6.1	Should the fair value option be allowed under any other circumstances?	(-) Conservatism
7.1	Do you agree that reclassification should be prohibited?	(+) Uniformity
8.1	Do you believe that more decision-useful information about investments in equity instruments results if all such investments are measured at fair value?	(-) Conservatism
9.1	Are there circumstances in which the benefits of improved decision-usefulness do not outweigh the costs of providing this information?	(+) Conservatism
10.1	Do you believe that presenting fair value changes for particular investments in equity instruments in other comprehensive income would improve financial reporting?	(+) Conservatism
10.2	Do you believe that presenting dividends for particular investments in equity instruments in other comprehensive income would improve financial reporting?	(+) Conservatism
11.1	Do you agree that an entity should be permitted to present in other comprehensive income changes in the fair value of any investments in equity instruments (other than those that are held for trading), only if it elects to do so at initial recognition?	(+) Uniformity
11.2	Should entities present changes in fair value in other comprehensive income only in the periods in which the investments in equity instruments meet the proposed identification principle?	(+) Uniformity
12.1	Do you agree with the additional disclosure requirements for entities that apply the proposed IFRS before its mandated effective date?	(-) Secrecy
13.1	Do you agree with applying the proposals retrospectively and the related proposed transition guidance?	(+) Uniformity
14.1	Do you believe that the alternative approach of measuring at amortized cost only financial assets that meet the conditions specified in the ED and meet the definition of loans and receivables in IAS 39 provides more decision-useful information than measuring those financial assets at amortized cost?	(-) Conservatism

Nº	Question	Cultural Value
15.1	Do you believe that the possible variant of measuring all financial assets at fair value provides more decision-useful information than the alternative approach of measuring at amortized cost the financial assets that meet the conditions specified in the ED and meet the definition of loans and receivables in IAS 39?	(-) Conservatism
15.2	Do you believe that the possible variant of measuring all financial assets at fair value provides more decision-useful information than the alternative approach of measuring at amortized cost the financial assets that meet the conditions specified in the ED?	(-) Conservatism

The secrecy represents the preference to restrict disclosure on the business to third parties that are closely related to the management of the business only, as opposed to more transparent, open and public disclosure (Gray, 1988).

Countries with high levels of secrecy tend to present more limited disclosure and are favorable to its restriction. The option of additional disclosures is, on the other hand, characteristic of more transparent accounting systems.

In view of the above premises, for the respondents, the meaning of greater secrecy would be obtained through the preferred absence of additional disclosures.

Therefore, question 12.1 was associated with the accounting value of **secrecy**, in which the preference for additional disclosures is characteristic of more transparent accounting systems. Therefore, an affirmative answer to the question coded as "1" means a lower level of secrecy, which a negative answer coded as "0" means a higher level of secrecy.

Professionalism is the preference to practice professional judgment as opposed to strict rules (Gray, 1988).

Any evidence of the need for standards, specific and precise orientations that do not permit professional judgment is characteristic of countries with low levels of professionals as, the more standardized and regulated an accounting system is, the less opportunity there will be to practice professional judgment (MacArthur, 1996).

Hence, in view of the above premises, the meaning of greater professionalism by the respondents will be obtained through a lesser need to set rules and specific orientations established in the exposure draft.

As regards **professionalism**, question 2.1 was analyzed as, the more standardized and regulated an accounting system is, the less opportunities there will be for professional judgment. Hence, the accounting system will possess a lesser degree of professionalism. Therefore, an affirmative response indicates higher levels of professionalism (coded as "1") and a negative response indicates lower levels of professionalism (coded as "0").

According to Gray (1988), uniformity is the preference of similar accounting practices among the companies, including the consistent use of these practices over time.

Uniform accounting systems tend to present a limited number of disclosure and measuring options; they do not permit the choice of different accounting practices for distinct needs and defend the retrospective application of new rules, to the detriment of their prospective application (MacArthur, 1996).

Hence, the sense of greater uniformity by the respondents will be obtained through a greater preference of similar measuring practices over time and among distinct entities; preference to respectively apply changes to accounting policies; and preferences of measuring practices that avoid accounting inconsistencies.

The question related to **uniformity** were 5.1, 7.1, 11.1, 11.2 e 13.1, as the preference of accounting practices that reduce incompatibilities and are similar over time, such as the prohibition of reclassifications, and the preference to retrospectively apply new practices, are characteristic of more uniform accounting systems. Thus, affirmative answers indicate greater needs for uniformity (coded as "1"), and negative answers indicate lesser needs for uniformity (coded as "0").

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According to Gray (1988), conservatism is a preference of more cautious measuring practices, so as to prevent the uncertainty of future events.

Authors like Gaver and Pottier (2005), Göx and Wagenhofer (2009) and Wang (2012) consider that measurements at fair value as a rule go against the principle of Conservatism and that measuring at the amortized cost is more conservative than at fair value.

Haller and Walton (2003), as cited in Carmo *et al.* (2011), consider that more conservative countries tend to calculate the taxable profit prudently, limiting its distribution through hidden reserves.

Hence, the sense of greater conservatism by the respondents is obtained through a greater preference to measure at the amortized cost, to the detriment of the fair value, including the changes recognized in other comprehensive income to the detriment of the direct recognition in the income.

The remaining questions are related to **conservatism**. The preference to measure at book value to the detriment of fair-value measuring practices, as well as the preference to make changes in the fair value directly in the other comprehensive income, are characteristic of more conservative accounting systems. Concerning questions 1.1, 3.1, 9.1, 10.1 and 10.2, positive answers indicate higher levels of conservatism and, therefore, were coded as "1". For the remaining questions, positive answers indicate lower levels of conservatism and, therefore, were coded as "0".

It was not possible to obtain answers for all questions. Some, such as 3.2, 11.1 and 11.2, show a high percentage of no answers (88%, 55% and 89%, respectively), and therefore were not considered for the purpose of this study.

The Iasb received 246 comment letters regarding the Financial Instruments under analysis in this article. Ten situations were identified in which the content was inaccessible. In addition, one of the respondents sent two comment letters; two of the letters did not include the country of origin and two respondents simply provided comments, without concretely answering any of the questions. Hence, in total, 231 response letters to the first phase of the exposure draft were analyzed.

Among the 231 letters analyzed, 30 were sent by international entities and European private and public associations, which were classified separately in the International group. In the context of this study, those letters were not considered because they did not fit into any of the classifications proposed in Gray (1988) and because they did not represent any particular country, adopting a procedure similar to Carmo *et al.* (2011).

Table 4 shows the number of letters received, considering the country of origin and the classification relevant in the context of this study.

The classification proposed for each of the countries in this study is in line with the study by Gray (1988).

Besides Gray's study (1988), the countries were classified based on the studies by Hofstede (1980), Chow, Chau and Gray (1995) and MacArthur (1996), considering that those studies were in line with the first and permitted additional clarifications on some of the proposed classifications that were not directly evidenced in the first study.

The only answer coming from Luxemburg had to be excluded from the analysis, similar to the procedure adopted in Roberts and Salter (1999), as the classification of the country was not found in any of the studies referred to. After this exclusion, the final population was set at 200 letters.

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Table 4

Classification of countries according to Gray (1988)

Classification Gray (1988)	Answers	Classification Gray (1988)	Answers
Anglo-Saxon	**99**	**Germanic**	**22**
South-Africa	2	Germany	12
Australia	17	Austria	3
Canada	14	Switzerland	7
USA	31	**Nordic**	**11**
Ireland	2	Denmark	3
New Zealand	3	Scandinavia	1
United Kingdom	30	The Netherlands	2
China	**6**	Sweden	5
China	6	**Latin**	**34**
Middle Eastern Countries	**4**	Belgium	3
Dubai	1	Brazil	1
Iran	1	Chile	2
Israel	1	Spain	12
Pakistan	1	France	13
Colonized Asian	**8**	Italy	1
India	7	Malta	1
Singapore	1	Mexico	1
Developing Asian	**1**	**Japan**	**15**
Korea	1	Japan	15

It can be verified in Table 4 that the countries that most participated in this process were the USA and the United Kingdom (Anglo-Saxon countries), in line with the studies by Chatham, Larson and Vietze (2010) and Huian (2013).

To analyze the hypotheses presented above, the non-parametric Chi-square test was used, applying the statistical software Predictive Analytics SoftWare (PASW). Significance (p-value) was set at 5%, as used in the study by Carmo *et al.* (2011). As a non-parametric test applicable to two independent samples, its main advantage is its use in samples whose normality is not verified (Hill & Hill: 2008). The choice of the method is related to the scales used in this study, as the Chi-square test is more appropriate to nominal scales and frequency distribution analyses. This test analyzes whether two or more independent groups differ in terms of a certain characteristic, that is, if the frequency of sample elements' distribution among the classes of a qualitative variable is random or not. The Chi-square test measures the probability that the differences found in the two sample groups are random (Maroco, 2003).

Next, the results obtained are presented, in view of the methodological guidelines presented earlier.

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4. Results

This paper aims to investigate the cultural differences, in view of the four accounting values identified by Gray (1988), which are conservatism, professionalism, uniformity and secrecy, based on the respondent countries' participation in the issuance/change processes of the International Accounting Standards Board's (Iasb) standards. Therefore, the questions the Iasb raised for the financial information preparers and users and standardizers were collected and analyzed with regard to the first part of the first phase of the replacement project of International Accounting Standard (IAS) 39 – Financial Instruments: Classification and measurement by the International Financial Reporting Standard (IFRS) 9.

Table 5 identifies the results obtained for the questions related to conservatism, i.e. H1.1.

Table 5

Results for H1.1

	Countries with (-) Conservatism					Countries with (+) Conservatism					Pearson Chi-Square
	0	%	1	%	Total	0	%	1	%	Total	
Question 1.1	17	17%	81	83%	98	0	0%	60	100%	60	0.001
Question 3.1	43	48%	47	52%	90	8	13%	52	87%	60	0.000
Question 4.1	42	48%	46	52%	88	8	13%	52	87%	60	0.001
Question 4.2	16	22%	56	78%	72	4	7%	52	93%	56	0.020
Question 6.1	51	63%	30	37%	81	27	49%	28	51%	55	0.108
Question 8.1	43	49%	45	51%	88	7	10%	66	90%	73	0.000
Question 9.1	27	40%	41	60%	68	3	5%	60	95%	63	0.000
Question 10.1	29	32%	62	68%	91	14	20%	57	80%	71	0.082
Question 10.2	63	69%	28	31%	91	64	86%	10	14%	74	0.009
Question 14.1	8	11%	63	89%	71	1	2%	53	98%	54	0.044
Question 15.1	10	14%	61	86%	71	0	0%	53	100%	53	0.004
Question 15.2	9	13%	61	87%	70	0	0%	51	100%	51	0.008

It can be observed in the above table that there are significant differences for all questions, except for 6.1 and 10.1, as the Pearson Chi-Square coefficient is lower than the significance level adopted in this study (5%).

The results obtained for question 10.2 indicate that 86% of the answers from more conservative countries go against the proposed classification, as they consider that the measuring of dividends for investments in equity instruments in the income statement more useful for decision making. On the other hand, 69% of the answers from countries classified as more optimistic are more conservative. Hence, despite the existence of significant differences, these are not related to the value of conservatism, as the results mentioned go against the hypothesis that was defined.

It is concluded that H1.1 is confirmed in all questions related to conservatism, except for questions 6.1; 10.1 and 10.2. Nevertheless, the confirmation of this hypothesis depends more on the conservative countries, as the answers obtained from less conservative countries, in most cases, show similar frequencies among the answers, going against H1.1 in some cases.

Table 6 displays the results for the questions related to professionalism, i.e. H1.2.

Table 6
Results for H1.2

	Countries with (-) Professionalism					Countries with (+) Professionalism					Pearson Chi-Square
	0	%	1	%	Total	0	%	1	%	Total	
Question	86	93%	6	7%	92	57	92%	5	8%	62	0.715

Hence, it can be observed that, in countries with higher and lower levels of professionalism, the answers indicate that the ED does not contain sufficient answers, which would indicate lower levels of professionalism. Out of 154 answers to this question, only 11 considered that the ED provides sufficient orientations, which could indicate a possible lack of clarity in the orientations related to the basic loan features and the contractual yield.

Hence, the results obtained for H1.2 evidence that there are no significant differences among the countries' answers with regard to the value of professionalism.

Table 7 emphasizes the results related to the accounting value of uniformity, that is, H1.3.

Table 7
Results for H1.3

	Countries with (-) Uniformity					Countries with (+) Uniformity					Pearson Chi-Square
	0	%	1	%	Total	0	%	1	%	Total	
Question 5.1	1	1%	87	99%	88	4	7%	57	93%	61	0.071
Question 7.1	62	70%	27	30%	89	56	88%	8	13%	64	0.010
Question 11.1	16	36%	29	64%	45	21	53%	19	48%	40	0.116
Question 13.1	36	47%	40	53%	76	34	65%	18	35%	52	0.044

In Table 7, it can be verified that significant differences among the answers were found for questions 7.1 and 13.1 only, in view of the classification of the respondent country in terms of uniformity.

The results obtained for question 7.1 demonstrate that, in both cultures (more and less uniform), the possibility of reclassifying financial instruments is preferred. This difference is more enhanced, however in the context of countries whose accounting culture is more uniform (88% against 70% in countries with lower uniformity rates). Hence, and despite significant differences among the countries' answers to this question, these differences go against the hypothesis.

Finally, despite significant differences among the answers to question 13.1, these differences go against H1.3, as 65% of the countries with a more uniform culture answered that they do not agree with the retrospective application of the standard, while 53% of the countries with a more flexible culture agree with that procedure. This result can be explained by the fact that, in many cases, this position is essentially due to the cost of its application, to the detriment of the financial information quality.

Hence, it is concluded that H1.3 is not confirmed in any of the questions related to uniformity, as there are no significant differences among the answers that are motivated by the culture.

Table 8 presents the results for Gray's (1988) accounting value of secrecy.

Table 8
Results for H1.4

	Countries with (-) Secrecy					Countries with (+) Secrecy					Pearson Chi-Square
	0	%	1	%	Total	0	%	1	%	Total	
Question 2.1	35	71%	14	29%	49	48	72%	19	28%	67	0.98

The analysis of Table 8 reveals that there are no significant differences between the respondent countries' answers with regard to secrecy. The distribution of the answers obtained per country of origin is highly similar, which indicates that there is no influence from cultural values.

Hence, the results demonstrate that, in most cases, the respondents do not agree with the additional disclosure the IFRS proposes for the companies that apply the standard before the due date. Many answers in this respect also associate the non-compliance with the high costs of additional disclosure for the companies, which is why the results may indicate the preference of low costs.

The next item finally presents the main conclusions, limitations and future perspective for the future development of this study.

5. Conclusions

In line with other studies analyzed, including MacArthur (1996), Doupnik and Riccio (2006) and Albuquerque and Almeida (2009), the results obtained for the value conservatism demonstrate that culture can act as a factor that affects the respondents' accounting practices, revealing differences in the answers obtained, motivated by the culture, in the context of the countries' answers. Therefore, it is concluded that the countries classified as more conservative prefer more conservative measuring practices, based on the book value or amortized cost, to the detriment of fair value-based measuring criteria.

In the case of H1.1, less conservative countries show more distinct answers, while more conservative countries are more homogeneous in their options. This means that the confirmation of this hypothesis depends more on the countries with high levels of conservatism.

Concerning the other accounting values, i.e. professionalism, uniformity and secrecy, no significant differences were found among the respondent countries' answers, which is why H1.2, H1.3 and H1.4 were not confirmed.

In the context of professionalism, it can be observed that the respondents were almost unanimous with regard to the question under analysis - only 11 out of 154 respondents to this question (about 7%) answered according to a higher rate of professionalism, which may indicate that additional orientations are really necessary regarding the classification and measurement of financial instruments.

Concerning secrecy, the answers associate their position of opposition to additional disclosures with the high costs these require.

Concerning the uniformity, in those cases of significant differences among the respondent countries, it is verified that these answers go against the hypothesis established, that is, the answers that indicate higher uniformity rates come from countries with lower uniformity rates.

The main limitation in this study is related to the research method used (content analysis), as this method introduces some subjectivity, especially in those cases in which the answers are hardly clear, making the interpretation more difficult.

In addition, for some accounting values, such as secrecy and professionalism, there is only one target question for analysis, which may underlie the conclusions identified in the previous item, that is, the non-validation of the hypothesis proposed for these values.

For the sake of future research, the proposed study could be applied to the remaining phases in the replacement of IAS 39 by IFRS 9. In addition, the same study could be expanded to other standards that are equally being replaced, thus involving other themes than financial instruments.

The study of the international differences in Accounting and the different interests of the groups of stakeholders of the financial information is important for the countries and entities involved in the international accounting harmonization process. Hence, these study results are intended to support decisions by international standard setters and the national entities responsible for subscribing to those standards.

Perceiving the impacts and incidence of the concepts related to the accounting practice based on professional judgment contributes to more easily achieve the objectives underlying the harmonization process, namely the effective comparability of financial reporting at the international level.

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