

Implications of OCPC 07 for the form of the explanatory notes: a study in processed food companies

Abstract

Objective: Analyze Brazilian companies' behavior towards the regulatory entities' current disclosure instructions, considering the formal aspects of their notes to the financial statements, in view of the publication of OCPC 07.

Method: The form of the notes to the financial statements was studied by means of content analysis, considering the aspects of size, readability and similarity. Companies were analyzed from the segment of processed foods, which were listed on the Brazilian stock exchange between 2010 and 2016. The surveyed data were analyzed using the test of difference of means and multiple linear regression.

Results: Only the readability of the notes to the financial statements was affected by the disclosure of OCPC 07. Companies that issued ADR, participated in the New Market and were audited by the Big Four present larger notes to the financial statements in comparison with the other companies. How long ago they went public is inversely associated with the size of the notes to the financial statements, evidencing that the companies' know-how provokes more assertive disclosure by covering only the aspects relevant to the information users.

Contributions: No impacting effects on the quality of the financial information in the context of the companies in the research segments were observed that can be attributed to the disclosure of OCPC 07.

Key words: OCPC 07. Disclosure level. Notes to the financial statements.

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1. Introduction

Under normal conditions, the size of the notes to the financial statements can be used as a proxy for companies' level of disclosure (Santos, 2016). In this sense, it is considered that the same factors traditionally associated with the level of disclosure act to influence the size of these documents. About the disclosure process, technical instruction OCPC 07 (CPC, 2014) provides a set of guidelines on the basic requirements that entities have to observe when disclosing their financial reports. This document establishes that, following the international tendency, the entities need to adjust the disclosure in order to highlight only the relevant information.

Materiality, an important feature of information relevance, involves aspects of the magnitude and nature of the economic fact. The magnitude aspect is related to its representativeness in the scope of the financial statements, considering the quantitative context. Regarding the aspect of nature, the determinant element of the materiality of the event is not necessarily related to the quantifiable representation of the event, but certainly to the type of event that is intended to be disclosed.

In this context, the understanding of materiality becomes fundamental for the financial statements to reach the level of utility demanded by the users. These documents can be considered the main source of accounting communication, offering the best interpretation for the economic events that affect the entities in a systematized way (Takamatsu, Lamounier & Colauto, 2008). The understanding of these statements is facilitated through the notes to the financial statements, considered as important reports that compose the financial statements, being, therefore, the focus of this research. Thus, financial statements can be considered as fundamental tools in disclosure since, in addition to evidencing the quantitative information contained in financial reports, they also disclose, in the notes to the financial statements, qualitative elements directly related to the disclosure process (Campos & Lemes, 2013).

Regarding the notes to the financial statements, the European Financial Reporting Advisory Group (EFRAG) (2012) clarifies that these have the same purpose as the actual financial statements, being integral and interdependent parts. Therefore, these documents should provide a description of the items presented in the statements that are relevant at the time of disclosure.

Considering the issues presented, supported by the current and increasing discussion on the information quality of the notes to the financial statements, this study proposes to answer the following question: **After the issuing of OCPC 07, what changes can be perceived in the form of Brazilian companies' notes to the financial statements, considering their aspects of size, readability, and similarity?**

In order to respond to the issue outlined herein, the main objective of the study is to analyze the behavior of Brazilian companies towards the regulatory entities' current disclosure instructions, considering the formal aspects of their notes to the financial statements in view of the publication of OCPC 07.

As a way to achieve the general objective, the following specific objectives were defined: (i) to analyze the form of the notes to the financial statements disclosed by the companies in the subsector processed foods listed on the Brazilian stock exchange with respect to the size, readability and similarity, confronting the years before and after the issuing of OCPC 07 and (ii) to investigate the existence of proximity and clustering among the presence of OCPC 07, the variables related to the form of the notes to the financial statements and the control variables selected in the literature.

Regarding methodological procedures, this study is characterized as exploratory, adopting a quantitative approach, considering the use of statistical techniques for data analysis. The form of the notes to the financial statements was studied using representative variables for the size, readability, and similarity of these documents.

In order to meet the objectives outlined, the dependent variables were first compared using the Difference of Means test, considering the year 2014 as a parameter for OCPC 07. Subsequently, these same variables were tested together with explanatory variables of the disclosure previously surveyed in the literature, considering the presence or absence of OCPC 07 and using multiple linear regression as the technique.

The approach considered in this work is relevant because the notes to the financial statements are proving to be important elements to improve the quality of the information companies disclose. Thus, the understanding of how the form of these documents is behaving enables the implementation of improvements that impact the quality of this information. The research, therefore, contributes to reinforcing the studies on the quality of accounting information, demonstrating how companies in the selected segment have been behaving in the light of the current instructions Brazilian and foreign entities have established regarding the relevance of the economic facts disclosed.

Although the transition process to international accounting standards has already been the subject of frequent discussions in the literature (Gatsios, Silva, Ambrozini, Assaf Neto & Lima, 2016; Gonçalves, 2016; Lima, 2010; Oliveira & Lemes, 2011; Tavares, 2016), studies that explore the improvement or evolution of this transition with a focus on increasing informational quality and in the form of notes to the financial statements are still scarce.

With regard to the subsector selected for the research, it is worth mentioning that, according to the National Confederation of Industry (CNI) (2014), it bills an average of R\$ 400 billion per year and, when adding the beverage sector, per annum, it reaches R\$ 480 billion, corresponding to approximately 10% of Gross Domestic Product (GDP), employing around 20% of all workers working in the Brazilian manufacturing industry.

This paper is structured in five sections, including this introduction. The second section presents the literature review, addressing information quality, materiality and previous studies on the subject. The third discusses the methodological criteria used in the study, including the typology, population selection, sample formation and the phases aimed at achieving the objectives outlined. The following chapter summarizes the results obtained after data collection and processing. The fifth and final section brings the conclusion and the final considerations about the results of the research, as well as suggestions for future research.

2. Literature Review

2.1. Quality of accounting information

The quality of the accounting information is reflected in the corporate accounting reports so that, the less manipulation of the results and the greater the transparency of the information, the greater its quality (Coelho, Niyama & Rodrigues, 2011). In this sense, the informational quality corresponds to the fulfillment of the desirable attributes of the information published to the users, whose main interest is to know the company figures (Coelho & Lopes, 2007).

Understanding the quality of accounting information requires prior knowledge of the needs of those who use it though, who are basically investors and creditors (Hendriksen & Van Breda, 1999), followed by other user groups such as market analysts and researchers.

In order to increase the quality of the information disclosed, companies have raised the level of adherence to international standards, implying an increase in the amount of information evidenced both in Brazil and in other countries that have adhered to IFRS. Martins (2011) attributes the increase in the volume of information in the financial statements mainly to the accumulation of disclosure requirements.

With respect to the financial statements, it has been observed that, in general, companies surpass what is required by law, often disclosing unnecessary information (Murcia & Santos, 2010), a practice that reduces quality and generates general concern about the disclosure of irrelevant information and the increase in the length of the notes to the financial statements.

In view of this, Brazilian and international regulators have been working together to establish guidelines that will assist financial statements preparers in disseminating relevant information, thus improving information quality, such as Efrag (2012) and Iasb (2013).

Hendriksen and Van Breda (1999) clarify that relevance is achieved when the information disclosed provides support to users' decisions, helping to fulfill one of the main purposes of Accounting. According to Fasb (1999) and Camargo and Alberton (2015), this process departs from the preparers of the financial statement' understanding of the concept of materiality, which gives the process a considerable degree of subjectivity.

These issues eventually lead companies to disclose information about non-material items, directly implying the form of the disclosed documents and making the statements disclosed by the companies gain more volume, generating higher elaboration costs. Efrag (2012) adds that the adoption of this practice distances the statements from good communication, giving users information without relevance.

In general, it is perceived that, in order to improve the quality of financial information, the current debates mean that materiality should act as a guide in the definition of disclosure elements, avoiding deviations from its main objective, which is the provision of high-quality information to the users.

2.2. Form of the notes to the financial statements

OCPC 07 (CPC, 2014) establishes the main criteria related to the form of notes to the financial statements and accounting disclosure. Martins, Oliveira, Niyama, and Diniz (2014) emphasize that their creation was based on the need to promote the disclosure of relevant and material information, perceived by the CPC. In addition, OCPC 07 (CPC, 2014) highlights important questions about the form of financial statements, specifically regarding the size, readability, and similarity of notes to the financial statements.

With regard to size, it is known that, after the adoption of international accounting standards, there has been a significant increase in the volume of information disclosed through notes to the financial statements, not only in Brazil but also in several other countries. The excess of disclosure generates a generalized concern on the part of the regulating entities with respect to informational quality (Martins, 2011).

On this theme, Amorim, Brito, Costa, Gonçalves, and Silva Júnior (2015) clarify that the size of the documents can be studied through the application of different metrics. OCPC07 draws attention to some textual features, including word morphology, as measurement parameters, in view of the frequent and recent discussions about the notable increase in the size of notes to the financial statements.

In the context of OCPC 07 (CPC, 2014), the number of words, pages, characters, phrases, and syllables can be defined as variables in the size of notes to the financial statements. Besides these, the amount of complex words, represented by those that contain more than three syllables, is also considered a proxy of the size of the notes to the financial statements.

As regards readability, it is known that companies communicate with the market through financial statements, which are read and interpreted by their different users, including Silva and Fernandes (2009), who report that the ease of reading these reports can be measured using different readability indices.

In this sense, the information disclosed through the financial reports will be reliable, relevant and timely when they are easy to read and understand because, as Smith and Taffler (1992) establish, readability is related to content, but its comprehension depends on the interpretation of each reader.

Medeiros (2015) suggests that a good report should present its information directly, to facilitate reading and contribute to the general increase in information quality. Studies on readability in financial reporting argue that complex financial statements negatively affect the information environment (Bloomfield, 2002; Hirshleifer & Teoh, 2003; KPMG, 2011; Miller, 2010; Monga & Chasan, 2015). The literature also points to a range of metrics that enable the study of readability in scientific texts (Amorim *et al.*, 2015).

According to the literature, the Flesch and Fog indexes are outstanding because they have already been adapted and applied in other Portuguese studies (Loughran & McDonald, 2014; Martins, Ghiraldelo, Nunes & Oliveira Júnior, 1996), and were therefore adopted in this research as proxies for the readability of the notes to the financial statements.

The Flesch index considers the number of syllables per word and the number of words per phrase, measuring the degree of readability of financial reports on a scale ranging from zero to one hundred, where values close to zero indicate texts that are difficult to read, while those close to one hundred indicate texts that are easy to read.

The Fog index, on the other hand, assumes that the difficulty of reading the text will increase with the number of words per sentence and the use of complex words (with more than three syllables). Previous studies such as Biddle, Hilary and Verdi (2009), Dougal, Engelberg, García, and Parsons (2012), Lawrence (2013), Lehavy, Li and Merkley (2011), Li (2008) and Miller (2010) have already applied the Fog index in the analysis of financial reports. Also Biddle *et al.* (2009) define it as an adequate readability measure for financial statements.

It is worth mentioning that the Fog index is a measure of readability presented in several scientific studies that discuss this theme in the financial area. Li (2008), for example, related the readability of annual reports to firm performance in a sample of more than 55,000 reports published between 1994 and 2004 using the Fog index. In the same context, Lehavy *et al.* (2011) and Miller (2010) found evidence that the readability of financial reporting affects the decisions of information users.

In relation to similarity, OCPC 07 (CPC, 2014) emphasizes that the literal repetition of excerpts from other documents has been noticed in the notes to the financial statements, such as regulations, laws or even previously disclosed notes to the financial statements (by the same company or others), a practice that should not be adopted. About this theme, Santos (2016) analyzed the similarity among the notes to the financial statements, aiming to identify changes in the copying-pasting of excerpts from the model note the audit company disclosed after the issuing of OCPC 07. As a result, the findings showed that, despite the instructions, the companies did not change the level of similarity in the notes to the financial statements when comparing the years 2013 and 2014.

3. Method

This research is classified, as regards nature, as quantitative, given the statistical treatment applied to the variables; regarding the purposes as exploratory, since it covers the appreciation and explanation of the characteristics of a subject or question (Collis & Hussey, 2005) and regarding the means as documentary (Martins & Theóphilo, 2009), when using the financial statements disclosed by the selected companies as a means of investigation.

The option to adopt a single subsector is intended for the selection of a set of companies with similar characteristics, permitting the comparative analysis between them. In this sense, the sample defined for the study joins the Brazilian companies listed on the BM & FBOVESPA, currently denominated B3, belonging to the subsector processed foods, as this subsector presents growth and representativeness in the Brazilian economy (Rigo, Godoy & Scarpin, 2016; & Fregonesi, 2010).

Regarding the temporal range of the study, it is considered that the changes of form in the notes to the financial statements may be due to a possible learning curve over time. Thus, the study opted to consider in this evaluation the whole period between 2010 and 2016, 2010 being the year the literature treats as full IFRS (Santos, 2011) and 2016 the most recent year regarding the availability of financial reports at the time this research was developed. Chart 1 explains the annual behavior of each company in the sample regarding the disclosure of the notes to the financial statements during the period considered.

Company	Year								Total
	2010	2011	2012	2013	2014	2015	2016		
Biosev S. A.	×	×	✓	✓	✓	✓	✓	5	
Brasil Foods S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Conservas Oderich S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Excelsior Alimentos S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Forno de Minas Alimentos S. A.	×	×	×	×	✓	✓	✓	3	
J. Macedo S. A.	✓	✓	✓	✓	✓	✓	✓	7	
JBS S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Josapar Joaquim Oliveira S. A. Participações	✓	✓	✓	✓	✓	✓	✓	7	
Laep Investments Ltd.	✓	✓	✓	✓	×	×	×	4	
M. Dias Branco S. A. Indústria e Comércio de Alimentos	✓	✓	✓	✓	✓	✓	✓	7	
Marfrig Alimentos S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Minerva S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Minupar Participações S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Ráizen Energia S. A.	×	×	×	✓	✓	✓	✓	4	
São Martinho S. A.	✓	✓	✓	✓	✓	✓	✓	7	
Total	12	12	13	14	14	14	14	93	

Legend: ✓ Notes to the financial statements published; × Notes to the financial statements unpublished

Source: Elaborated by the author.

Chart 1. Disclosure of notes to the financial statements by the companies in the sample.

The year 2014, when OCPC 07 was issued and its instructions were adopted, was taken as the milestone. The information was then segregated into two distinct periods, one before (2010-2013) and the other after (2014-2016) the issuing of that regulation for comparative purposes. This segregation was intended to evaluate the possible effects of OCPC 07's publication on the disclosure of financial information.

Regarding the variables, taking as a starting point the reading and interpretation of OCPC 07, the aspects that synthesize the main highlights addressed in this instruction were identified, regarding the form of the notes to the financial statements, being: size, readability, and similarity. Based on these aspects, their respective variables were defined, whose operation, acronyms and tools used are described in Chart 2.

	Variable	Abr	Operation	Theoretical Background	Tool
Size	Pages	PAGS	Count of number of pages	Santos (2016)	Word Counter Tool
	Words	PLVR	Count of number of words		
	Characters	CRCT	Count of number of characters		
	Phrases	FRSS	Count of number of phrases		
	Syllables	SLBS	Count of number of syllables		
	Complex words	PCPL	Count of number of words with more than three syllables		
Readability	Flesch index	IFSH	$206.835 - (1.015 \times ASL) - (84.6 \times ASW)$, ASL being the index between the number of words and the number of phrases in the text and ASW being the index between the number of syllables and the number of words in the text.	Martins <i>et al.</i> (1996)	Word Counter Tool
	Fog index	IFOG	$0.4 \times (MWP) + 40 \times (PCW)$, MWP being the mean words per phrase and PCW being the percentage of complex words.	Loughran and McDonald (2014), Martins <i>et al.</i> (1996), Santos (2016)	
Similarity	General similarity	SGER	Percentage of similarity of the notes to the financial statements with the Web	Santos (2016)	DOCxWEB
	Similarity with pronouncements or laws	SPLE	Percentage of similarity corresponding to other CPC standards or laws		
	Similarity with other notes to the financial statements	SONE	Percentage of general similarity with other notes to the financial statements of the same company in previous years, and of other companies in the same subsector.		
	Similarity with earlier notes to the financial statements of same company	SNEM	Percentage of similarity with the notes to the financial statements of the same company, but from previous years.		
	Similarity with notes to the financial statements of other companies	SNED	Percentage of similarity with the notes to the financial statements of other companies in the subsector.		

Obs. Elaborated by the author (2017).

Chart 2. Chart of variables for formal aspects of notes to the financial statements

After selecting the variables related to the form of the notes to the financial statements, we proceeded to the collection process, which was done through documentary analysis. Data analysis was performed through content analysis, as recommended by Chizzotti (2006) and Bardin (2011). The notes to the financial statements and the additional information about the companies were extracted from BM & FBOVESPA's B3 website on 03/27/2017.

The counting of the variables related to the size of the notes to the financial statements was done with the help of the electronic application called Word Counter Tool, which standardizes the documents before the analysis, regarding the style and size of the source, removal of page breaks and all the original formatting, as well as the spacing between lines and paragraphs.

The readability of the financial statements disclosed by the companies was analyzed based on the two indexes already used in previous surveys that evaluated financial reports: the Flesch (Martins *et al.*, 1996) and Fog Indices (Biddle *et al.* (Lehavy *et al.*, 2011, Li, 2008, Miller, 2010).

Due to the need to investigate the occurrence of similarity between the documents and, consequently, the literal repetition of excerpts from other documents, such as CPC regulations, Law 6.404/1976 and other notes to the financial statements, by the same company (from previous years) or different companies, the study used the tool DOCxWEB, developed to identify plagiarism in academic studies. This tool compares the documents inserted with other publications on the Internet and also with each other, calculating the percentage of authenticity, in addition to providing a report detailing the electronic addresses where parts equal to the documents searched were found.

It is important to point out that, in this study, the percentage of the authenticity calculated by DOCxWEB was considered as similarity, both in relation to the general publications made available on the internet and the other notes to the financial statements analyzed.

Considering that research on the form of notes to the financial statements is still incipient in the literature, the definition of the hypothesis for this study was raised considering previous studies involving disclosure, which identified, in the majority, low degree of compliance with the requirements (Mapurunga, Morais, Ponte, Rebouças & Carneiro, 2015; Santos, Ponte, Mapurunga & Ribeiro, 2014).

Given these findings, the hypothesis for the study was the absence of statistically significant changes in the form of notes to the financial statements, considering the aspects of size, readability, and similarity when comparing the years before and after the issuing of OCPC 07.

In order to analyze and compare possible changes in the form of the notes to the financial statements due to OCPC 07, a test of differences between the mean Kruskal-Wallis and Mann-Whitney coefficients was applied. The purpose of this study was to investigate the existence of significant differences with respect to the formal aspects of the notes to the financial statements between the years selected for the study, comparing the periods before and after the issuing of OCPC 07, launched in 2014.

In order to achieve the objectives of the research, we chose to use multiple linear regression to identify how the form of the notes to the financial statements is explained by the control variables selected in the literature and by the presence or absence of OCPC 07. Therefore, dependent variables such as size, readability, and similarity were considered. The models tested in the survey are shown in Chart 3.

Form of the notes to the financial statements	Model 1	$SIZE = \beta_0 + \beta_1NMAR + \beta_2ADBF + \beta_3TYCP + \beta_4IADR + \beta_5OCPC + \epsilon$
	Model 2	$READ = \beta_0 + \beta_1NMAR + \beta_2ADBF + \beta_3TYCP + \beta_4IADR + \beta_5OCPC + \epsilon$
	Model 3	$SIML = \beta_0 + \beta_1NMAR + \beta_2ADBF + \beta_3TYCP + \beta_4IADR + \beta_5OCPC + \epsilon$

Obs. NMAR = Participation in New Market; ADBF = Audited by Big Four; TYCP = Time since going public in years; IADR = Issuer of ADR; OCPC = Dummy of OCPC 07 (in which 0 = absence of OCPC 07 and 1 = presence of OCPC 07); SIZE = Size of notes to the financial statements (single factor); READ = Readability of notes to the financial statements; SIML = Similarity of notes to the financial statements (general similarity).

Obs. elaborated by the author.

Chart 3. Regression models applied

Regarding the control variables adopted in the research, these involve the corporate governance policy and some specific characteristics of the companies, such as time since going public, audit firm and trading securities in foreign markets. These variables are defined in detail in Chart 4.

Variables	Abr	Operation	Theoretical Background	Source
Time since going public	TYCP	Time, in years, corresponding to the period when the company stock is traded in the stock exchange	Oliveira (2013), Póvoa and Nakamura (2014).	
Corporate governance segment	NMAR	Dummy variable representing the company's participation in the New Market	Cunha and Ribeiro(2008),	Registration Form
Audit firm	ADBF	Dummy variable reflecting whether the company is audited by the Big Four	Ghoul, Guedhami and Pittman (2016) and Silva and Costa (2016).	
Trade in external markets	IADR	Dummy variable representing companies traded in foreign markets	Costa, Goldner and Galdi (2007), Santos, Ponte, Holanda and Adachi (2016)	NYSE website

Obs. elaborated by the author.

Chart 4. Variáveis de controle levantadas na literatura

It is also important to clarify that the data collected in this study, regarding the form of the notes to the financial statements and their size, readability and similarity were processed using spreadsheets via Microsoft Excel and Statistical Package software for the Social Science (SPSS) version 22.

4. Results

This section presents the results obtained after processing the data collected for the form of the notes to the financial statements, considering their size, readability, and similarity. At an initial moment, we performed the descriptive and inferential analysis of the representative variables of size, as presented in Table 1.

Table 1

Descriptive and inferential statistics of size of notes to the financial statements variables

Moment related to issuing of OCPC07	Variable	Mean	Median	Standard Deviation	Min	Max
Before	PAGS	54.0	57.0	32.7	9.0	118.0
	WRDS	26,628.5	27,336.0	16,264.2	4,412.0	57,072.0
	CRCT	157,612.0	167,151.0	93,889.7	26,130.0	339,850.0
	PRSS	5,405.6	4,939.0	3,537.1	576.0	12,590.0
	SLBS	51,444.9	54,634.0	30,533.8	8,447.0	111,478.0
	WCPL	7,424.5	8,263.0	4,233.2	1,238.0	16,082.0
After	PAGS	52,2	47,0	32,0	10,0	120,0
	PAGS	52.2	47.0	32.0	10.0	120.0
	WRDS	26,170.8	23,238.0	16,263.7	5,363.0	59,775.0
	CRCT	158,,860.1	141,147.0	96,520.0	33,670.0	349,797.0
	PRSS	6,024.4	5,633.0	4,075.9	806.0	16,317.0
	SLBS	50,415.8	44,258.0	30,329.4	10,833.0	113,464.0
WCPL	7,168.5	6,452.0	4,183.1	1,565.0	15,782.0	

Obs.: PAGS = Number of pages; WRDS = Number of words; CRCT = Number of characters; PRSS = Number of phrases; SLBS = Number of syllables; WCPL = Number of complex words (with more than three syllables).

Obs. research data.

Table 1 shows a reduction in the average number of pages, words and complex words. On the other hand, there is an increase in the average number of characters and phrases. These results may demonstrate changes in the language used in the notes to the financial statements, as companies would be using more accessible terms for information users by reducing the use of complex words, which may reflect the increase in the number of characters and, consequently, of phrases, given the need for more clarification on the economic events evidenced. Regarding the number of pages and words analyzed, the findings of this study corroborate Santos (2016), who also found evidence of a reduction in the size of the notes to the financial statements.

Considering the inferential analysis of the data, it was observed that these variables have similar characteristics and behaviors. Therefore, we chose to apply factor analysis to obtain a single factor that is better able to represent the size of the notes to the financial statements. For this procedure, the initial criterion of existence of correlation between the variables was observed, as presented in Table 2.

Table 2

Correlation matrix between size variables

	Variable	PAGS	WRDS	CRCT	PRSS	SLBS	WCPL
PAGS	Correlation	1.0	0.9	0.9	0.9	0.9	0.9
	Sig. (1-tailed)		0.0	0.0	0.0	0.0	0.0
WRDS	Correlation	0.9	1.0	0.9	0.9	0.9	0.9
	Sig. (1-tailed)	0.0		0.0	0.0	0.0	0.0
CRCT	Correlation	0.9	0.9	1.0	0.9	0.9	0.9
	Sig. (1-tailed)	0.0	0.0		0.0	0.0	0.0
PRSS	Correlation	0.9	0.9	0.9	1.0	0.9	0.9
	Sig. (1-tailed)	0.0	0.0	0.0		0.0	0.0
SLBS	Correlation	0.9	0.9	0.9	0.9	1.0	0.9
	Sig. (1-tailed)	0.0	0.0	0.0	0.0		0.0
WCPL	Correlation	0.9	0.9	0.9	0.9	0.9	1.0
	Sig. (1-tailed)	0.0	0.0	0.0	0.0	0.0	

Legend: PAGS = Number of pages; WRDS = Number of words; CRCT = Number of characters; PRSS = Number of phrases; SLBS = Number of syllables; WCPL = Number of complex words (with more than three syllables).

Determinant: 1.99E-011

N = 92

Source: research data.

Table 2 shows the adequacy of the technique employed as the variables presented correlation values higher than 90.0% in all pairs. Fávero, Belfiore, Silva, and Chan (2009) point out that a proportion higher than 70.0% in these correlations establishes the ideal conditions for applying factor analysis.

Based on the initial condition, confirmation of the feasibility of applying this technique also required verification of the Kaiser-Meyer-Olkin (KMO) and Bartlett sphericity tests. The application of the KMO statistic generated 0.8, confirming the existence of a high correlation between the variables as values closer to one are favorable to the application of the factor analysis (Fávero *et al.*, 2009). Bartlett's sphericity test, applied to verify the hypothesis that the correlation matrix is the matrix-identity, pointed to the rejection of the hypothesis (p-value = 0.0), reinforcing the existence of a correlation between the variables and indicating the adequacy of the data to the application of factor analysis.

After the application of the validation tests, we determined the total variance explained and the initial values of each variable. The results are shown in Table 3.

Table 3

Total explained variance

Componente	Initial eigenvalues			Sums of extracted squared loadings		
	Total	% of variance	cumulative %	Total	% of variance	cumulative %
PAGS	5.8	98.1	98.1	5.8	98.1	98.1
WRDS	0.0	1.5	99.6			
CRCT	0.0	0.16	99.8			
PRSS	0.0	0.12	99.9			
SLBS	0.0	0.02	99.9			
WCPL	0.0	0.00	100.0			

Legend: PAGS = Number of pages; WRDS = Number of words; CRCT = Number of characters; PRSS = Number of phrases; SLBS = Number of syllables; WCPL = Number of complex words (with more than three syllables).

Extraction method: Principal Component Analysis

Source: research data.

Table 3 presents the eigenvalues ranked by size, demonstrating the variance explained by each factor, that is, how much each factor can explain the total variance. Fávero *et al.* (2009) point out that the sum of the eigenvalues obtained results in the number of variables submitted to factor analysis, that is, six variables in this case. Table 3 also shows that the single factor obtained can explain 98.1% of the variance in the original data, considered a satisfactory result, so that it is able to explain with robustness all previously selected size variables.

The extracted factor is then used to represent a new variable representative of the size of the notes to the financial statements, composing the other analyses performed in this study. Subsequently, the Kolmogorov-Smirnov and Shapiro-Wilk tests of normality were applied, obtaining evidence to reject the normality hypothesis of the data regarding the size of the notes to the financial statements.

Considering non-compliance with the normality criterion, the Mann-Whitney Non-Parametric test was used to identify statistically significant differences between the mean size of the notes to the financial statements before and after the OCPC07, according to Table 4.

Table 4

Test of differences of means

	SIZE
Mann-Whitney's U	1025.0
Wilcoxon W	1886.0
Z	-0.1
Significance Sig. (2-tailed)	0.8

Obs. SIZE = Size of notes to the financial statements (single factor).

Clustering Variable: OCPC 07.

Obs. research data

Table 4 shows that there is no statistically significant difference between the averages of the size of the notes to the financial statements when comparing the periods before and after the issuing of OCPC 07. Based on this finding, it can be inferred that, although OCPC 07 instructs companies to reduce the amount of information in the notes to the financial statements, their actual compliance is not yet clear.

When identifying an average reduction of 10.0% in the size of the notes to the financial statements of the non-financial companies listed on BM & FBOVESPA between 2013 and 2015, Santos (2016) clarifies that the decrease identified was not generalized. Thus, for the processed food sector, this reduction was not identified.

As regards the readability of the notes to the financial statements, this was evaluated considering two variables already tested in other studies on financial reporting, in this case the Flesch (Martins *et al.*, 1996) and Fog indices (Loughran & McDonald, 2014; Martins *et al.*, 1996; Santos, 2016). Table 5 presents, initially, the descriptive and inferential statistics of the variables selected for readability, showing the comparison between the period before and after the issuing of OCPC 07.

Table 5

Descriptive statistics of readability variables

Index	Moment related to issuing of OCPC 07	Mean	Median	Standard Deviation	Min	Max
Flesch	Before	9,5	9,8	1,2	6,9	12,4
	After	9,5	9,3	2,4	7,2	22,5
Fog	Before	13,6	13,7	1,3	10,7	16,8
	After	13,0	13,3	1,0	10,9	15,2

Obs. research data.

When comparing the periods before and after OCPC 07, according to Table 5, the Flesch readability averages increased, which, in principle, may imply the increase of legibility. The Fog index has decreased and may reflect readability improvements, as lower values are those with better levels.

Regarding the normality test, this showed that only the Fog index has a normal distribution. Once this criterion was defined and, as the distribution of the data corresponding to these variables presented different behaviors, the difference of means tests were applied separately. Table 6 presents the difference of means test applied for the Flesch index.

Table 6

Test of differences of means: Flesch Index

	Flesch Index
Mann-Whitney's U	861.5
Wilcoxon W	1722.5
Z	-1.4
Significance Sig. (2-tailed)	0.1

Obs. Clustering variable: OCPC 07

Obs. research data.

According to Table 6, the Mann-Whitney Non-Parametric test, applied to the Flesch index, showed that no statistically significant differences (p -value = 0.1) were observed between periods before and after the OCPC 07, which generates evidence that the readability estimated by the Flesch index of these documents has not yet followed the CPC guidelines.

In spite of the Fog index, considering that this variable presented a normal distribution of the data, the Levene test for equality of variances was first applied, which presented p -value = 0.1, permitting the acceptance of the null hypothesis, indicating the homogeneity of the population variances. Table 7 presents the Difference of Means test applied to the Fog index, given these conditions.

Table 7

Test of differences of means: Fog Index

	t-test for Equality of Means						
	t	df	Sig. (2-tailed)	Mean difference	Standard error of difference	95% Confidence Interval of Difference	
						Inferior	Superior
Assumed equal variances	2.0	90	0.0	0.5	0.2	0.0	1.0

Obs. research data.

Regarding the Fog index, Table 7 shows that the perceived differences between the readability averages are statistically different (p -value = 0.0) when comparing the periods before and after the issuing of OCPC 07. The result indicates that the readability of the documents was considerably improved after the disclosure of that legislation.

Santos (2016) also applied the Fog index, identifying a drop in readability after the issuing of OCPC 07, contrary to the findings of the study. The result found here may represent a step forward in terms of enhancing the quality of information in the notes to the financial statements, signaling the effect of OCPC 07 over a longer time span.

Loughran and McDonald (2014), in a research on the readability of the 10-K reports, found improvements in readability between 1994 and 2011, corroborating the findings of this study. The authors used the Fog index as a proxy for readability, analyzing more than 66,000 reports. It is important to clarify that the international discussion about the informational quality of accounting-financial reports, including the volume of information, has been occurring since mid-2011 and this result may be associated with those discussions.

The similarity of the notes to the financial statements was analyzed considering two main foci, namely: similarity with pronouncements or laws and similarity with other notes to the financial statements, which, in turn, was subdivided into two categories: similar to the notes to the financial statements of the same company, but from previous or subsequent years; and similar to the notes to the financial statements of the other companies in the selected subsector. Table 8 distinguishes the result of the descriptive and inferential statistics for the similarity percentages of the documents.

Table 8

Descriptive and inferential statistics for similarity

Analysis categories for similarity	Moment related to issuing of OCPC 07	Mean (%)	Median (%)	Variance (%)	Standard deviation(%)	Min (%)	Max (%)
1 General Similarity (SGER)	Before	36.4	30.0	355.9	18.9	18.0	99.0
	After	34.8	28.0	404.4	20.1	15.0	99.0
1.1 Similarity with pronouncements or laws (SPLÉ)	Before	6.0	5.5	6.5	2.5	2.7	17.4
	After	6.4	6.0	9.5	3.1	1.9	14.5
1.2 Similarity with other notes to the financial statements (SONE)	Before	4.9	4.3	3.8	1.9	2.5	12.5
	After	5.0	4.6	5.5	2.3	1.8	10.8
1.2.1 Similarity with other notes to the financial statements of the same company (SNEM)	Before	2.8	2.3	2.0	1.4	1.0	7.7
	After	2.8	2.4	2.2	1.5	0.9	7.0
1.2.2 Similarity with other notes to the financial statements of different companies (SNED)	Before	2.1	1.9	0.7	0.8	1.0	4.7
	After	2.3	1.9	1.7	1.3	0.5	6.3

Obs. research data.

Table 8 shows a reduction in the percentage of general similarity when comparing the periods before and after OCPC 07, indicating that there was a drop in the literal repetition of other documents, such as pronouncements, laws and other notes to the financial statements. Although the general similarity has shown a reduction, however, two subcategories showed an increase after the issuing of OCPC 07. The percentage of similarity of the notes to the financial statements with accounting pronouncements or laws and the percentage of similarity with the notes to the financial statements of different companies increased, signaling that companies seem to follow similar drafting standards in formatting notes to the financial statements.

With regard to the similarity of the notes to the financial statements, Santos (2016) made a similar comparison, using the model note made available by the audit firm. The author also found signs of reduction in the general similarity, corroborating the result of this research.

Proceeding with the analysis regarding the similarity of the notes to the financial statements, the data do not present normal distribution. After defining the normality of the data, based on this result, the Mann-Whitney Non-Parametric test was applied to compare the means obtained, as explained in Table 9.

Table 9

Test of means of similarity variables

	SGER	SPLA	SONE	SNEM	SNED
U de Mann-Whitney	989,5	964,0	1011,5	1041,0	1019,0
Wilcoxon W	1850,5	2290,0	2337,5	1902,0	1880,0
Z	-0,4	-0,6	-0,2	-0,0	-0,2
Significance Sig. (2-tailed)	0,6	0,5	0,7	0,9	0,8

Obs. SGER = General similarity; SPLA = Similarity with pronouncements or laws; SONE = Similarity with other notes to the financial statements; SNEM = Similarity with other notes to the financial statements of the same company; SNED = Similarity with other notes to the financial statements of different companies. Clustering variable: OCPC 07
 Obs. research data.

Table 9 shows that there were no statistically significant changes in the similarity averages after OCPC 07, allowing us to infer that the guidelines established in this regulation have not yet been consolidated, that is, even after OCPC 07, the similarity averages calculated before and after its launch remain statistically unchanged, signaling the companies' lack of adoption of the guidelines.

Santos (2016) also studied the similarity of the notes to the financial statements in a sample of all the non-financial companies listed on BM & FBOVESPA. The result showed an almost imperceptible improvement of similarity when comparing the notes to the financial statements of the companies with the auditor's model note, considering the financial years 2013 and 2014.

It is worth noting that OCPC 07 (CPC, 2014) recommends that the notes to the financial statements should not contain, as far as possible, the repetition of facts, policies and other information, so as not to divert the users' attention.

Considering the inferences resulting from the analysis of the form from the perspective of the size, readability and similarity of the notes to the financial statements, it was decided to test, through multiple linear regression, the explanatory capacity of OCPC 07 and variables commonly used in studies about disclosure about the form of notes to the financial statements, aiming to meet the second specific objective of the research. This step resulted in three models, the results of which are shown in Table 10.

Table 10

Regression analysis

Model 1	SIZE = $\beta_0 + \beta_1\text{NMAR} + \beta_2\text{ADBF} + \beta_3\text{TYCP} + \beta_4\text{IADR} + \beta_5\text{OCPC} + \varepsilon$		
Model 2	READ = $\beta_0 + \beta_1\text{NMAR} + \beta_2\text{ADBF} + \beta_3\text{TYCP} + \beta_4\text{IADR} + \beta_5\text{OCPC} + \varepsilon$		
Model 3	SIML = $\beta_0 + \beta_1\text{NMAR} + \beta_2\text{ADBF} + \beta_3\text{TYCP} + \beta_4\text{IADR} + \beta_5\text{OCPC} + \varepsilon$		
	SIZE	READ	SIML
NMAR	0.4 (2.4)**	-0.4 (-1.3)	-0.1 (-3.5)**
ADBF	0.3 (2.5)**	-0.4 (-1.5)	0.1 (3.0)**
TYCP	-0.0 (-6.0)**	-0.0 (0.9)	0.0 (0.2)
IADR	0.9 (5.8)**	-0.3 (-0.8)	0.3 (6.2)**
OCPC	-0.0 (-0.7)	-0.4 (-2.0)**	-0.0 (-0.4)
Constant	-0.0	13.9 (34.1)**	0.2 (4.7)**
N	92	92	92
F	57.7**	5.3**	8.3**
Prob>F	0.0	0.0	0.0
R ²	0.7	0.2	0.3

Obs. NMAR = Participation in the New Market; ADBF = Audited by Big Four; TYCP = Time since going public in years; IADR = Issuer of ADR; OCPC = Presence of OCPC 07; SIZE = Size of the notes to the financial statements (single factor); READ = Readability of the notes to the financial statements (Fog index); SIML = Similarity of the notes to the financial statements (general similarity). (**) = 5% significance level. Value between parentheses: result of t text.
 Obs. Research data.

According to Table 10, the explanatory power of the model that considers size as a dependent variable, using the single factor obtained through factor analysis, reaches 77.1%. The independent variables in the New Market, audited by Big Four and ADR issuers have a significant positive association with the size of the notes to the financial statements. These results corroborate the findings of Santos (2016), who also identified a correlation between the issuing of ADRs, participation in the New Market and the size of notes to the financial statements, along with other explanatory variables such as size and sector. On the other hand, the time since going public had a significant negative association with the size of the notes to the financial statements, allowing to affirm that the size of the documents tends to drop with the time since going public and the companies' expertise. Regarding the effect of OCPC 07 on the size of the notes to the financial statements, there was no significant association, leading to the conclusion that the regulation does not explain the size variations in the notes to the financial statements.

Regarding readability, Table 10 also shows that the explanatory power for the model was calculated as 23.7%, highlighting the significant and negative association with the explanatory variable related to the presence of OCPC 07. The result confirms the findings of the difference of means test, which had already demonstrated the improved readability when comparing the periods before and after the issuing of OCPC 07. The issuing of this instruction is inversely associated with the readability, as lower Fog indices imply greater readability and, consequently, the presence of OCPC 07. It should be noted that the Fog index was used in this stage of the research to represent the readability of the documents because it presented statistically significant differences when comparing the periods before and after OCPC 07, a result not obtained for the Flesch index.

This finding may indicate that the perceived changes in the readability of notes to the financial statements are directly related to OCPC 07. Regarding the other variables selected for this model, it is observed that they did not present significance, therefore not being associated with readability. Santos (2016) also analyzed the readability of the notes to the financial statements, obtaining results that corroborate those of this study, when identifying that more than half of the companies listed on BM & FBOVESPA showed readability improvements between 2013 and 2014.

With regard to similarity, the selected independent variables have explanatory power of 32.6%. Table 10 shows that companies audited by Big Four and ADR issuers had a significant positive association with the similarity of the notes to the financial statements, leading to the inference that their notes to the financial statements ended up registering a higher percentage of similarity. Copying-pasting is facilitated when audit firms disclose a model structure of notes to the financial statements for guidance (Santos, 2016). On the other hand, the participation in the New Market had a significant negative association, pointing to an inverse relationship between this listing segment and the similarity in the notes to the financial statements. Thus, companies that adhere to stricter corporate governance standards (New Market participants) show a lower percentage of similarity between the notes to the financial statements. Regarding the other variables selected for this model, i.e. the time since IPO and the presence of OCPC 07, the results did not appoint significance, so these variables are not associated with the similarity between the notes to the financial statements.

In general, analyzing the aspects surveyed for the form of the notes to the financial statements, there is a limited influence of OCPC 07 on the quality of financial information within the companies in the segment of processed foods. Although there were no changes in the form of the notes to the financial statements impacted by the OCPC 07, this study found relevant interactions with respect to the control variables raised in the literature, explained below.

Regarding the size of the notes to the financial statements, a positive correlation with the issuing of ADR was observed, which leads to the conclusion that the internationalization process ends up exposing companies to an increasing demand for information, given the needs and the complexity of the external market, also motivated by greater enforcement by supervisors.

The participation in the New Market, another variable that presented a positive correlation with the size of the notes to the financial statements, is related to the fact that the companies participating in this group are subject to compliance with corporate governance practices beyond those already required by the market and by the supervisors, generating a greater volume of information that should be evidenced in the financial reports.

It was also found that the fact that the company is audited by one of the Big Four is also positively correlated with the size of the notes to the financial statements, as these audit firms disclose a model note, serving to guide companies in the preparation of their own notes to the financial statements.

With regard to the time since the IPO, there was an inverse correlation with the size of the notes to the financial statements, which is possibly related to the companies' know-how, acquired with the medium and long-term market experience, leading to a drop in the size of notes to the financial statements by disclosing only useful facts to stakeholders.

Concerning the similarity of the notes to the financial statements, higher rates of copy-paste have been found for ADR issuers and those audited by Big Four, a practice further facilitated by the disclosure of notes to the financial statements, according to the auditor's model, as mentioned previously, which generates a tendency to standardize the accounting reports, creating greater similarity between the companies' notes to the financial statements.

Despite the participation in the New Market, this variable negatively influences the similarity, evidencing that the adoption of the governance practices ends up becoming a differential to the extent of reducing the similarity between the companies' notes to the financial statements.

In general, the study contributes to the enrichment of Accounting literature, proposing an approach that considers qualitative aspects of the notes to the financial statements (size, readability, and similarity) that are at the center of the current discussions on the quality of accounting information. In addition, it is important to understand how companies are behaving towards OCPC 07 determinations and what factors directly impact the form of the notes to the financial statements.

5. Conclusion

The aim in this study was to analyze the behavior of Brazilian companies in the face of the regulators' current disclosure guidelines, considering the formal aspects of their notes to the financial statements, in view of the publication of OCPC 07. The aspects related to the form of the notes to the financial statements were drawn up based on the guidelines stipulated by OCPC 07, segmented in size, readability, and similarity, and the periods before and after OCPC 07 were compared later by means of a difference of means test. In addition, explanatory variables that signaled some connection with the form of the notes to the financial statements were tested in the literature on disclosure, using multiple linear regression.

The readability of documents analyzed after OCPC 07 was improved, specifically in the Fog index, reflecting improvements in the disclosure criteria the companies adopted. There were no significant changes in the size and similarity of the notes to the financial statements between the periods compared, reflecting that, despite the improvement in readability, companies still need to move forward in other aspects related to the form of these documents, showing only what is relevant to users. Therefore, the hypothesis formulated for this study was partially met.

The analysis of the explanatory capacity of the variables surveyed in the literature was performed through Multiple Linear Regression tests, which demonstrated a significant association between the presence of OCPC 07 and the readability of the documents, proving the inferences obtained in the difference of means tests.

In conclusion, after analyzing the aspects surveyed for the form of notes to the financial statements, we can identify a limited influence of the OCPC 07 on the quality of the financial information in the scope of the companies in the segment of processed foods, with regard to the size, readability, and similarity. It is worth mentioning that this study considers the companies belonging to a single subsector and that, therefore, the results cannot be generalized, given the specifics of each subsector and segment of operation and, consequently, of each operational context.

As a limitation of this research, we highlight the approach of a specific economic segment, which results in a reduced sample. In this sense, the results presented here reflect the behavior of a group of companies with similar operational contexts, so that extending the findings to other sectors and/or subsectors requires special attention. Finally, for future research, we propose the analysis of larger samples, concentrating more sectors and subsectors. We also recommend international comparisons in order to understand how Brazil fits into the global context.

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