

Chapter 15

The Brazilian Case of IFRS Adoption

The Impacts and the New Perspectives

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ABSTRACT

This chapter contains a brief history of accounting practices in Brazil, the Brazilian convergence process that resulted in using the IFRS, and new perspectives about the IFRS after implementation. In order to highlight the issues, it includes some empirical evidence and cases. The USGAAP served as the major influence on Brazilian accounting from 1978 to 2007. In 2008, the process of the IFRS convergence started in Brazil, resulting in an important culture change. For the local standardization, the Brazilian Accounting Pronouncements Committee, known as the CPC, was created, issuing its norms in compliance with IFRS with no modifications. Brazil has a history of tax legislation influencing its accounting practices, but the process of Brazilian convergence to the IFRS has incurred a detachment of accounting from tax policies for corporate purposes. The chapter concludes with a description of the current activities associated with the IFRS and financial reports, such as the development of the XBRL (eXtensible Business Reporting Language) reporting standard.

INTRODUCTION

This chapter features a brief history of accounting practices in Brazil and describes the economic, legal, fiscal, and professional aspects of the adoption of the International Financial Reporting Standards (IFRS) and their respective impacts. The chapter is divided into three parts: (1) a brief history of accounting practices in Brazil, (2) a description of the Brazilian convergence process to the IFRS, and (3) a review of new perspectives on the IFRS postimplementation. In order to highlight the issues, some empirical evidences and particular cases are included.

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A BRIEF HISTORY OF ACCOUNTING PRACTICES IN BRAZIL

The accounting law used in Brazil can be classified as code law (Lopes, 2002). According to the data published by the Brazilian Institute for Planning and Taxation (IBPT, 2013), the tax rules in force alone amount to 112 million book pages.

According to the IBPT, if those documents were printed on standard A4 pages, the book would cover the entire length of Brazil from north to south (Brazilian Institute for Planning and Taxation, 2013). Accounting in Brazil is defined by corporate law. Other types of corporations end up following the same rules as accounting due to a legal imposition of the federal tax authorities.

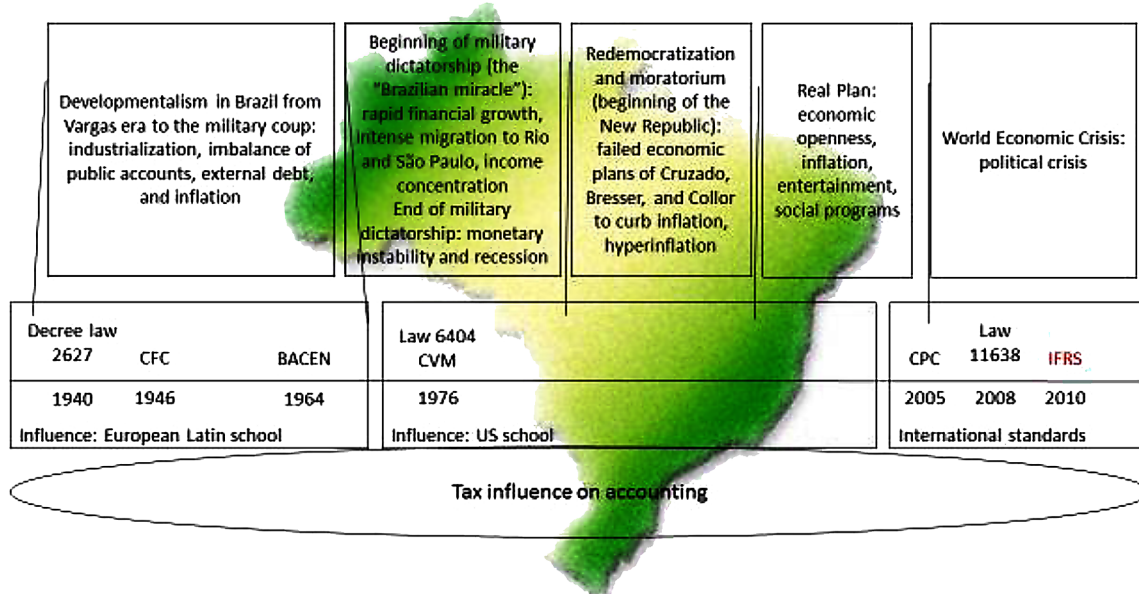
Figure 1 shows the major political and economic events that have taken place in Brazil since the 1940s along with the main corresponding legislation that has set the standards for the country's accounting standards.

Developmentalism in Brazil from Vargas Era to the Military Coup

Imposing a dictatorial regime known as the Vargas era, Getulio Vargas ruled Brazil continuously from 1930 to 1945. The period that followed, from 1946 to 1964, is known as the Second Brazilian Republic. During this time, the Brazilian economy was marked by developmentalism, industrial growth, an imbalance of public accounts, external debt, and inflation (Gremaud, 2002; Baer, 2002). Issued to regulate corporations, the Decree Law 2627 defined accounting standards. Because the capital market in Brazil was very small and restricted, the Brazilian corporate law of the period was quite simple.

In this paper, we highlight the creation of the CFC (Federal Accounting Council) in 1946 for the purpose of regulating the accounting profession in Brazil and issuing Brazilian accounting standards mandatory for all companies, whether they were public or not. The accounting standards adopted were

Figure 1. Evolution of Brazilian accounting and corresponding political and economic events



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