KPMG

Accounting Practices Comparison

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DPP Brazil

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Preface

KPMG is one of the largest auditing and consulting firms in the world with offices in over one hundred and twenty countries.

We assist our clients in establishing accounting practices that are in accordance with international or individual country accounting practices. Accordingly, we have developed a comparative study of international, US, and Brazilian accounting practices. This is a summary and does not identify all differences contained in the original texts that were consulted during its preparation. Furthermore, its use should not preclude research in the original literature or consultation with professionals specialized in the area.

The convergence of accounting practices in the international ambit has become the reality at the start of this century, and has occurred within a context of globalized markets and the increasing presence of foreign capital in Brazil.

International bodies, including IASC, IOSCO, UE and SEC, have sponsored the process to converge accounting practices, viewed as valuable tool to achieve important factors such as synergy between the markets, the flow of investments at global levels, etc.

Within this context, KPMG has, for several years, been examining the differing and converging aspects between international accounting practices, Brazilian practices and American practices, this has had an important influence on accounting practices given the significant investment in the country.

International accounting practices (IAS) issued by the International Accounting Committee (IASC), today, constitute a source of reference for worldwide accounting practices. Due to the fact that these practices represent a set of high level standards that are constantly up date with the current demands of the world market, they have gradually been accepted in several countries as local accounting practices, or these latter practices are harmonized with international practices.

What has occurred in Brazil is not different, since Brazilian accounting practices have been revised to be consistent with international practices. The reform of Corporation Law, to be voted by the Parliament, has reflected this tendency, whereby various international accounting concepts, mainly with respect to accounting for financial lease operations, segmented information, cash-flow statements, etc, have still not been included as part of the Brazilian accounting practices.

The professionals from KPMG have a fundamental commitment to accompany the development of accounting practices within this context for all of the levels described above, and today have a network of contacts and are organized in groups specialized by subject and will contribute to developing standardizing accounting practices within this context.

The combination of our wide client base and our service network in the world's most important financial markets places us in a privileged position to provide the advice required by our clients seeking to participate in the international financial markets.

January, 2001

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Abbreviations

APB/AICPA	Accounting Principles Board Opinion
ARB/AICPA	Accounting Research Bulletin
CFC	Federal Council of Accountancy
CVM	Brazilian Securities Commission
Deliberação/CVM	Decision / Brazilian Securities Exchange Commission
FAS/FASB	Statement of Financial Accounting Standards
IAS	International Accounting Standards
IBRACON	Brazilian Institute of Accountants
Law 6,404/76	The Brazilian Corporation Law
NPC/IBRACON	Rules and Accounting Procedures / Brazilian Institute of Accountants
PO/CVM	Orientative Opinion / Brazilian Securities Exchange Commission
RIR	Income Tax Regulation

IAS — 1. Inventory	USA — 1. Inventory	BR — 1. Inventory
(IAS 2, SIC 1)	**(ARB 43, I78, FIN 1)**	**(Law 6404/76, NPC 02 IBRACON, NBC-T-4)**
Inventory is stated at the lower of cost or net realisable value, determined on an individual item basis. Where the individual basis is impractical, items may be grouped by product lines of similar purpose/use.	Inventory is stated at the lower of cost or market value. This rule may be applied either directly to each item or to the total of inventory, depending on the character and composition of the inventory. The method chosen should be that which most clearly reflects periodic income.	Raw materials, merchandises, other materials and components are stated at the lower of acquisition cost or market value. Finished goods and work in progress are stated at the lower of production cost or market value.
Inventories for precious metals and commodities used for trading activities may be recorded at market value (less selling expenses), even if this exceeds cost.	In certain exceptional cases, inventory may be stated above cost (e.g. agricultural, mineral and other products, units of which are interchangeable and have an immediate marketability and for which appropriate costs may be difficult to obtain). In this case this fact should be disclosed fully in the financial statements.	Inventories for animals, agricultural and mineral products, designed for sale, can be carried at market value, when the following conditions exist: ■ the inventory corresponds to the company's primary activity; ■ the cost of production is difficult to be determined; and ■ there is an effective market that allows for the immediate liquidity of this inventory and validates its price.
Any write-down of inventory which is no longer required is reversed so that the new amount is the lower of the cost and the revised net realisable value.	Once a provision has been made to write down inventory to market value, it cannot subsequently be restored.	Obsolete and non-useable inventory is stated at its net realizable value and unsaleable inventory must be written-off. Any write-down of inventory which is no longer required must be reversed.
The cost of inventories should comprise all purchase, conversion and other costs incurred in bringing the inventory to its present location and condition (including attributable overheads).	Cost refers to the sum of all applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. G&A expenses should be included as period charges, except for the portion that can be clearly related to production. Exclusion of all overhead cost from inventory is not an acceptable accounting method.	Cost refers to the sum of all applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. G&A expenses should be included as period charges, except for the portion that can be clearly related to production. Exclusion of all overhead cost from inventory is not an acceptable accounting method.

IAS — 1. Inventory	USA — 1. Inventory	BR — 1. Inventory
(IAS 2, SIC 1)	**(ARB 43, I78, FIN 1)**	**(Law 6404/76, NPC 02 IBRACON, NBC-T-4)**
FIFO or average cost basis are the preferred methods. The LIFO basis is an acceptable alternative, but if it is adopted, the financial statements should disclose the difference between the amount of inventories as shown in the balance sheet and either: ■ the lower of the amount arrived at using FIFO or average cost and net realisable value; or ■ the lower of current cost at the balance sheet date and net realisable value. The same type of cost formula need not be used for all inventory; different bases may be appropriate for inventories of different natures and uses.	Cost may be determined based on a FIFO, average cost, or LIFO method. The latter is acceptable provided it is also adopted for tax purposes.	Cost may be determined based on a FIFO, average cost, or LIFO method. LIFO method is not accepted for tax purposes and is not often used.

IAS — 2. Depreciation	USA — 2. Depreciation	BR — 2. Depreciation
(IAS 16, IAS 22, IAS 38)	**(D40, APB 6, APB 12, ARB 43)**	**(NBC-T-4, Pronouncement VII IBRACON)**
Depreciation should be allocated on a systematic basis each fiscal period during the useful lives of the assets.	Depreciation should be recognized in a rational and systematic manner. Depreciation need not be recognized on individual works of art or historical treasures whose economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long.	Depreciation should be allocated on a systematic basis each fiscal period during the useful lives of the assets.
No specific depreciation method is recommended, although the method chosen should be applied consistently. The useful lives of the assets should be revised periodically, and the depreciation rates should be adjusted.	Different depreciation methods are permitted to depreciate tangible capital assets as long as the method chosen is systematic and rational, with the exception of annuity methods.	No specific depreciation method is recommended, although the method chosen should be applied consistently. The useful lives of the assets should be revised periodically, and the depreciation rates should be adjusted. Although depreciation should be made in accordance to useful lives, usually enterprises adopt fiscal rates that are deductible for tax purposes.
A change in depreciation method is a change in accounting estimate and should therefore be accounted for prospectively.	A change in accounting in depreciation method (but not of useful life or residual value) is dealt with as a change in accounting policy, for which the cumulative effect to date is put through the current year income statement after extraordinary items.	Even though it is not clearly stated in the accounting rules, the changes in depreciation method are usually considered as a change in accounting estimate and recorded prospectively.

IAS 3. Statements of cash flows

(IAS 7)

These statements should be produced as an integral part of the financial statements (IAS 7).

Cash and cash equivalents
Cash flows are inflows and outflows of cash and cash equivalents; they therefore exclude the effects of exchange rate changes on cash and cash equivalents as this involves no inflow or outflow.

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. "Short-term" is not defined but the standard suggests a cut-off of three months maturity (on acquisition by the company). Bank overdrafts repayable on demand are dealt with as cash and cash equivalents where they form an integral part of the company's cash management.

Classification and presentation of cash flows
The cash flow statement should split cash flows during the period between operating, investing and financing activities.

A company should choose its own policy for classifying each of interest and dividends paid as operating or financing activities and each of dividends received as operating or investing activities.

USA 3. Statements of cash flows

(SFAS 95, C25)

All entities, including business enterprise and NPOs, but excluding defined benefit pension plans, certain other employee benefit plans and certain investment companies, to provide a statement of cash flows in general purpose financial statements.

The SEC will accept without reconciliation to US-GAAP, a statement of cash flows included in Form 20-F that complies with IAS 7.

Cash and cash equivalents
A cash flow is an increase or decrease in cash and cash equivalents resulting from a transaction. It therefore excludes the effect of exchange rate changes on cash and cash equivalents.

Cash and cash equivalents include currency on hand, demand deposits, and short term highly liquid investments (with original maturities of three months or less, or with remaining maturities of three months or less at the time of acquisition).

Classification and presentation of cash flows
The statement of cash flows classifies cash receipts and payments as either, operating, investing, or financing activities.

Interest received and paid (net of interest capitalized, which is classed as investing), dividends received and all taxes are included under operating activities. Dividends paid are classed as financing activities.

BR 3. Statements of cash flows

(Law 6404/76, PO 24/92, NPC 20 IBRACON)

Presentation of statements of changes in financial position is required. The statements of cash flows may be disclosed as supplementary information.

According to the project for alteration of Law 6404/76 the statements of cash flows will replace the statement of changes in financial position.

Cash and cash equivalents
Cash and cash equivalents include not only cash on hand and demand deposits, but also other types of accounts which possess the same liquidity characteristics as cash.

Cash equivalents include highly liquid short term investments.

Classification and presentation of cash flows
The statement of cash flows classifies cash receipts and payments as either, operating, investing, or financing activities.

Dividends received are classed as operating activities and dividends paid are classed as financing activities. Interest received and paid and income taxes paid are classified as operating activities.

IAS 3. Statements of cash flows	USA 3. Statements of cash flows	BR 3. Statements of cash flows
(IAS 7)	**(SFAS 95, C25)**	**(Law 6404/76, PO 24/92, NPC 20 IBRACON)**
Taxes paid should be classified as operating activities unless any particular tax cash flow (not merely the related expense in the income statement) can be specifically identified with, and therefore classified as, financing or investing activities.		
Net cash flows from all three categories are totaled to show the change in cash and cash equivalents during the period, which is then reconciled to opening and closing cash and cash equivalents. The company should disclose the components of cash and cash equivalents and reconcile these to the equivalent figures presented in the balance sheet.	Net cash flows from all three activities are totaled to show the change in cash and cash equivalents during the period, which is then reconciled to the opening and closing cash and cash equivalents.	Net cash flows from all three activities are totaled to show the change in cash and cash equivalents during the period, which is then reconciled to the opening and closing cash and cash equivalents.
When a hedging instrument is accounted for as a hedge of an identifiable position, the cash flows of the hedging instrument are classified in the same manner as the cash flows of the position being hedged.	Cash flows resulting from certain contracts that are hedges of identifiable transactions should be classified in the same cash flow category as the cash flow from hedged items.	Brazilian corporate law does not deal with the treatment of cash flows resulting from hedges.
Cash flows from operating activities may be presented either by the direct method (gross receipts from customers etc.) or the indirect method (net profit and loss for the period with adjustments to arrive at the total net cash flow from operating activities). Although the standard encourages the use of the direct method, in practice the indirect method is usually used.	While companies are encouraged to report gross operating cash flows by major classes of operating cash receipts and payments (the direct method), presenting such items net (the indirect method) is allowable in respect of operating activities. Under the direct method, the statement begins with cash from operations by source (e.g. amounts received from/paid to customers, suppliers, and employees).	Cash flows from operating activities may be presented either by the direct method (gross receipts from customers etc.) or the indirect method (net profit and loss for the period with adjustments to arrive at the total net cash flow from operating activities).
	The indirect method starts with net income and reconciles it to net cash flows from operating activities by adjusting for non-cash items (such as depreciation) and the net change in most working capital items. If the indirect method is used, amounts of interest paid (net of amounts capitalized) and income taxes paid during the period are disclosed.	

IAS 3. Statements of cash flows	USA 3. Statements of cash flows	BR 3. Statements of cash flows
(IAS 7)	**(SFAS 95, C25)**	**(Law 6404/76, PO 24/92, NPC 20 IBRACON)**
All financing and investing cash flows should be reported gross, with the following exception: receipts and payments may be netted where the items concerned (e.g. sale and purchase of investments) are turned over quickly, the amounts are large and the maturities are short.	Under both the direct and the indirect method, cash inflows and outflows from investing and from financing activities should be reported on a gross basis.	No specific requirements to report gross amounts. Usually the amounts on gross basis are considered.
Other matters Non-cash investing or financing transactions (e.g. share-for-share acquisition, debt to equity conversion) should be disclosed in order to provide relevant information about investing and financing activities.	***Other matters*** Information about all investing and financing activities of a company during a period that affect recognized assets or liabilities but do not result in cash receipts or payments are also disclosed. For example, the initial recording of a capital (finance) lease results in the recognition of a leased asset and a corresponding liability in the balance sheet without affecting cash flows.	***Other matters*** Non-cash investing or financing transactions (e.g. share-for-share acquisition, debt to equity conversion) should be disclosed in order to provide relevant information about investing and financing activities.
Cash flows arising from a company's foreign currency transactions should be translated into the reporting currency at the exchange rate at the date of the cash flow (where exchange rates have been relatively stable a weighted average can be used). Cash flows of foreign subsidiaries are translated also at actual rates (or appropriate average rates). The effect of exchange rate changes on the balances of cash and cash equivalents are presented as part of the reconciliation of the movements therein.	Cash flows denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the time of the cash flows (although a weighted average exchange rate for the period may be used). Exchange rate effects on cash balances held in foreign currencies must be reported as a single line item in the statement of cash flows.	No specific requirements to cash flows in foreign currency. The applicable procedure is similar to IAS.
Financial institutions may report on a net basis certain advances, deposits, and repayments thereof.activities.	Banks, savings institutions and credit unions are permitted to report net cash receipts and payments for deposits placed with and withdrawn from other financial institutions, for time deposits accepted and repaid and for loans made to and collected from customers.	No specific rules for financial institutions.

IAS – 4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates	USA – 4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates	BR – 4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates
(IAS 1, IAS 8, IAS 12, IAS 16, IAS 38, SIC 8)	**(SFAS 16, A35, A06, I13, APB 9, APB 20, APB 30, SAB 67)**	**(Pronouncement XIV IBRACON, PO CVM 24/92, Law 6404/76)**
Extraordinary items Extraordinary items are presented, net of tax, as a line item separate from profit on ordinary activities after tax.	***Extraordinary items*** Extraordinary items are reported separately after the caption, "income after tax from continuing operations". The amount of the extraordinary item is shown net of tax with related tax disclosed in parentheses on the face of the income statement.	***Extraordinary items*** Extraordinary items (net of income tax) must be segregated from income from ordinary operations, and must be reported as a separate line item in the income statement. Preferably, extraordinary items should be disclosed in the income statement on a per item basis, however, this level of detail may alternatively be disclosed in the notes to the financial statements.
They are defined as income or expenses that arise from events that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly.	Extraordinary items are defined as events that are both unusual in nature and infrequent in occurrence. These terms are defined as follows: ▪ Unusual in nature The underlying event or transaction possesses a high degree of abnormality and is of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates. ▪ Infrequent in occurrence The underlying event or transaction is of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.	Events or transactions that meet the characteristics described below must be classified as extraordinary items: ▪ the event or transaction is of an unusual nature, presenting a high level of abnormality, and does not relate to the enterprise's ordinary activities; ▪ the event or transaction is one which would not be expected to occur frequently; and ▪ the value of the event or transaction must relevant in relation to income before extraordinary items.
	In practice, an event or transaction is considered to be an ordinary and usual activity of the reporting company unless the evidence clearly supports its classification as an extraordinary item.	
Prior period adjustments Prior period adjustment is the benchmark treatment for: ▪ certain changes in accounting policies; and ▪ corrections of fundamental errors.	***Prior period adjustments*** In single period financial statements, prior period adjustments are reflected as adjustments of the opening balance of retained earnings.	***Prior period adjustments*** Adjustments to the opening balance of retained earnings are permitted for: ▪ corrections of errors in prior periods not related to subsequent events; and ▪ changes in accounting policies.

IAS

4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates

(IAS 1, IAS 8, IAS 12, IAS 16, IAS 38, SIC 8)

Where a prior period adjustment is applicable, the opening balance of retained earnings and the comparatives are restated.

In both cases, IAS allows an alternative treatment whereby the adjustment may be put through in the current year with no restatement required.

However, if neither the benchmark treatment nor a current year adjustment are possible for a change in an accounting policy, the change should be made prospectively.

Changes in accounting policy and method
A change in accounting policy should be made where required to adopt a new IAS or in any case where the change will result in a more appropriate presentation of events or transactions in the financial statements.

In either case, if the company chooses the current period adjustment method of effecting the change, it should give pro forma information on the prior year adjustment basis. In all cases the effect of the change on all periods presented should be disclosed, together with the reason for the change.

All new IASs either have their own transitional rules or, failing that, are by default effected as a change of accounting policy.

USA

4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates

(SFAS 16, A35, A06, I13, APB 9, APB 20, APB 30, SAB 67)

When comparative statements are presented, corresponding adjustments are made of the amounts of net income, its components, the balances of retained earnings, and other affected balances for all of the periods presented to reflect the retrospective application of the prior period adjustments.

Prior period adjustments may only be made:

- to correct errors in prior period financial statements;
- for certain changes in accounting principles;
- for certain adjustments related to prior interim periods of the current fiscal year; or
- to reflect accounting changes that are in effect the statements of a different reporting entity (e.g. pooling-of-interests).

Changes in accounting policy and method
A change in accounting policy must be explained and justified as preferable. The term accounting principle also includes the methods of applying principles.

In most instances prior periods are not adjusted. Instead, the cumulative effect (net of tax) of the change should be shown in the income statement, after extraordinary items and before net income, in the year in which the change occurs.
Income before extraordinary items and net income should be shown on a pro forma basis on the face of the income statement for all periods presented.
The effect of adopting the new principle on income before extraordinary items and on net income in the period of the change should also be disclosed.

BR

4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates

(Pronouncement XIV IBRACON, PO CVM 24/92, Law 6404/76)

Changes in accounting policy and method
A change in accounting policy must be explained and justified as preferable.

The effects of changes in the accounting practices are classified as prior year adjustments. However, the financial statements are not restated.
If the effect of the adjustments is relevant an appropriate disclosure should be made in the notes.

IAS — **4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates**

(IAS 1, IAS 8, IAS 12, IAS 16, IAS 38, SIC 8)

A change in depreciation method, useful life or residual value does not qualify as a change in accounting policy.

Changes in accounting estimate
Changes in accounting estimates are included in the net profit or loss for the period in which the change occurs (or the period of the change and future periods if the change affects both). Where material, the effect should be disclosed.

USA — **4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates**

(SFAS 16, A35, A06, I13, APB 9, APB 20, APB 30, SAB 67)

In the following cases, however, the financial statements of prior periods should be restated:

- a change from LIFO to another method of inventory valuation;
- a change in the method of accounting for long-term construction-type contracts; and
- a change to or from the full cost method of accounting that is used in the extractive industries.

These general rules do not apply to a change which results from the initial adoption of a new accounting pronouncement.

A change from one method of computing depreciation to another is a change in accounting principle and should be accounted for accordingly. A change in estimated useful life or residual value, however, is a change in an accounting estimate and should be accounted for prospectively.

Changes in accounting estimate
Changes in accounting estimates should be accounted for in the period of the change as if only that period is affected by the change, or in the period of the change and future periods if those periods are affected.

BR — **4. Extraordinary items , prior period adjustments, changes in accounting policy, method, and in accounting estimates**

(Pronouncement XIV IBRACON, PO CVM 24/92, Law 6404/76)

A change in depreciation method, useful life or residual value is not treated as a change in accounting policy.

Changes in accounting estimate
Changes in accounting estimates are included in the net profit or loss for the period in which the change occurs (or the period of the change and future periods if the change affects both). Where material, the effect should be disclosed.

IAS — 5. Research and development expenses

(IAS 36, IAS 38)

Research is original and planned investigation undertaken with the prospect of gaining new knowledge and understanding. Research costs are written off as incurred.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, products, etc; it does not include the maintenance or enhancement of the running of ongoing operations.

Development costs should be recorded as expenses. Only costs incurred in a project which meets the following criteria may be capitalized:

a. the product/process is clearly defined and the costs attributed to it can be identified separately;
b. the technical feasibility of the product has already been shown;
c. management has indicated its intention to produce the product/process and place it on the market, or use it;
d. there is a clear indication of a future market for the product/process or, if the product/process is intended for internal use, its usefulness has been clearly shown;
e. there are adequate resources, or resources will be available to complete the project and place the process/product on the market.

The deferred development costs should be limited to the amount the company can reasonably expect to recover from future related earnings, taking into consideration the future development costs and the costs of production, sale and related administration.

USA — 5. Research and development expenses

(SFAS 2, SFAS 68, R55)

US-GAAP defines the terms research and development in a similar manner to IAS.
Only the costs of materials, equipment, facilities and intangibles purchased from others used in research and development activities which have alternative future uses are capitalized and amortized.
With the exception of certain internally developed computer software, all other research and development costs are not capitalized under US-GAAP, but rather should be charged to expense as incurred.

BR — 5. Research and development expenses

(Law 6404/76, Pronouncement VIII IBRACON, RIR 99, Art. 327)

Research and development expenses that will contribute in the generation of future income for more than one fiscal period may be capitalised as a deferred asset.

Deferred research and development costs should be valued at cost less accumulated amortization. The amortization period should be determined based on the period of expected future benefits. Tax legislation requires a minimum amortization period of 5 years, while accounting legislation allows a maximum amortization period of 10 years.

If at any time there are doubts with respect to the recoverability of deferred research and development expenses or with respect to the ability of the enterprise to continue as a going concern, the net book value of deferred research and development expenses should be written off immediately.

IAS — 5. Research and development expenses	USA — 5. Research and development expenses	BR — 5. Research and development expenses
(IAS 36, IAS 38)	**(SFAS 2, SFAS 68, R55)**	**(Law 6404/76, Pronouncement VIII IBRACON, RIR 99, Art. 327)**
Deferred development costs should be allocated to future fiscal periods on a systematic basis related to either the sale or expected use of the product/ process, or its useful life.		

IAS — 6. Contingencies

(IAS 37)

Provisions should be provided when:

- an enterprise has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- a present obligation that arises from past events but is not recognised because:
  i) it is not probable than an outflow of resources embodying economic benefits will be required to settle the obligation; or
  ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities should be disclosed in the financial statements, unless an outflow is only remotely likely. Disclosure includes the nature of the contingency and where practical the estimated financial effect, an indication of the uncertainties and the possibility of any reimbursement.

USA — 6. Contingencies

(SFAS 5, SOP 94-6, C59)

If information available prior to issuing the financial statements indicates that it is probable that, at the balance sheet date, an asset has been impaired or a liability has been incurred, and the amount of loss can be reasonably estimated, then that estimated loss should be accrued.

The following terms are used to describe the likelihood that a future event will confirm that an asset had been impaired or a liability had been incurred at the date of the financial statements:

- probable: the future event is likely to occur;
- reasonably possible: the chance of the future event occurring is more than remote but less than likely;
- remote: the chance of the future event occurring is slight.

If no accrual is made because the conditions mentioned above are not met, then disclosure of the loss contingency is made, provided that there is reasonable possibility that a loss, or a further loss over and above that accrued, may have been incurred. The disclosure should indicate the nature of the contingency, give an estimate of the possible loss or range of loss, or state that such an estimate cannot be made, and state that it is reasonably possible that this estimate will change (where this is the case).

BR — 6. Contingencies

(NBC-T-4, Pronouncement XIII IBRACON)

A contingent loss must be accrued in the financial statements when the likelihood of its occurrence is considered probable and when its value can be reasonably estimated.

Contingencies are classified, in relation to their related risks, as follows:

- probable: the future event is likely to occur;
- reasonably possible: the chance of the future event occurring is more than remote but less than likely;
- remote: the chance of the future event occurring is slight.

Adequate disclosure of accrued contingent losses must be provided for in the notes to the financial statements.

If the value of the contingent loss cannot be reasonably estimated, adequate disclosure is required.

IAS — 6. Contingencies

(IAS 37)

Contingent assets should not be recognised since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
Where an inflow of economic benefits is probable, an enterprise should disclose a brief description of the nature of the contingent assets at the balance sheet data, and, where practicable, an estimate of their financial effect, measured in accordance with IAS 37.

USA — 6. Contingencies

(SFAS 5, SOP 94-6, C59)

Gain contingencies are usually not reflected in the accounts since to do so might be to recognize revenue prior to realization. While adequate disclosure regarding gain contingencies is appropriate, care should be exercised to avoid misleading implications as to the likelihood of realization.

BR — 6. Contingencies

(NBC-T-4, Pronouncement XIII IBRACON)

In general, gain contingencies should not be accrued in the financial statements, based on the requirement that revenue only be recognized once realized.
Adequate disclosure of the gain, including the nature of the gain and the value of the contingent gain (net of income tax and any other related costs and expenses), is recommended.

IAS — 7. Events after the balance sheet date

(IAS 10)

Material events which take place after the balance sheet closing date require adjustments to the financial statements only if the statements furnish additional evidence for events which had already occurred at the balance sheet date, or indicate it is no longer reasonable to assume full or partial continuity of operations.

Where non adjusting events after the balance sheet date are of such importance that non-disclosure would affect the ability of financial statement users to make proper evaluations and decisions, disclosure is required.

Dividends declared after the balance sheet date can either be recognised or disclosed.

USA — 7. Events after the balance sheet date

(SFAS 5, SOP 94-6, C59)

U.S. Accounting Standards do not deal explicitly with the treatment of subsequent events; however, Auditing Standards (AU 560) effectively establishes accounting standards in the U.S. with respect to this issue.

U.S. Auditing Standards distinguish between the following two types of subsequent events, which require consideration by management and evaluation by the independent auditor:

- those events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements; and
- those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet being reported on but arose subsequent to that date.

With respect to the first type of subsequent event, U.S. Auditing Standards require that financial statements be adjusted for any changes in estimates resulting from the use of such evidence.

With respect to the second type, U.S. Auditing Standards state that these events should not result in adjustment of the financial statements, however some subsequent events of this nature may be of such a nature that disclosure of them is required to keep the financial statements from being misleading.

BR — 7. Events after the balance sheet date

(Law 6404/76)

If significant, the effects of subsequent events should be disclosed.
No adjustments to the financial statements are required. However, the accounting practice recognizes the effects of subsequent events in line with IAS.

IAS — 8. Construction contracts

(IAS 11, IAS 18)

The percentage-of-completion method should be used to record revenue on services and construction contracts when the contract outcome can be reliably estimated. This is said to occur when the general revenue recognition criteria are met, and the stage of completion of the contract can be reliably measured.

These guidelines are applicable to services and construction contracts, irrespective of the expected completion period.

No method of assessing the stage of completion is mandated. Percentage-of-work-done and percentage-of-costs are all possible methods suggested by the standard.

Where the contract outcome cannot be reliably measured, the revenues are recognized only to the extent of contract costs incurred are expected to be recovered.

A loss related to a contract should be provided for as soon as it is identified, at an amount sufficient to cover losses incurred to date and future losses through completion of the contract.

USA — 8. Construction contracts

(SFAS 56, ARB 45, SOP 98-1)

The percentage-of-completion accounting is the preferable method for recognizing revenue corresponding to long-term construction-type contracts, if estimates of costs to complete, and of the extent of progress towards completion, are reasonably reliable.

Under this method, revenue (i.e. a percentage of total expected revenue) is recognized based upon the extent of completion. Ordinarily this is measured by reference to costs incurred as a percentage of total estimated costs (although others, such as those mentioned in IAS, are possible).

The completed-contract method is preferable where there is doubt about the forecasts, either because of a lack of reliable estimates or because of inherent uncertainty.
Under this method revenue is recognized only if the contract is completed, or substantially so.

For a contract on which a loss is anticipated, generally accepted accounting principles require recognition of the entire anticipated loss as soon as the loss becomes evident.

BR — 8. Construction contracts

(Pronouncement XVII IBRACON)

There are three methods accepted:

- Percentage-of-completion
  Revenue is based upon the extent of completion, which may be measured either by reference to costs incurred as a percentage of total estimated costs, or by reference to the physical stage of completion in comparison to the total contract requirements.
- Completed contract
  Revenue and costs are recognized only once the contract is completed.
- Installment method
  Revenue and costs are recognized based on the receipt of installments, in accordance with the terms of the contract.

The above methods are applicable to construction contracts with an expected completion period of greater than 12 months.

Where the contract outcome cannot be reliably measured, revenue is recognized to the extent of costs incurred, that are recoverable.

A loss related to a contract should be provided for as soon as it is identified, at an amount sufficient to cover losses incurred to date and future losses through completion of the contract.

IAS — 9. Income taxes	USA — 9. Income taxes	BR — 9. Income taxes
(IAS 12)	**(SFAS 109, I27)**	**(NPC 20, CVM Decision 273/98)**
Taxes should be recorded in the financial statements on the accrual basis, by using the liability method.	Similar to IAS, the liability method should be used in accounting for income taxes.	Similar to IAS, the liability method should be used in accounting for income taxes.
A current tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax loss carry-forwards.	A current tax liability or asset and current tax expense or benefit are recognized for the estimated taxes payable or refundable based on the tax returns for the current and previous years.	
The carrying value of deferred tax assets is restricted to the amount that can be utilized against future taxable profits that will probably be available.	Deferred tax liabilities or assets are recognized for the estimated future tax effects attributable to temporary differences and tax loss carry-forwards.	
The measurement of current and deferred tax liabilities and assets is based on provisions of the substantively enacted tax law, which may include announcements of future changes; otherwise the effects of future changes in tax laws or rates are not anticipated.	The balance sheet carrying value of deferred tax assets is reduced, through a valuation allowance, so as to recognize (net) only the amount of any tax benefits that, based on available evidence, are more-likely-than-not to be realized.	
A deferred tax liability should be recognised for all taxable temporary differences, unless the deferred tax arises from: ▪ goodwill for which amortisation is not deductible for tax purposes; or ▪ the initial recognition of an asset or liability in a transaction which: i) is not a business combination; and ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);	The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.	A deferred tax liability should be recognised in relation to all taxable temporary differences.

IAS — 9. Income taxes

(IAS 12)

A deferred tax asset should be recognised for all deductible temporary differences, unless the deferred tax arises from:

- negative goodwill which is treated as deferred income in accordance with IAS 22, Business Combinations; or
- the initial recognition of an asset or liability in a transaction which:
  i) is not a business combination; and
  ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);

Deferred tax liabilities and assets should always be classified as non-current.

USA — 9. Income taxes

(SFAS 109, I27)

Deferred tax liabilities and assets, but not the valuation allowance, are classified in the balance sheet as either current or non-current according to the classification of the related asset or liability for reporting purposes. The valuation allowance is allocated against current and non-current assets pro rata to the allocation of all of the deferred tax assets as a whole.

The expected timing of the reversal of deferred taxes is not considered in the classification of deferred tax balances except in certain instances where a deferred tax balance cannot be related to an identifiable asset or liability for financial reporting purposes.

BR — 9. Income taxes

(NPC 20, CVM Decision 273/98)

A deferred tax asset should be recognised for all deductible temporary differences:

- when it is likely that the deferred tax asset can be utilized against future taxable profits, based on budgets and projections provided by administration; or
- where a deferred tax liability which is sufficient in value and in a realization period that makes possible the compensation of the deferred tax asset, exists.

Deferred tax assets and liabilities are classified as either a long-term asset or a long term liability and are transferred to current assets or current liabilities when appropriate.

IAS — 10. Segment reporting

(IAS 14, IAS 36)

Segmental disclosures are required of only those companies with publicly traded equity or debt securities, or those which are in the process of issuing such securities, but not to other economically significant entities.

IAS uses a management approach to segmentation, based on the internal organizational components into which the company is divided for the purposes of internal financial reporting to its board. However, if this is based neither on product/service groups nor on geography then the basis should instead be identified by looking to the next lower level of internal organization that divides up the company into products/services or geography based components subject to the provision that each such component must be subject to risks and returns that differ from other components.

Broadly, any component so identified that accounts for 10% or more of the company's revenue, results of operating activities or total assets, is a disclosable segment. Otherwise, the components may be combined with other components on a risk and returns basis to form disclosable segments.

The amounts disclosed do not follow the management approach. Instead the amounts are an analysis of the relevant figures as stated in the financial statements.

USA — 10. Segment reporting

(SFAS 131, FTB 79-4, FTB, 79-5, S30)

Segmental disclosures apply only to SEC registrants.

An operating segment is a component of a business about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in the allocation of resources and assessment of performance. This may be termed the "management approach", since the basis of segmentation is the internal management reporting structure irrespective of whether that reflects differences in risks and returns or operations.

Segmental information is given about any operating segment that, broadly, accounts for 10% or more of all segments' revenue, results of operating activities, or total assets.

General information, such as factors used to identify the reportable segments and the types of products and services from which reportable segments derive their revenues, are required to be disclosed. The numerical information is required to be stated on the basis upon which it is reported internally to the chief operating decision maker, even if this does accord with the basis adopted for external reporting in the financial statements.

BR — 10. Segment reporting

Information by segment is not required.

IAS — 10. Segment reporting

(IAS 14, IAS 36)

For the primary basis, the following are required for each segment:

- revenue, distinguishing between external customers and inter-segment sales;
- results of operations (i.e. broadly before interest, tax, and associates);
- depreciation, impairment, reversal of impairment and other non-cash expenses (unless cash flow information is given);
- operating, investing, and financing cash flows (as an alternative to the previous item);
- the share of results and carrying value of equity accounted investments for any such investments that can be allocated substantially to a single segment;
- total assets;
- total liabilities; and
- capital expenditures.

There are supplementary requirements if the primary basis is geography in order that information about both location of operations and location of customers is given.

For the secondary basis, revenue (external and inter-segment separately), total assets and capital expenditure are required to be analyzed.

There is no requirement to disclose a significant customer.

USA — 10. Segment reporting

(SFAS 131, FTB 79-4, FTB, 79-5, S30)

In other words, the management approach extends to the figures also. The total amounts disclosed are required to be reconciled to the equivalent amounts in the financial statements.

The numerical information required for each segment is:

- profit or loss;
- total assets;
- the following if they are included in the above two measures or are otherwise reviewed by the chief-operating decision maker:
  - revenue distinguishing between external customers and inter-segment sales;
  - interest income and expense;
  - unusual items;
  - tax;
  - extraordinary items;
  - capital expenditure and depreciation and other significant non-cash items; and
  - the share of income and net assets of equity method investees.

In addition, there are supplementary disclosures of revenue by product/service group, or geographical region if the management approach basis are not on such bases.

If a single external customer accounts for 10% or more of the company’s revenue, this fact together with the amount of that revenue and the segment in which it arose, must be disclosed.

BR — 10. Segment reporting

IAS — 11. Property, plant and equipment	USA — 11. Property, plant and equipment	BR — 11. Property, plant and equipment
(IAS 16, IAS 20, IAS 23, IAS 36, IAS 40, SIC 2)	**(SFAS 34, SFAS 66, SFAS 67, I67, ARB 43)**	**(NPC 24 IBRACON, CVM Decision 183/95, Pronouncement VII IBRACON)**
Property, plant and equipment should be recorded at historical cost (recommended treatment). Financing costs directly attributable to the construction of property, plant and equipment should be capitalized.	Property, plant and equipment should be recorded at historical cost. Financing costs directly attributable to the construction of the property, plant and equipment should be capitalized.	Property, plant and equipment should be recorded at historical cost. Financing costs directly attributable to the construction of the fixed assets are capitalizable.
Revaluation of property, plant and equipment is allowed as an alternative. Property, plant and equipment should be revalued to fair value, which is market value or, for plant and equipment without such a value, depreciated replacement cost. If one fixed asset is revalued, the entire asset category should be revalued. Revaluation should be repeated on a regular basis.	Revaluation above historical cost is not permitted except in connection with business combinations accounted for using the purchase method.	Revaluation above historical cost is permitted. Revaluation surpluses are credited to a revaluation reserve within equity.
Revaluation surpluses are credited to a revaluation reserve within equity unless they reverse a shortfall previously charged to the income statement, in which case it is taken directly to the income statement.		Where an external valuation reveals that the value of a fixed asset is below its book value, the value of property, plant, and equipment should be reduced to the extent of the revaluation reserve surplus included in equity, corresponding to the same asset. The corresponding deferred tax balance should also be adjusted for this negative revaluation. A provision for losses should be established for any excess amount, through a charge to non-operational expenses. This provision should only be recorded if the loss is considered unrecoverable.
Shortfalls on revaluation are recorded in the income statement unless they reverse a surplus of the same or lesser value previously generated by the same asset, in which case it is taken directly to the revaluation reserve. Shortfall is calculated on an item-by-item basis.		A revaluation below historical cost may not be recorded if it is the first time that an asset is being subject to external valuation. The company should however consider whether the net book value of the asset is recoverable from future operations. If the recoverable value of the asset is below its net book value, and if this difference is not considered recoverable, a provision for losses should be recorded and charged to non-operational expenses.
When a revalued asset is written off, the revaluation surplus is transferred to retained earnings.		On sale or disposal of a discontinued revalued asset, the revaluation must be reversed.
Depreciation on a revalued asset is based upon its revalued amount, as are gains and losses on disposal.		

IAS — 11. Property, plant and equipment

(IAS 16, IAS 20, IAS 23, IAS 36, IAS 40, SIC 2)

The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

Beginning on or after January 1, 2000, the following rules apply to investment properties. Investment properties are land and buildings held for rental income and/or capital appreciation rather than for own use or for sale in the ordinary course of business. They exclude property held on operating leases. They may be either treated as a normal property or be undepreciated and stated at fair value, which is the market value, with changes therein flowing through the income statement.

USA — 11. Property, plant and equipment

(SFAS 34, SFAS 66, SFAS 67, I67, ARB 43)

Real estate investment properties are carried at depreciated historical cost. Depreciation must be provided on all buildings, including investment properties. However, property held for resale is generally not depreciated.

SFAS 67 specifies the accounting treatment of pre-acquisition costs, taxes and insurance, project costs, incidental operations, and the allocation of capitalized costs to components of a real estate project, as these items relate to real estate projects.

Upon sale or write-off of real estate assets, there are safeguards which prevent recognition of profit (full or partial) when the seller could incur future costs or when the seller has signed an option to repurchase at a fixed price.

BR — 11. Property, plant and equipment

(NPC 24 IBRACON, CVM Decision 183/95, Pronouncement VII IBRACON)

There are no specific requirements for real estate investments. However a provision for devaluation may be required if the carrying amounts are higher than its realization amounts.

IAS — 12. Leases

(IAS 17, IAS 39, SIC 15)

The distinction between a finance and an operating lease is based on conceptual principles rather than detailed requirements.

The definitions of finance and operating leases are the same for lessors as for lessees.

Lessee

A lease other than a finance lease is an operating lease. The rental payments, including any incentive to enter into the lease, are expensed on a straight line basis or any other systematic basis more representative of the true pattern of benefits to the lease.

A finance lease is one which transfers substantially all the risks and rewards incident to ownership of the asset. The following situations would normally indicate a finance lease for both the lessee and the lessor:

- ownership is transferred to the lessee;
- a bargain purchase option exists;
- the lease term is for the majority of its economic life;
- the present value of minimum lease payments amounts to substantially all of the fair value of the leased asset;
- the leased asset is specialized so that major modifications would be required for its use other than by the lessee.

USA — 12. Leases

(SFAS 13, SFAS 28, SFAS 98, L10)

US-GAAP is similar in concept to IAS 17, however it provides more-specific and more-extensive accounting guidance.

The criteria used to distinguish between a capital (financing) lease and an operating lease are different for the lessee and the lessor.

Lessee

From the standpoint of the lessee, a lease meeting any one of the following four criteria must be treated as a capital lease:

- the lease transfers ownership;
- the lease contains a bargain purchase option;
- the lease term is equal to or greater than 75% of the estimated economic life of the property;
- the present value of the minimum lease payments equals or exceeds 90% of the fair value of the property, less any investment tax credit retained by the lessor.

The lessee records a capital lease as an asset and an obligation at an amount equal to the lesser of the present value of the minimum lease payments at the beginning of the lease term or the fair value of the leased property.

BR — 12. Leases

(PO CVM 15/87)

All leases are considered to be operating leases. Sales revenue in a sale and leaseback transaction is recorded at nominal value, regardless of the circumstances. Certain disclosures are required in explanatory notes.

IAS 12. Leases

(IAS 17, IAS 39, SIC 15)

A finance lease should be reflected in the balance sheet of the lessee by recording an asset and a liability of equal value at the onset of the lease, at the lower of the fair value of the leased asset or the present value of the minimum lease payments discounted at the interest rate implicit in the lease.

The payments made on the leased asset should be allocated between financial expense and the outstanding liability. The financial expense should be allocated over the lease period, so that a constant interest rate is charged on the remaining balance of the liability for each period.

If it is not certain that the lessee will own the asset at the end of the lease period, the asset should be fully depreciated over the shorter of the lease period or the useful life of the asset.

Lessor

The leased assets under a financial lease must be recorded as an account receivable (not as a fixed asset) at the net value of the lease contract.

Financial income related to a financial lease is recognized by a constant rate of return applied to the net residual balance of the lease or on the investment in the lease valued by its future cash flow.

The leased asset under an operating lease must be recorded as a fixed asset. The rental income is recorded on a straight line basis over the length of the contract or in accordance with the terms of the lease, whichever is more appropriate.

USA 12. Leases

(SFAS 13, SFAS 28, SFAS 98, L10)

Lease payments should be allocated between interest expense and reduction of the lease obligation so as to give a constant periodic rate of interest.

If none of the criteria is met, the lease is classified as an operating lease by the lessee. Neither an asset nor an obligation is recorded. Rental payments, including for example, rent free periods or cash incentives, are expensed in the income statement generally on a straight line basis, unless some other systematic basis is more representative of the time pattern of benefits.

Lessor

From the standpoint of the lessor, a lease is a capital lease if it meets one of the conditions specified for the lessee and:

- the recoverability of the minimum lease payments is reasonably predictable; and
- no important uncertainties surround the amount of non-reimbursable costs yet to be incurred by the lessor under the lease.

Lessor's capital leases are then further subdivided into three categories as follows:

- A sales-type lease is one where a manufacturer/dealer lessor's cost (or carrying amount if different from cost) differs from the fair value of the leased property.

BR 12. Leases

(PO CVM 15/87)

IAS 12. Leases

(IAS 17, IAS 39, SIC 15)

USA 12. Leases

(SFAS 13, SFAS 28, SFAS 98, L10)

Normally, such leases arise when manufacturers or dealers use leasing as a means of marketing their products. The minimum lease payments plus the unguaranteed residual accruing to the benefit of the lessor shall be recorded as the gross investment in the lease by the lessor. The lessor records unearned income equal to the difference between the gross investment in the lease and the sum of the present values of the minimum lease payments and the unguaranteed residual value. The net investment in the lease shall consist of the gross investment less the unearned income. The unearned income shall be amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

- A leveraged lease is one where, broadly, the lessor finances its net investment in the lease, on a non-recourse basis, with a third party long term lender. There are special accounting rules for these but the key feature is that the net investment in the lease is presented net of the non-recourse finance.
- Other capital leases are direct financing leases. The minimum lease payments plus the unguaranteed residual value accruing to the benefit of the lessor shall be recorded as the gross investment in the lease. The difference between the gross investment in the lease and the cost or carrying amount of the leased property shall be recorded as unearned income. The net investment in the lease shall consist of the gross investment less the unearned income. Unearned income shall be amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

BR 12. Leases

(PO CVM 15/87)

IAS — 12. Leases

(IAS 17, IAS 39, SIC 15)

Sales and leaseback transactions
There are specific rules in relation to leaseback transactions, depending on the kind of lease (finance or operating lease), as follows:

If the leaseback is a finance lease any excess of sales proceeds over the carrying amount should not be immediately recognised as income in the financial statements of a seller-lessee. Instead, it should be deferred and amortised over the lease term.

If the leaseback is an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

USA — 12. Leases

(SFAS 13, SFAS 28, SFAS 98, L10)

Additionally, where a real estate lease gives rise to a manufacturer/dealer's profit, the lease is either a sales-type capital lease, if the lease eventually transfers ownership to the lessee, or an operating lease in all other cases.

If none of the criteria are met, the lease is classified as an operating lease by the lessor. The leased property shall be included with or near property, plant, and equipment in the balance sheet, and the property shall be depreciated following the lessor's normal depreciation policy. Rent shall be reported as income over the lease term as it becomes receivable according to the provisions of the lease.

Sales and leaseback transactions
Generally, any gain or loss on the sale is deferred and amortized in proportion to the amortization of the leased asset (if a capital lease) or in proportion to rental payments (if an operating lease).

A sale and leaseback transaction involving real estate is accounted for as a sale only if the transaction meets certain criteria:

- regarding the extent of the buyer's investment in the property being sold;
- whether the seller's receivable is subject to future subordination and the degree of the seller's continuing involvement with the property after the sale; and
- the seller-lessee will actively use the property during the lease term.

If the transaction does not qualify as a sale, it should be accounted for as a deposit or as a financing.

BR — 12. Leases

(PO CVM 15/87)

IAS 13. Revenue recognition

(IAS 11, IAS 18)

General

In general, revenue is recognized when the following three requirements are met:

- the revenue can be reliably measured;
- it is probable that the economic benefits of the transaction will flow to the company; and
- the costs (both incurred to date and any to come) can be reliably measured.

Goods

For goods, the following requirements must also be met:

- the significant risks and rewards of ownership of the goods have been transferred to the buyer;
- there is no continuing managerial involvement over the goods to the degree usually associated with ownership; and
- there is no effective control over the goods.

See item 8 above with respect construction contracts.

USA 13. Revenue recognition

(SAB 101, SOP 97-1, SOP 98-9)

General

There is no US standard dealing generally with revenue recognition. The SEC staff have stated that based on the specific standards that do exist, they believe revenue should generally be recognized when:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- collectibility is reasonably assured.

Goods

Again, there are no general rules but the SEC staff have stated that in assessing the above conditions, delivery is not considered to have occurred unless legal title, and the risks and rewards of ownership of the goods, have been passed to the buyer.

See item 8 above with respect to long-term construction-type contracts.

BR 13. Revenue recognition

(Pronouncement XIV IBRACON)

General

In general, revenue is recognized when the following criteria are met:

a) the process of revenue realization is complete or virtually complete; and
b) a transaction has occured.

Goods

Revenue of goods is recognized at the date of the sale, which is usually considered to be the date on which the ownership of the product is transferred.

Sales of goods and services are normally recognized when the invoice is issued.

See item 8 above with respect to construction contracts.

IAS 13. Revenue recognition

(IAS 11, IAS 18)

Software revenue

Software is not specifically addressed in IAS 18 but would fall under the normal rules. Where the transaction is a simple sale then the principles for goods would apply. If other services are bundled together with the software itself, then contract accounting would probably be the appropriate treatment.

USA 13. Revenue recognition

(SAB 101, SOP 97-1, SOP 98-9)

Software revenue

Where the software being sold does not require significant production or customisation, revenue is recognised under the general rules, set out above.

Where the sale involves multiple elements (e.g. upgrades, enhancements, service) the approach is that revenue on each element of the sale is recognized separately when the above conditions are met for that element.

However, for this to apply the revenue must be capable of being allocated by reference to the price charged for each element if sold separately and no part of the delivered element's revenue must be dependent on delivery of the remainder.

BR 13. Revenue recognition

(Pronouncement XIV IBRACON)

Software revenue

Software revenue recognition is not specifically addressed in Brazilian GAAP but would follow the general guidance described above.

IAS 14. Retirement benefits

(IAS 19)

The actuarial appraisal method used is the projected unit credit method. IAS does not mandate the frequency of valuations. It requires them to be of sufficient regularity that the amounts recognized in the financial statements do not differ from those which would be based on valuations as at the balance sheet date. Thus, a valuation a few months before the year end is acceptable if it is adjusted for material subsequent events (including market price and discount rate changes up to the year end).

The total cost is essentially the entire periodic change in the plan liabilities less assets, aside from certain changes not fully recognized. The total comprises the following:

- current service cost (increase in the present value of the benefit obligation due to the current year's service);
- interest cost (the unwinding of discount in the present value of the benefit obligation);
- expected return on plan assets;
- certain actuarial gains and losses (i.e. the differences between actual and expected out-turn of the valuation of the obligation and the assets, including the effect of assumption changes); and
- certain past service costs.

For the purpose of measuring the annual increase in service cost, the attribution of benefits begins when the employee joins the benefits plan and terminates when the right to the benefit is no longer conditional upon future service.

USA 14. Retirement benefits

(SFAS 87, SFAS 88, P16)

The actuarial appraisal method used is the projected unit credit method, and the valuation date can be at or within three months of each fiscal year end (although the information may be prepared as at an earlier date and projected forward to the year end).

The annual pension cost is separated into four categories, as follows:

- service cost - the actuarial present value of future service benefits earned by all participants during the current year;
- interest cost - the increase in the benefit obligation due to the passage of time;
- actual return on plan assets - determined based on the fair value of plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.
- Net amortization and deferral of the following components:
  - the net transition obligation (or asset);
  - the prior service cost; and
  - the difference between the estimated and actual amounts of both the projected benefit obligation and the return on plan assets.

For the purpose of measuring the annual increase in service cost, the attribution of benefits begins when the plan grants credit and terminates at retirement (retirement costs) or when the employee becomes fully eligible (other post retirement benefits).

BR 14. Retirement benefits

(CVM Decision 371, NPC 26 IBRACON)

The actuarial appraisal method used is the projected unit credit method. It does not mandate the frequency of valuations. It requires them to be of sufficient regularity that the amounts recognized in the financial statements do not differ from those which would be based on valuations as at the balance sheet date.

The total cost is essentially the entire periodic change in the plan liabilities less assets, aside from certain changes not fully recognized. The total comprises the following:

- current service cost (increase in the present value of the benefit obligation due to the current year's service);
- interest cost (the unwinding of discount in the present value of the benefit obligation);
- expected return on plan assets;
- certain actuarial gains and losses (i.e. the differences between actual and expected out-turn of the valuation of the obligation and the assets, including the effect of assumption changes); and
- certain past service costs.

For the purpose of measuring the annual increase in service cost, the attribution of benefits begins when the employee joins the benefits plan and terminates when the right to the benefit is no longer conditional upon future service.

IAS — 14. Retirement benefits

(IAS 19)

Actuarial gains and losses are required to be recognized when the cumulative amount there of exceeds 10% of the greater of the present value of the obligation and the market value of the assets.

The amount recognized is the excess, spread on a straight line basis over the expected remaining working lives of the employees in the plan. However, it is permitted to account for both actuarial gains and losses in any systematic method that results in faster recognition, for example ignoring the 10% limit and spreading the full amount or even immediate recognition of the full amount.

Past service cost is the increase in the present value of the obligation, in respect of prior periods' service, due to changes in benefit entitlement. If such entitlements are not conditional on future service (i.e. are vested) they are taken in full immediately; if they are not vested then they are spread on a straight-line basis over the period until they vest. In practice most are likely to be vested and charged immediately.

USA — 14. Retirement benefits

(SFAS 87, SFAS 88, P16)

Upon implementation of SFAS 87 in 1987, a calculation was made of the net transition obligation (or asset) as the excess (or deficit) of the projected benefit obligation over the fair value of plan assets. This transition obligation (or asset) was then amortized on a straight line basis over the greater of the average future service period of active participants or 15 years.

The prior service cost is the liability arising from plan supplements or amendments in respect of prior period's service. It is amortized on a straight-line basis over the average future service lives of the active participants or, if most participants are inactive (e.g. retired) over their remaining life expectancy.

The variations between estimated and actual projected benefit obligation and assets are, in effect, the experience surpluses or deficits (even if they are attributable to changes in the assumptions. The amortization period is the average remaining serviced period of active participants. However, SFAS 87 gives employers the option not to amortize a part of this amount, known as the corridor amount (equal to 10% of the greater of the projected benefit obligation or the market related value of plan assets).

BR — 14. Retirement benefits

(CVM Decision 371, NPC 26 IBRACON)

Actuarial gains and losses are required to be recognized when the cumulative amount there of exceeds 10% of the greater of the present value of the obligation and the market value of the assets.

The amount recognized is the excess, spread on a straight line basis over the expected remaining working lives of the employees in the plan. However, it is permitted to account for both actuarial gains and losses in any systematic method that results in faster recognition, for example ignoring the 10% limit and spreading the full amount or even immediate recognition of the full amount.

Past service cost is the increase in the present value of the obligation, in respect of prior periods' service, due to changes in benefit entitlement. If such entitlements are not conditional on future service (i.e. are vested) they are taken in full immediately; if they are not invested then they are spread on a straight-line basis over the period until they vest. In practice most are likely to be vested and charged immediately.

IAS 14. Retirement benefits	USA 14. Retirement benefits	BR 14. Retirement benefits
(IAS 19)	**(SFAS 87, SFAS 88, P16)**	**(CVM Decision 371, NPC 26 IBRACON)**
The discount rate that is used is the rate for top quality corporate bonds at the balance sheet date, taking into consideration the currency and the terms for payment of the benefits.	The discount rate that is used is the assumed rate at which plan liabilities could be settled.	The discount rate that is used is the rate for top quality corporate bonds at the balance sheet date, taking into consideration the currency and the terms for payment of the benefits.
Plan assets are appraised at their fair value.	Plan assets are appraised at their fair value (preferably market value).	Plan assets are appraised at their fair value.
The recognition of an asset by the sponsor is limited to the amount of unrecognized actuarial losses and past service cost, net of the present value of available refunds and reductions in future contributions.	There is no limit for recognition of any asset by the sponsor.	An asset is recorded by the employer if it is clearly evidenced that the asset may offset future contributions or that will be reimbursed in the future.
Multi-employer plans with defined benefit characteristics are accounted for as defined benefit plans.	Multi-employer plans with defined benefit characteristics are accounted for as defined benefit plans.	Multi-employer plans with defined benefit characteristics are accounted for as defined benefit plans.

IAS 15. Government incentives

(IAS 20)

The values of government incentives, including the fair values of non-monetary incentives, should not be recorded until there is reasonable certainty that (i) the undertaking will meet the conditions for receiving the incentive, and (ii) the incentive will be received.

Income derived from incentives should be recognized systematically in the income statement over the number of periods it takes to offset the related costs. Government incentives cannot be directly credited to shareholders' equity.

Government grants related to fixed assets may be either deducted from the cost of the asset concerned, and therefore reduce the future depreciation charge directly, or be carried separately as deferred income that is amortized over the useful life of the asset.

An incentive granted to offset expenses or losses already incurred or to provide immediate financial support for an undertaking at no additional related cost should be credited to the income statement in the period the incentive becomes realizable.

USA 15. Government incentives

US-GAAP has no specific requirements for government incentive accounting.
In practice accounting is similar to IAS.

BR 15. Government incentives

(Law 6404/76)

Government incentives are recorded when received or granted and are not associated with the life of the project or asset.

According to the Corporate Law all incentives and subventions are recorded as a capital reserve in equity account. However, this is not a uniform accounting practice and in some cases, IAS principles are followed.

IAS — 16. Foreign exchange

(IAS 21, IAS 29, SIC 11, SIC 19)

Functional Currency
IAS have no explicit concept of functional currency. Whatever currency the accounts are presented in is known as the “reporting currency”, with all other currencies considered foreign currencies. SIC 19 (effective for periods begging on or after January 2001) introduces two new terms to explain the meaning of “reporting currency”: measurement currency (sometimes referred to as functional currency) and presentation currency. The role of the functional currency in the translation process is similar to that of the US functional currency.

Foreign currency transactions
Foreign exchange transactions i.e. the assets, liabilities, gain or loss arising therefrom, should be recorded in the reporting currency at the exchange rate in effect on the transaction date.

At each balance sheet date, monetary items (i.e. those assets to be received or paid in fixed or determinable amounts of money) in foreign currency should be translated by using the rate in effect at the balance sheet closing date, unless there is a future exchange contract. In this case, the contract rate is used. In general, the resulting exchange gains and losses are dealt with in the income statement.

USA — 16. Foreign exchange

(SFAS 52, F60)

Functional Currency
A company’s functional currency is defined as the currency of the primary economic environment in which the company operates. Normally this is the currency of the environment in which the company generates and expends cash.

Foreign currency transactions
At the date the transaction is recognized, each asset, liability, revenue, expense, gain or loss arising from the transaction is measured and recorded in the functional currency of the reporting company using the exchange rate in effect at that date.

At each balance sheet date, monetary items that are denominated in a currency other than the functional currency of the reporting company are adjusted to reflect the current exchange rate. In general, the resulting exchange gains and losses are dealt with in the income statement.

BR — 16. Foreign exchange

(Law 6404/76, CVM Decision 28/86, Pronouncement XVIII IBRACON)

Functional Currency
No specific definition of the functional currency. However, the treatment is similar to IAS.

Foreign currency transactions
The transactions in foreign currency are recorded in the reporting currency at the exchange rate on the transaction date.

At each, balance sheet date, monetary items in foreign currency should be adjusted to reflect the current exchange rate. In general, the resulting exchange gains and losses are dealt with in the income statement.

IAS — 16. Foreign exchange

(IAS 21, IAS 29, SIC 11, SIC 19)

Translation of foreign currency financial statements

Where a foreign operation is an integral part of the operations of the reporting company, its financial statements should be translated as if its transactions were those of the reporting company (as described above).

In most practical cases, the operations are not integral and are termed “foreign entities”. In these cases, the following procedures should be applied to translate the financial statements of a foreign entity for future consolidation:

a. assets and liabilities are translated at the rate on the balance sheet date;

b. items in the income statement are translated at rates as at the dates of the relevant transactions, although an appropriate average rate may be used;

c. exchange differences so arising are taken directly to equity. The cumulative amount of this translation adjustment must be disclosed.

Hyper-inflation

If the financial statements of a foreign entity are affected by high inflation, they should be adjusted for price-level restatement before translation. As an alternative, “re-measurement” in the “reporting currency” may be performed.

USA — 16. Foreign exchange

(SFAS 52, F60)

Translation of foreign currency financial statements

When an entity is merely an extension of the parent company, its functional currency will often not be the currency of the country in it is located or the currency in which its records are maintained. In that case, the functional currency would be the reporting currency of the parent company, and would be translated as if its transactions were those of the parent (as described above).

For subsidiaries for which the local currency is the functional currency, the exchange rate at the balance sheet date is used to convert the assets and liabilities at the balance sheet date from the functional currency to the reporting currency, as follows:

a. assets and liabilities are translated at the rate on the balance sheet date;

b. revenues, expenses, gains and losses are translated at the exchange rate in effect when these items were recognized. In practice an appropriately weighted average rate may be used;

c. translation adjustments are included in other comprehensive income, and are accumulated and disclosed as a separate component of consolidated stockholders’ equity.

High Inflation

Highly inflationary economies include those with cumulative inflation of 100% or more over a three year period. The financial statements of a foreign entity in such an economy must be remeasured as if the functional currency were the reporting currency.

BR — 16. Foreign exchange

(Law 6404/76, CVM Decision 28/86, Pronouncement XVIII IBRACON)

Translation of foreign currency financial statements

Foreign subsidiaries’ financial statements (income statement and balance sheet) are translated at the exchange rate on the balance sheet date, unless the subsidiary is based in a hyperinflationary economy with no price-level restatement system. In this case, either the historical translation rate or price level accounting is used.

High Inflation

For highly inflationary economies the monetary and nonmonetary methods are required. The inflation accounting is required for the Brazilian entities under the accounting practices determined by the Federal Council of Accountants-CFC, which is the Brazilian official professional body. The statutory law (Lei 6404/76) does not require inflation accounting.

IAS 17. Business combination	USA 17. Business combination	BR 17. Business combination
(IAS 7, IAS 22, IAS 27, SIC 9, SIC 17)	**(SFAS 79, SFAS 109, B50, APB 16, EITF 95-3, EITF 95-19)**	**(CVM Instruction 247/96, CVM Instruction 285/98)**
An acquisition of a business or a company is recorded at cost measured at the date of acquisition. Cost is either the amount of cash or cash equivalents paid, or the fair value of the other purchase consideration given, plus any costs directly attributable to the acquisition. The date of acquisition is the date on which control is effectively transferred to the acquirer.	An acquisition of a business or company is recorded at cost measured at the date on which the parties reach agreement and announce the transaction. Cost is generally measured by the fair value of the consideration, or in rare cases, the fair value of the company acquired, if that is more clearly evident. The cost of acquisition also includes those direct costs that would not have been incurred had the acquisition not been initiated.	There is no clear definition as to the date to be adopted. However, the date of the acquisition is used. The basis of accounting is cost. The difference between the acquisition cost and the carrying amounts of the net assets acquired are recorded as goodwill.
Contingent consideration (e.g. possible future cash payments or stock issues) is provided for at the outset where it is probable that it will be paid. It is subsequently adjusted against goodwill, as the estimate of the amount payable is revised.	Contingent consideration forms part of the cost of acquisition and thus goodwill, and is recognized when the contingency is resolved and the consideration becomes payable (or issuable).	The goodwill or negative goodwill on acquisition should be recorded along with an indication of the economic justification.
Any payments made by the acquirer under a guarantee of the value of its shares or debt given as consideration are not themselves consideration but are debited to shareholders' equity or against the debt as the case may be.	Any payments made under guarantees of the value of its shares or debt issued as consideration, would themselves be additional consideration for the acquisition.	Any payments made under guarantees of the value of its shares or debt issued as consideration, would themselves be additional consideration for the acquisition.
Costs directly attributable to the acquisition include the usual professional fees as well as the costs of issuing equity securities but exclude the costs of issuing debt, which are deducted from the debt's carrying value. Internal costs cannot be included.	The registration and issue costs of equity securities are dealt with as a reduction of equity.	The registration and issue costs of equity securities are accounted as an expense.
The identifiable assets and liabilities of the acquired entity that existed at the date of acquisition, plus certain restructuring provisions, are brought in at fair value. The identifiable assets include any intangibles that can be reliably measured. The difference between the aggregate of the fair values and the cost of acquisition is goodwill.	The acquirer records the acquired assets, less liabilities assumed, at cost to the acquirer. The difference between the cost of an acquired entity and the sum of the fair values of tangible and identifiable intangible assets, less liabilities assumed, is recorded as goodwill.	

IAS — 17. Business combination

(IAS 7, IAS 22, IAS 27, SIC 9, SIC 17)

Positive goodwill on a business acquisition is capitalized and amortized over a finite life usually, although not necessarily always, of less than 20 years.

The restructuring provisions that must be recognized, even though they are not a liability of the acquired entity, are in respect of the acquirer's restructuring of the acquired entity, the main features of which have been planned and announced by the date of acquisition. A detailed formal plan is then required within three months of acquisition or by the date of approval of the financial statements.

USA — 17. Business combination

(SFAS 79, SFAS 109, B50, APB 16, EITF 95-3, EITF 95-19)

Positive goodwill is capitalized and amortized over a period not to exceed 40 years.

Redundancy and reorganization acquisition accruals are generally not allowed; only the direct costs of an acquisition should be included in the cost of a purchased entity. Indirect expenses of the acquiring company, including costs associated with the closing of duplicate facilities, should be charged to expense when incurred.
Costs of a plan to exit an activity of an acquired company, or terminate involuntarily employees of an acquired company, or relocate employees of an acquired company, should be recognized as liabilities assumed in the purchase if specific conditions are met. These conditions are similar to those for restructuring provisions, with the exception that at the time of acquisition, management needs only to begin to assess the restructuring plan and within one year to finalize that plan and communicate it to relevant employees.

BR — 17. Business combination

(CVM Instruction 247/96, CVM Instruction 285/98)

The goodwill resulting from projected future earnings is amortized over the period of the projections or on disposal or impairment of the investment. The projections must be reviewed annually and can not exceed a 10-year period. Exceptions are permitted for goodwill paid on public concessions, which are amortized over the period the concession is granted or on disposal or impairment of the investment.

The goodwill, which is not supported by an economic reason (directly related to an asset or based on future earnings), must be written off on the acquisition date.

IAS 17. Business combination

(IAS 7, IAS 22, IAS 27, SIC 9, SIC 17)

Unamortized negative goodwill is presented as a deduction from the asset category containing positive goodwill, effectively as a negative asset. It is amortized and credited to the income statement, as follows:

- first, to the extent that it relates to certain post acquisition costs, at the same time as those costs;
- the balance, up to an amount of the fair value of the non-monetary assets acquired, over the life of the depreciable assets; and
- then any remaining balance, immediately.

USA 17. Business combination

(SFAS 79, SFAS 109, B50, APB 16, EITF 95-3, EITF 95-19)

Negative goodwill is allocated proportionately to reduce the values assigned to non-current assets (except long-term investments in marketable securities).
If these non-current assets are thereby reduced to a zero value, any remaining negative goodwill is treated as a deferred credit and is amortized systematically to income over the period estimated to benefit, not exceeding 40 years.

BR 17. Business combination

(CVM Instruction 247/96, CVM Instruction 285/98)

The negative goodwill is amortized only on the disposal or impairment of the investment.

IAS 18. Investments in associates	USA 18. Investments in associates	BR 18. Investments in associates
(IAS 1, IAS 28)	**(ABP 18, FIN 35, I82)**	**(CVM Instruction 247/96, Law 6404/76)**
An associate is an investee (other than a subsidiary) in which the company has significant influence; that is, the power to participate in its financial and operating policy decisions. This is presumed to be when the company has 20% or more of the voting power, unless it can clearly be demonstrated otherwise.	US-GAAP does not have a comparable definition, rather, it provides guidance as to specific circumstances under which equity accounting should be used.	An associate is an investee in which a company retains 10% share in capital. An investee is equivalent to an associate when a) a company indirectly retains 10% or more of the voting shares without control; b) a company retain 10% directly without control and independently of the total participation in the capital.
Associates are accounted for using the equity method.	The equity method of accounting is used to account for any investments where the investor has the ability to exercise significant influence over operating and financial policies of the investee. An investor owning 20% or more of the voting stock of an investee is presumed to have the ability to exercise significant influence over the investee, unless this presumption is overcome by predominant evidence to the contrary.	The equity accounting is used for the valuation of the relevant investment in each associate and or its equivalent when the investor has influence in the management or it retains directly or indirectly more than 20% share of participation.
In the balance sheet, an investment in an associate is stated at cost, i.e. including normal acquisition accounted goodwill, plus the post-acquisition share of profits and other changes in net assets. The share of profits is included in the income statement in a single line located after finance costs and before tax.	An investor using the equity method initially records an investment at cost. Subsequently, the carrying amount of the investment is increased to reflect the investor's share of income of the investee and is reduced to reflect the investor's share of losses of the investee or dividends received from the investee. The investor's share of the income or losses of the investee is included in the investor's net income (after inter-company eliminations). An investor's share of after tax earnings or losses from the investee is ordinarily shown in its income statement as a single amount.	An investor using the equity method initially records an investment at cost. Subsequently, the carrying amount of the investment is increased to reflect the investor's share of income of the investee and is reduced to reflect the investor's share of losses of the investee or dividends received from the investee. The investor's share of the income or losses of the investee is included in the investor's net income (after inter-company eliminations). An investor's share of after tax earnings or losses from the investee is ordinarily shown in its income statement as a single amount.
The usual inter-company eliminations are made, to the extent of the investor's interest. The investor's share of losses of the associate are recognized until the equity investment is reduced to zero and thereafter to the extent of any investor's obligation to meet the associate's obligations.	Inter-company profit eliminations are usually made to the extent of the investor's interest. The investor's share of losses in the associate is recognized until the investment is reduced to zero and thereafter to the extent of any investor's obligation to meet the associate's obligations.	The usual inter-company eliminations are made, to the extent of the investor's interest. The investor's share of losses of the associate are recognized until the equity investment is reduced to zero and thereafter to the extent of any investor's obligation to meet the associate's obligations.

IAS — 19. Consolidation and investments in subsidiaries

(IAS 22, IAS 27, SIC 12)

A parent company which is not in itself a subsidiary should prepare Consolidated financial statements. Consolidated financial statements should include all subsidiaries of the parent except in certain circumstances detailed below.

The definition of a subsidiary focuses directly on the concept of control, that is, the parent's power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This differs from an affiliate, which is defined as a company over which the parent exercises considerable influence.

A subsidiary should be excluded from consolidation in the following two cases:

a. control is temporary since the subsidiary was acquired and controlled exclusively for subsequent sale in the near future; or

b. the subsidiary operates under severe long-term restrictions which significantly affect its ability to transfer funds to the parent.

Excluded subsidiaries should be recorded as non-current investments.

USA — 19. Consolidation and investments in subsidiaries

(SFAS 94, SFAS 125, C51, APB 18, ARB 51, EITF 96-20)

Consolidated financial statements must include those companies over which the parent company has a controlling financial interest though a direct or indirect ownership of a majority voting interest (over 50% of the outstanding voting shares).

A majority owned subsidiary is not consolidated if control is likely to be temporary or does not rest with the majority owner (because of bankruptcy, reorganisation, foreign exchange restrictions, governmental controls, etc).

BR — 19. Consolidation and investments in subsidiaries

(CVM Instruction 247/96, CVM Instruction 269/97)

Consolidated financial statements are mandatory for:

- publicly held companies including joint ventures; and
- holding companies which retain investments in publicly held companies.

A controlled company in accordance with Instruction 247/96 is:

- an investee in which the company, directly or indirectly retains the rights of an investor on a permanent basis such as:
  a) the majority of the votes on decisions of the board; and
  b) the power to appoint or replace the management;
- a branch or representation office abroad if the corresponding net assets are not included in the parent company books due to specific regulations; and
- a venture in which the permanent rights of the investor are under joint control or exercised under a partnership agreement independently of the percentage of voting shares.

A subsidiary should be excluded from consolidation in the following two cases whose:

- there is clear evidence of the impairment of the operations;
- there is clear evidence that the investor will dispose of the investment in the near future.

IAS — 19. Consolidation and investments in subsidiaries	USA — 19. Consolidation and investments in subsidiaries	BR — 19. Consolidation and investments in subsidiaries
(IAS 22, IAS 27, SIC 12)	**(SFAS 94, SFAS 125, C51, APB 18, ARB 51, EITF 96-20)**	**(CVM Instruction 247/96, CVM Instruction 269/97)**
In the separate parent company financial statements, investments in subsidiaries and affiliates should be valued according to the equity method unless the circumstances noted in (a) and (b) above apply, or if the investor ceases to have significant influence but maintains the investment. Under these circumstances, the affiliate is recorded as a non-current investment.		
There may be a lag of up to three months between the financial statements of the subsidiary and those of its parent company. Significant events and transactions involving both should be recognized.	There is no specific requirement in relation to lag between the dates of the subsidiary's and the parent's financial statements. If the difference in fiscal periods of a parent and subsidiary is not more than three months, it is usually acceptable to use, for consolidation purposes, the subsidiary's statements for its fiscal period. Material events in the intervening period should be disclosed.	There may be a lag of up to two months between the dates of financial statements of a consolidated subsidiary and those of its parent.
Where practical, uniform accounting policies should be used throughout the group. If, because of impracticability, uniform accounting policies are not used then this fact should be disclosed together with the proportions of the items in the financial statements to which different accounting policies have been applied.	While accounting policies throughout the group must be in accordance with US-GAAP, uniformity of accounting policies is not required. Disclosure should generally be made where accounting policies followed by various divisions, subsidiaries, etc. of the company are not consistent.	The effects of adoption of different accounting practices may be eliminated on determination of the equity method accounting entries.

IAS — 20. Joint ventures

(IAS 31)

A joint venture is a contractual arrangement by two or more parties jointly to control an economic activity. Where the activity is carried on through a separate entity (e.g. a company or partnership), it is known as a “jointly controlled entity”.

The participation of a group in a joint venture may be recorded by using the equity method, or through proportional consolidation unless the conditions for subsidiaries laid out in (a) and (b) in item 18 above apply.
Under such circumstances, a joint venture may be recorded as a non-current investment.

If one joint venture partner no longer has joint control over the venture, use of the equity method or proportional consolidation should be ceased immediately.

USA — 20. Joint ventures

(SFAS 94, APB 18)

US-GAAP does not distinguish between associates, jointly controlled entities, assets, or operations.

Only the equity method is used for joint ventures.

BR — 20. Joint ventures

(CVM Instruction 247/96)

A joint venture is a legal entity under the joint control of two or more investors. A joint venture that is not established within a company is not a viable legal structure in Brazil.

The assets and liabilities, revenues and expenses are recognized proportionally to the equity interest of each investor and consolidated in their respective financial statements.

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

IAS 39 provides rules covering all financial instruments other than investments in subsidiaries, associates and joint ventures, assets and liabilities arising from leases, assets and liabilities arising from employee benefit plans, interest in insurance contracts, own equity instruments, certain guarantees and deferred consideration on business combinations.

IAS 39 is mandatory for years beginning on or after January 1, 2001.

All financial instruments are classified as one of the following:

- held-to-maturity assets;
- originated-loan-or-receivable assets;
- trading assets;
- available-for-sale assets;
- trading liabilities; and
- other liabilities.

All derivatives, other than hedges, are deemed to be trading assets or liabilities as the case may be. The classification and measurement rules for each type of financial instrument are as follows.

Held-to-maturity

Held-to-maturity assets are stated at amortized cost. A held-to-maturity asset is one which, naturally, has a fixed maturity. It therefore excludes equity shares. The entity must have the positive intent and ability to hold it to maturity.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

US-GAAP provides extensive rules for the following classes of financial instruments:

- held-to-maturity debt securities;
- trading debt securities and marketable equity securities;
- available-for-sale debt securities and marketable equity securities; and
- derivatives.

The rules do not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated entities.

SFAS 133 and SFAS 138 is mandatory for fiscal quarters beginning after June 15, 2000.

Held-to-maturity securities

Investments in debt securities that the investor has the positive intention and ability to hold to maturity should be classified as held-to-maturity and measured at amortized cost.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

There are no specific requirement for accounting for financial instruments. Only disclosures as to the market value of certain financial instruments are required.

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

The conditions for this are similar to those of US-GAAP, however if the company sells any held-to-maturity asset in the current or previous two years, IAS is more strict in that it prohibits any asset from being classified as held-to-maturity. In effect, the consequence of such a sale is that all held-to-maturity assets must be declassified as such for three years.

Originated-loan-or-receivable assets

This category relates to financial assets which are not to be sold in the short-term and which arise from the provision of money, goods or services by the company.

An originated-loan-or-receivable (such as trade debtors or a bank's advances to customers) is also stated at amortized cost.

Trading assets and liabilities including derivatives

This category includes any financial asset or liability held to generate short-term pricing profits or that is part of a portfolio actually used for that purpose. All derivatives other than hedges are deemed to be held for trading.

A derivative is defined as a financial instrument the value of which changes in response to some underlying variable and which requires little or no initial net investment compared with other instruments that have a similar response to the variable.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

Other amortized cost assets

US-GAAP has no direct equivalent to originated-loan-or-receivable assets, however all debts receivable that are not securities, and all equity securities that are not marketable, are usually carried at cost, amortized if appropriate.

US-GAAP is therefore not necessarily restricted to original loans and receivables but can also extend to purchased ones.

Trading securities and derivatives

Debt securities and marketable equity securities that are bought for the purpose of being sold in the very near future should be classified as trading securities.

A derivative is defined as a financial instrument that meets all of the following conditions:

- It has some underlying variable (e.g. an interest rate) and either a notional amount or a payment provision (e.g. a specification as to how much is payable or receivable in response to changes in the underlying) or both.
- It requires little or no initial net investment compared with other instruments that have a similar response to market factors.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

Derivatives that are embedded in a host contract should be separately accounted for as derivatives where they are not closely related to the host contract.

Trading assets (including derivatives) are stated at fair value with changes therein flowing to the income statement. If the fair value of any such assets cannot be reliably measured, then the asset is stated at amortized cost, although the standard suggests that only unquoted equity instruments are likely to be incapable of reliable fair valuation.

Available-for-sale assets
Any asset that does not fall into the previous three categories is classed as available-for-sale.

The balance sheet treatment is the same as that for trading items in that these assets are valued at fair value.

The company has a policy choice for all available-for-sale items taken together. It may either take the fair value and losses through to the income statement, as for trading items, or it may take them directly to equity from which they are later transferred into the income statement on the occasion of a sale, realization, or impairment of the asset concerned. The part of the change in fair value that is due to exchange rate changes is always reflected in the income statement.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

- Its terms require or permit net settlement, or it can be settled net by another means (e.g. by some market mechanism) or the item to be transferred in settlement is readily convertible into cash or is itself a derivative.

As under IAS, derivatives that are embedded in a host contract should be separately accounted for as derivatives where they are not clearly and closely related to the host contract.

Both trading securities and all derivatives, whether assets or liabilities, are stated at fair value with changes therein flowing to the income statement. If an equity security does not have a readily determinable fair value then it is not treated as a marketable equity security at all. There is no similar exception for debt securities or for derivatives.

Available-for-sale securities
All debt and marketable equity securities that are not classed as held-to-maturity or trading securities are classed as available-for-sale.

These items are stated at fair value.

Changes in fair value, including that element due to exchange rate changes, are excluded from earnings and are reported (net of any tax effects and minority interest) as a net amount in other comprehensive income.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

A held-to-maturity asset or an originated-loan-or receivable is impaired if the present value, at the original effective interest rate, of the expected future cash flows (the recoverable amount), is less than book value. The difference is charged to the income statement. If the recoverable amount later increases due to an event subsequent to the original write-down, then the impairment is reversed to that extent, provided that this does not state the asset at more than amortized original cost.

For trading assets and available-for-sale assets, if stated at fair value through the income statement, impairment is not applicable.
An available-for-sale asset, for which changes in fair value are reported in equity, is impaired if the fair value (e.g. the present value of its cash flows at the current discount rate) is less than what the amortized cost would have been. The difference is transferred out of equity and charged to the income statement.

Hedging
The IASC has formed an IAS 39 Implementation Guidance Committee (IGC) that is currently addressing over 100 interpretation issues. The following is a summary of the principal points.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

If a decline in fair value of a held-to-maturity or an available-for-sale security is considered to be other-than-temporary, then the individual security should be written down to fair value which then becomes the new cost basis.
The amount of the write-down should be recognized in the income statement.
There is no adjustment to this new cost basis for any subsequent recovery in fair value.

Hedging
The FASB has put in place a Derivatives Implementation Group (the DIG) that has or is addressing over 100 specific application issues. The following is a summary of the principal points.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

The following general conditions apply to all types of hedges:

- The main requirement for qualification as a hedge is for the hedge to be, and be expected to continue to be, highly effective. That is, the offsetting changes in fair values or cash flows of the hedge and hedged item must normally be within 80% and 125% of each other. This must be reliably measurable.
- The effectiveness of the hedge must be based on changes in fair value or cash flows of all of the risk components of a hedging instrument, with the exception of the time value of an option and the forward points on a forward, which may be excluded. The excluded components flow through the income statement.
- The hedge must be documented as such from the outset, including the hedge objective, strategy, and how its effectiveness will be measured.

Hedges fall into the following three categories:

- fair value hedges;
- cash flow hedges; and
- net investment hedges.

Fair value hedges

A fair value hedge is where:

- a derivative is used to hedge changes in fair value (other than foreign currency risk) on a recognized asset or liability; or
- a derivative or non-derivative is used to hedge foreign currency risk on a recognized asset or liability.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

The following general conditions apply to all types of hedges:

- The main requirement is for the hedge to be and be expected to continue to be, highly effective. Although SFAS 133 does not quantify this, in practice it is considered to be within 80% and 125%, as these were the limits in the predecessor standard.
- The effectiveness of the hedge must be based on changes in fair value or cash flows of all of the risk components of a hedging instrument, with the exception of the time value of an option and the forward points on a forward, which may be excluded. The excluded components flow through the income statement.
- The hedge must be documented as such from the outset, including the hedge objective, strategy and how its effectiveness will be measured.

The following three hedge accounting models are used:

- fair value model;
- cash flow model; and
- net investment currency hedge.

Fair value model

This model is used for the following types of hedges:

- fair value hedges:
  - a derivative used to hedge changes in fair value (other than for currency risk) of a recognized asset or liability;
  - a derivative used to hedge changes in fair value (other than for currency risk) of an unrecognized firmly committed future transaction.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS 21. Other investments and financial instruments

(IAS 21, IAS 39)

The hedge is stated at fair value with changes therein flowing through the income statement. The hedged item is marked-to-market for the hedged risk (even if its normal basis is cost), with the result taken through the income statement.

Cash flow hedges

A cash flow hedge is where:

- a derivative is used to hedge the future cash flows (other than for currency risk) on a recognized asset or liability;
- a derivative is used to hedge future cash flows (other than for currency risk) on a future contracted, or uncontracted but highly probably transaction;
- a derivative or non-derivative is used to hedge a foreign currency risk of future cash flows on a recognized asset or liability; or
- a derivative or non-derivative is used to hedge foreign currency risk of future cash flows on a future contracted, or uncontracted but highly probable transaction.

USA 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

- certain foreign currency hedges:
  - a derivative used to hedge the foreign currency exposure on a recognized asset or liability;
  - a non-derivative used to hedge the foreign currency exposure on an unrecognized firmly-committed future transaction; or
- a derivative used to hedge the foreign currency exposure on an unrecognized firmly-committed future transaction may be accounted for using the fair value model (the alternative is the cash flow model).

The hedge is stated at fair value with changes therein flowing through the income statement. The change in fair value of the hedged item, so far as attributable to the hedged risk, is reflected in the item's carrying value and in the income statement.

Cash flow model

This model is used for the following types of hedge:

- cash flow hedges:
  - a derivative used to hedge the future cash flows (other than for currency risk) on a recognized asset or liability;
  - a derivative used to hedge the future cash flows (other than for currency risk) of a forecast, i.e. probable but not firmly committed transaction;
- certain foreign currency hedges:
  - a derivative used to hedge the foreign currency exposure of the cash flows on a recognized asset or liability;
  - a derivative used to hedge the foreign currency exposure of a forecast, i.e. probable but not firmly committed transaction; or

BR 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

The hedge is stated at fair value with changes therein, insofar as they are an effective hedge, initially taken directly to equity. They are later transferred out of equity when the future transaction either: results in an asset or liability, when the cumulative amount is recorded as an adjustment to the cost of that asset or liability; or otherwise affects the income statement in which case the cumulative amount is transferred into the income statement.

To the extent that the hedge is ineffective the gains and losses are immediately dealt with in the normal way, for example in the income statement if the hedge is a derivative or in the income statement or equity according to company's policy if the hedge is an available-for-sale (non-derivative) asset.

There is an additional limit to the cumulative amount that may be reported in equity: it may not exceed the lesser of, on the one hand, the amount necessary to offset the cumulative change in expected future cash flows and, on the other hand, the fair value of the cumulative change in expected future cash flows. There is no guidance on measuring these amounts.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

- a derivative used to hedge the foreign currency exposure in an unrecognized firmly-committed future transaction may be accounted for using the cash flow model (the alternative is the fair value model).

It is possible that a hedged future transaction may first be dealt with under the cash flow model as a forecast transaction but subsequently fall under the fair value model when it becomes a firmly committed transaction.

The hedge is stated at fair value with changes therein, insofar as they are an effective hedge, reported in other comprehensive income until such time as the hedged cash flow affects the income statement. At that time it is transferred out of other comprehensive income and reported in the income statement.

The ineffective element of the hedge is reported in the income statement.

There is an additional limit to the cumulative amount that may be reported in other comprehensive income: it may not exceed the amount necessary to offset the cumulative change in expected future cash flows. This cumulative limit can be a derived figure of the total change in fair value of the hedge less a computed ineffective element.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

The following general rules apply to both fair value and cash flow hedges.

A financial item may be hedged with respect to any one or more of its individual risks whereas a non-financial item must be hedged with respect to all of its risks or solely currency risk.

The hedged item must be one that could affect the income statement, such that, for example, share issues and repurchases cannot be hedged.

There is no equivalent of the US rule that the hedged item must not be one that is remeasured to fair value through the income statement.

As in the US, the hedged item cannot be a held-to-maturity asset except as regards credit or foreign currency risk.

Net investment hedges
A net investment hedge is where a derivative or non-derivative is used to hedge the currency risk of a net investment in a foreign entity. Unlike in the U.S., for net investment hedges in consolidated accounts the hedge need not be held by the group member holding the investment.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

The following general rules apply to both fair value and cash flow hedges.

The hedged item, if financial, need not be all of the risks affecting the item's fair value. It could instead be solely interest rate risk, or credit risk (or both). In a fair value hedge of a non-financial item, all of the item's risks must be hedged.

The hedged item must be one which can affect the income statement.

It must not be an item that is already remeasured to fair value through the income statement.

The hedged item cannot be a held-to-maturity security except as regards credit or foreign currency risk.

Net investment currency hedge
The net investment currency model is applied when a derivative or non-derivative is used to hedge the foreign currency exposure in a net investment in a foreign entity. However, such hedging is not permitted in consolidated accounts unless the group member holding the net investment also holds the hedge.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 21. Other investments and financial instruments

(IAS 21, IAS 39)

These are dealt with similarly to cash flow hedges, i.e. the hedge is stated at fair value with the currency element thereof, to the extent that it is an effective hedge, being taken directly to equity until such time as the net investment is sold, when the cumulative amount in equity is transferred into the income statement.

If the hedge is a derivative the ineffective element is reported in the income statement; if the hedge is a non-derivative it appears to be required nevertheless to be taken directly to equity for subsequent transfer to the income statement on a sale of the net investment. There is no guidance on measuring effectiveness.

USA — 21. Other investments and financial instruments

(SFAS 52, SFAS 115, SFAS 125, SFAS 133, SFAS 137, SFAS 138, D50, F38, F60, I80, ARB 43)

These hedges are dealt with similarly to cash flow hedges. The hedge is stated at fair value and, to the extent that it is an effective hedge, the changes therein are reported in other comprehensive income.
When the net investment is sold, it is transferred out of other comprehensive income and reported in the income statement.

BR — 21. Other investments and financial instruments

(CVM Instruction 235/95)

IAS — 22. Extinguishment and restructuring of debt

(IAS 1, IAS 32, IAS 39, SIC 5)

Debt is considered extinguished when:

- payment is made to the lender; or
- the borrower is legally released, either judicially or by the creditor, from primary responsibility for the liability irrespective of any guarantee given by the borrower.

IAS does not specify whereabouts in the income statement the gain or loss on the extinguishment of the debt is to be included. However, given the definition of extraordinary items, it is very unlikely that it would fall into that category.

Any assets transferred as part of this extinguishment are derecognized only if the transferor loses control of the contractual rights comprising that asset or that part of the asset. Otherwise, a new liability to the transferee will need to be recognized at fair value. Any guarantees given should also be recognized at fair value.

Where a debt is restructured or refinanced on substantially modified terms it is accounted for as an extinguishment of the old debt, with a consequent ordinary gain or loss, and the inception of the new, at fair value. The terms are considered to be substantially modified where the present value under the new terms differs by more than 10% from that of the remaining payments under the old terms.

USA — 22. Extinguishment and restructuring of debt

(SFAS 76, SFAS 125, SFAS 114, SFAS 118, SAB 94, D10, D22, APB 14)

Debt is considered extinguished for financial reporting purposes when:

- the issuer pays the holder and is relieved of all its obligations with respect to that debt; or
- the issuer is legally released, either judicially or by the holder from being the primary party under obligation under the debt.

The difference between the amount paid to extinguish the debt and the net carrying amount of the debt must generally be dealt with as an extraordinary item.

Where a company offers additional securities or other consideration to the holders of its convertible debt as an incentive to exercise promptly their rights to convert the debt to equity, the company is required to record as an ordinary expense an amount equal to the fair value of the additional securities or other consideration issued as an inducement.

The accounting for a troubled debt restructuring, such as when the lender, for reasons relating to the issuer's financial difficulties, grants a concession to the issuer that it would not otherwise consider, is dependent on whether it is effected:

- by a transfer of assets, including repossessions and foreclosures, or of an equity interest from an issuer to a lender in full settlement of a debt; or
- by a modification of terms.

BR — 22. Extinguishment and restructuring of debt

(Law 6404/76)

A debt in arrears is recorded at cost, unless a permanent reduction in its value is projected. In this case, a provision is recorded.

IAS — 22. Extinguishment and restructuring of debt

(IAS 1, IAS 32, IAS 39, SIC 5)

USA — 22. Extinguishment and restructuring of debt

(SFAS 76, SFAS 125, SFAS 114, SFAS 118, SAB 94, D10, D22, APB 14)

In the former case, to the extent that the fair market value of the assets transferred, or equity interest granted, is less than the issuer's book value of the debt, the difference is generally treated as an extraordinary gain to the issuer and an ordinary loss to the lender.
In the latter case, any issuer's apparent gain is generally spread forward.

BR — 22. Extinguishment and restructuring of debt

(Law 6404/76)

IAS — 23. Intangible assets (excluding goodwill)

(IAS 36, IAS 38, SIC 6)

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As any asset, an intangible asset should be recognised and recorded at cost if:

- it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and
- the cost of the asset can be measured reliably.

Premiums, trademarks, trade names, copyrights, and customer lists that have been generated internally may not be considered as assets.

There is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. If an enterprise decides to amoritise the asset over a period exceeding 20 years, the recoverable amount of the intangible asset should be estimated for impairment testing at least at each financial year end.

Impairment of intangible assets should be considered in accordance with IAS 36 (see item 24), and should include intangibles not yet available for use at each balance sheet date.

USA — 23. Intangible assets (excluding goodwill)

(APB 17, ARB 43)

Intangible assets are recorded at cost and amortized over the expected useful life of the asset, up to a maximum of 40 years.
Costs related to intangible assets developed internally which cannot be identified separately, have indeterminate lives or are inherent to a going concern should be amortized when incurred.

Permanent decreases in the value of intangible assets should be recorded immediately.

BR — 23. Intangible assets (excluding goodwill)

(Law 6404/76, Pronouncement VIII IBRACON)

Application of resources in expenses that will contribute to the formation of income for more than one fiscal period can be classified as deferred assets.

Some examples are:

- organizational expenses;
- studies and projects;
- pre-operational expenses;
- research and development expenses;
- reorganization and restructuring expenses.

Deferred assets should be valued at cost less amortization in accordance with the period of benefit provided by the asset.

If, in any situation, there are doubts in relation to the recovery of these assets through future profits, or in relation to the going concern of the entity, the amount classed as deferred assets should be immediately written-off.

Amortization should be in accordance with the return provided by the asset, but usually it follows the tax law: minimum of 5 years and maximum of 10 years as required by Corporation Law.

IAS — 24. Enterprises in the pre-operating stage

(IAS 36, IAS 38, SIC 6)

Expenses incurred by a company that is pre-operational must be immediately accounted for in the income statement, unless they are of a nature which permits capitalization in fixed assets.

USA — 24. Enterprises in the pre-operating stage

(APB 17, ARB 43)

US-GAAP requires that companies in the development stage follow generally accepted accounting principles applicable to established operating enterprises.
Accounting treatment should be governed by the nature of the transaction rather than by the degree of maturity of the enterprise.

BR — 24. Enterprises in the pre-operating stage

(Law 6404/76, Pronouncement VIII IBRACON)

All costs of an enterprise in the pre-operating stage besides costs normally capitalized as fixed assets are capitalized as deferred assets.
These deferred assets are amortized over a period beginning on the start-up date and extending over a minimum of 5 years as required by the fiscal legislation and a maximum of 10 years as required by Corporation Law.

IAS 25. Impairment of assets	USA 25. Impairment of assets	BR 25. Impairment of assets
(IAS 16, IAS 36, IAS 38, SIC 14)	**(SFAS 121, I08)**	**(NPC 24 IBRACON, CVM Decision 183/95)**
IAS 36 covers the impairment of virtually all non-financial assets (with the exception for example of inventories and deferred taxes) and goodwill plus that of investments, in the parent company accounts, in subsidiaries, associates, and joint ventures. It does not cover other investments.	SFAS 121 provides guidelines for recognition of impairment losses on long lived assets and certain intangibles and related goodwill. Its scope excludes financial instruments, long term customer relationships of financial institutions, mortgage and other servicing rights, deferred policy acquisition costs and deferred tax assets.	NPC 24 covers revaluation of tangible assets and provides some guidance on the recoverability of assets.
Impairment testing is required where there is an indication of a possible impairment, for example adverse changes in the business or regulatory environment or in performance. In addition it is required annually for goodwill or intangible assets that have lives of over 20 years and, for any intangibles not yet available for use.	Companies are required to review assets for possible impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Examples of such events or changes in circumstances include: declines in market value of assets; changes in the extent or manner in which assets are used; adverse changes in legal factors, business climate or actions by a regulator; accumulation of costs in excess of amounts originally expected in acquiring or constructing an asset; and current period operating or cash flow losses combined with a history of operating losses and/or projections for continuing losses.	Permanent assets must be periodically monitored in order to determine whether their carrying amounts are not higher than their realization amounts.
If review for impairment is required, then the relevant assets' useful lives and depreciation method may need to be reviewed and revised. If the recorded value of the asset is superior to its expected recoverable value, a provision for adjustment to recoverable value should be established.	The standard also acknowledges that the recognition of impairment is influenced by depreciation rates and methods used by a company. A company that is required to evaluate an asset for impairment is also encouraged to re-evaluate depreciation policies. Any changes therein should be considered separately from the measurement of impairment, if any.	
In performing impairment testing, assets are grouped together into the smallest group that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. Such a group is known as a cash generating unit (CGU).	Although the statement uses the term asset, that term usually refers to a group of assets. Assets are to be grouped at the lowest level for which identifiable cash flows are independent from the cash flows of other groups of assets.	The analysis of recoverability must consider the grouping of assets and the related assets registered as intangible.

IAS — 25. Impairment of assets

(IAS 16, IAS 36, IAS 38, SIC 14)

Goodwill is allocated to each CGU where it can reasonably be done; where it cannot, then two impairment tests are carried out, one at individual CGU level without goodwill and the second with the minimum collection of CGUs to which the goodwill can be allocated.

The measurement is not separate from the recognition test. An impairment is booked to the extent that the book value of a CGU exceeds the recoverable amount. The recoverable amount is considered to be the higher of its value in use and its net selling price.

The value in use is the discounted future net cash flows (pre-tax) from the continuing use of the CGU. The discount rate must reflect an appropriate market premium for the risks inherent in the cash flows.

USA — 25. Impairment of assets

(SFAS 121, I08)

Goodwill from a business purchase that is associated with a group of assets being evaluated for impairment should be included in the carrying amount of the related assets. If the goodwill is associated with only part of the assets under evaluation, the goodwill should be allocated among the related assets based on the relative fair values of the assets acquired at the acquisition date unless there is evidence to support a different allocation method.

The standard provides a threshold to determine whether recognition of an impairment is required or allowed and a separate calculation to measure impairment, as follows:

- Recognition trigger
  The estimated future cash alows to be derived from the use and disposition of an asset, undiscounted and without interest, is compared with the carrying amount of the asset.
  If the expected cash flows are in excess of the carrying amount, recognition of an impairment loss is not allowed.
- Measurement
  Measurement of an impairment loss is determined by reducing the carrying amount of an asset to its fair value. The reduced carrying amount becomes the new cost basis for the asset.

Cash flows consist of the future cash inflows expected to be generated by an asset less the future cash outflows expected to be necessary to obtain those inflows. The future cash flows are the company's best estimate based on reasonable and supportable assumptions and projections. Fair value should be based on quoted market prices, if available.

BR — 25. Impairment of assets

(NPC 24 IBRACON, CVM Decision 183/95)

No specific treatment exists for goodwill.

A provision for recoverability of an asset is recorded when the recoverable value of an asset is lower than its carrying value and the reduction is of permanent nature. The recoverable value is preferably based on the discounted cash flows of the total Company operations.

IAS 25. Impairment of assets	USA 25. Impairment of assets	BR 25. Impairment of assets
(IAS 16, IAS 36, IAS 38, SIC 14)	**(SFAS 121, I08)**	**(NPC 24 IBRACON, CVM Decision 183/95)**
	If quoted market prices are not available, the best information available is used. Such information may include present value of estimated pre-tax cash flows using a discount rate commensurate with the risks involved, option pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis.	
Any impairment is allocated first to goodwill then, pro rata amongst the CGU's other assets (including intangibles).	Any impairment recognized is allocated first to goodwill, notwithstanding that the recoverability of the written down goodwill must also be assessed on an entity basis.	There is no specific guidance on the allocation of the provision.
If the recoverable amount subsequently increases then in some cases the impairment is reversed. The general rule is that this is done where the increase is caused other than by the unwinding of the discount in the value in use, whereby an asset's value in use becomes greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. Where goodwill is concerned there is an additional test that the original impairment was caused by a specific, exceptional external event that was not expected to recur but that a subsequent external event has reversed its effect. In all cases the maximum amount of the reversal is such as to restore the assets of the CGU to their original pre-impairment carrying value less subsequent depreciation.	Recognition of any subsequent recoveries in fair value is prohibited.	The provision to the recoverable amounts of an asset may be reversed if the recoverable amounts increase. The reversal must be limited to the original carrying amounts of the assets.
Impairment losses are charged to the income statement, although no particular location therein is specified, except where the impaired asset is a revalued one. In that case, it is charged directly to the revaluation reserve to the extent that it reverses a previous revaluation surplus.	Impairment losses are included in income from continuing operations before income taxes.	There is no specific guidance on the classification of the provision in the income statement.

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