

IFRS - The Brazilian Convergence Process

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- The Brazilian convergence to IFRS, unlike many other countries, occurred during a long process not on a single point in time.
- The Company **Law** (Law 6.404/76) is the major source of accounting guidance in Brazil (BR-GAAP).
- The Securities and Exchange Commission of Brazil (**CVM**) can issue accounting rules within the discretion given by the law.

- **CVM** issued, from the nineties, rules in accordance with **IFRS** which are not in confront with the Law (employee benefits for example).
- Full convergence was not possible because some rules in the Law were in disagreement with **IFRS** (deferred assets and capitalization of R&D and pre-operational expenses, for example).

- In 2007 the Company **Law** was amended and give **CVM** the mandate to form a partnership with a private body which would issue accounting standards in accordance with **IFRS** mandatory for individual and consolidated financial statements
- This body is the Brazilian Accounting Standards Board (**CPC**).
- **CPC** issues accounting standards in full compliance with **IFRS** plus additional standards on specific topics (Value Added Statement, for example)

- In 2008 **CPC** issued 15 standards (including the framework) which became mandatory for the year ended.
- In 2009 **CPC** issued the remaining standards which will be mandatory for 2010 year ended. Early adoption is possible on company's discretion including quarterly statements.
- In Brazil consolidated financial statements relating to **2010** will be in **full compliance to IFRS** for all public companies

- For **individual financial statements** two minor differences continue to exist due to Law provisions
 - Equity method for separate financial statements
 - Deferred assets
- Complete separation between tax and financial statements
- Financial institutions will also be full **IFRS** in 2010
- No clear guidance has yet emerged for private companies despite the fact the Brazilian Institute of Accountants (**CFC**) is also embracing **IFRS**

- Professional training
 - Accountants in Brazil were not used to prepare statements useful to investors – tax records
- Separation between accounting and tax
- Fair value concept
- Some regulated industries
- Economic substance over legal form



Thanks!

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