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Impairment In Goodwill: An Analysis Based On Accounting Disclosure

Abstract

This study aimed to verify whether Brazilian publicly traded companies published information about the goodwill impairment test between 2009 and 2011. The elaboration of a measure with compulsory disclosure items resulted in an index of compliance with the standard and permitted surveying what information the companies have disclosed. The results indicate that, in 2009, most companies did not disclose any information required for the goodwill impairment test. In 2010 and 2011, however, the percentage of companies that did not disclose anything about the procedures adopted for the test dropped. In addition, there are signs that, on average, the disclosure index increased in the course of the study period, but was very heterogeneous. Information about the discount rate and the description of the did not figure among the most disclosed information. The reflexes of a possible change in the key premise was the item whose disclosure the companies neglected most over the years. As the analysis suggests, these results may be linked with the companies' adaptability to the impairment test procedures, but may also derive from the concentration characteristics of the companies' control rights. In general, the increase in the disclosure percentage of the premises of the goodwill impairment test along the study period was not sufficient to reduce the disclosure differences among the companies. In addition, it could be perceived that many companies did not show consistency in the disclosure of the measure's items between one year and the other.

Key words: Disclosure; Regulation; Impairment; Goodwill.

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1. Introduction

In the context of convergence with the international accounting standards, among the practices implemented in Brazil as from 2008, the standard deriving from Technical Pronouncement CPC 15 – Business Combinations. This pronouncement establishes, among others, principles and specific requirements for the measuring and disclosure of the goodwill. The CPC 04 – Intangible Assets, in turn, establishes that the goodwill should be submitted to the impairment test according to the determination of CPC 01 – Decrease in Recoverable Value of Assets.

The approval of Technical Pronouncement CPC 15 by the Brazilian Securities Commission (CVM) in 2009 made its application compulsory in the context of publicly traded companies. Consequently, these companies were obliged to apply at least once per year, in accordance with Deliberation CVM 580/09, later revised by Deliberation CVM 665/11, the impairment test to check whether the goodwill can be recovered in the future. Since then, the accounting and systematic amortization of this asset is no longer permitted, which became restricted to compliance with tax laws. Also, in accordance with CPC 01 (2010), the application of the goodwill impairment test implies the disclosure of information related to the premises used in the calculations and the factors that caused the loss.

To identify whether the goodwill lost its capacity to generate future benefits, the value in use can be used, which is based on the estimated revenues and future profits. According to Rield (2004) and Ramanna (2008), the impairment test is guided by the interpretation of the economic environment, by judgments and administrative estimates. Therefore, the authors argue that the flexibility in the definition of the calculation premises for the test could make the companies choose when and for what value the losses in goodwill should be recognized.

Despite the existence of standards to guide the disclosure, there are no objective rules capable of complying with all requisites for good disclosure. The choice as to "what", "how" and "when" to disclose is an exercise of good corporate sense, ethics and subjectivity (CVM, 2007). Therefore, considering that the impairment test comes with a certain degree of subjectivity, the potential effects of recognizing losses and their future implications should be available to accounting information users for the appropriate diagnosis of the company's financial position. In view of the aspects mentioned, the question is raised: What is the disclosure level of the goodwill impairment test by Brazilian publicly traded companies in relation to the CPC 01 requirements?

The objective in this article is to verify whether the Brazilian publicly traded companies published the information required in the accounting standard about the impairment of goodwill between 2009 and 2011. Daske, Hail, Leuz and Verdi (2013) affirm that Corporate Governance practices can influence the disclosure quality and, therefore, the analysis in this study is focused on the concentration of control rights and listing segments on BM&FBovespa.

La Porta, Lopes-de-Silanes and Shleifer (1999) discuss that companies' information retention can be associated with the property concentration structure. Lopes and Alencar (2008) and Leuz (2006) add that companies with dispersed control tend to disclose more in order to reduce the information asymmetry. On the opposite, companies with more concentrated control tend to disclose less, as their majority investors normally occupy important information in the company and, therefore, have direct access to the information. Andrade and Rossetti (2006) argue that information transparency and disclosure in compliance with the laws is related with better corporate governance practices. In that sense, the following theoretical hypotheses are adopted: (1) companies with dispersed control tend to disclose more information about goodwill impairment than companies with concentrated stock control; and (2) companies listed in the New Market segment of BM&FBovespa tend to disclose more information about the goodwill impairment test than the companies listed in the other segments.

Different studies have been undertaken in Brazil about the disclosure of impairment in fixed and intangible assets. These studies found deficiencies in the disclosure of the impairment test and different levels of disclosure among companies traded on BM&FBovespa. Examples are Silva, Marques and Santos (2009); Ono, Rodrigues and Niyama (2010); Souza, Borba and Zandonai (2011), Albani and Almeida (2012) and Machado, Cruz, Takamatsu and Lima (2013). As opposed to what happens abroad, however, the empirical focus, restricted to the goodwill impairment test, has not been adopted yet.

The mechanism to assess the recoverable value, the period and nature of the influence of goodwill on company profits differs substantially from the amortization concept. Differently from amortization, losses due to impairment indicate that issues related to the operating context of the investment provoke the accounting write-off of goodwill and that, therefore, the recognition of the loss is conditioned to companies' specific economic situations and business strategies. In addition, there are the particularities for the recognition of goodwill, as well as for the application and disclosure of the impairment test, in comparison with other assets.

In this context, questions emerge about the possible impact of adverse economic conditions in the future if they made the companies register significant write-off of this asset. Especially at times of crisis, the impairment in goodwill can cause greater volatility in the income and in the companies' financial structure. In addition, for more than a decade, corporate scandals have revealed discussions about information disclosure, if the information is true and if it clarifies how the data evolve, resulting in specific regulations. Thus, by verifying if the companies comply with the compulsory disclosure requisites of the goodwill impairment test, the intent is to contribute to the understanding of the accounting treatment companies have applied to this asset in the Brazilian context, specifically regarding the identification and disclosure of future benefits after its initial recognition.

2. Theoretical and Empirical Reference Framework

2.1 Accounting Policy Standards

In a comprehensive literature review, Healy and Palepu (2001) discuss that information disclosure contributes to mitigate the information asymmetry and agency problems. According to Beyer, Cohen, Lys and Walther (2010), the demand for information emerges when the internal user normally has more information about the company's economic and financial performance than the external user and because the capital providers, in function of the separation between property and control, are unable to directly interfere in the managers' decision making.

Empirical evidence indicates that the benefits of corporate disclosure are related to the increased market liquidity of company bonds (Welker, 1995; Leuz & Verrecchia, 2000) and to the reduction to the cost of capital (Botosan, 2006; Lima, 2009; Lopes & Alencar, 2010). No entanto, Shleifer and Vishny (1997) and La Porta *et al.* (1999) consider, however, that from the perspective of conflicts of interests, majority stockholders abstain from the commitment to disclose, even when the disclosure increases the company value and reduces the cost of capital, as that would be the same as giving up the private benefits of control.

Companies will not always attend to the need for information in the capital market voluntarily, as the costs and benefits of disclosure may be linked with the agency costs, with the access to funding sources and with the property costs (Watts & Zimmerman, 1986; Verrecchia, 2001). Healy and Palepu (2001) indicate that one of the reasons for the accounting regulation relates to the market imperfections or externalities that limit the trade-off between the costs and benefits of voluntary disclosure. Perhaps that is why, as Beyer *et al.* (2010) observe, accounting regulation literature has made efforts to identify the reasons why the regulation would be justified, often without being able to mischaracterize the contractual and market incentives the companies have towards voluntary disclosure.

According to Verrecchia (2001) and Dye (2001), there is no comprehensive theory of compulsory disclosure. Leftwich (1980) indicates that, often, efforts are made to justify the accounting regulation by arguing that its objective is to compensate for the sub-production of information, as the use of certain information by one individual does not impede its use by another (free rider). Another argument, according to the same author, is that regulators aim to protect individuals at an informational disadvantage. Scott (2012), however, discusses that the interests and information needs diverge between investors and managers, making it truly difficult for the regulator to calculate the distribution of information production benefits.

Regulators' establishment of accounting policies is treated in terms of minimal requisites, such as generally accepted Accounting and Audit standards, aiming to reduce divergences among companies in terms of disclosure, measuring and presentation method (Bushee & Leuz, 2005). According to Leuz and Verrecchia (2000), the compulsory disclosure obliges companies to assume a commitment in the future, independently of the business situation, providing information to the market participants.

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have adopted the position that, in a market economy, achieving the objective of Accounting depends on the disclosure of financial information that allows the capital providers to assess the potential return of future investment opportunities and to monitor the use of the committed capital (Ball, 2006; Scott, 2012). Consequently, standards are issued to modify the quantity and quality of the information, mainly in response to investors' interests (Barth, Beaver & Landsman, 2001).

Scott (2012) considers that accounting policy standards prevent companies from controlling the amount and disclosure time of certain information they produce about themselves. Hence, the benefits of regulation would also relate to the credibility of the information the companies make available, as the regulatory entities, standardizers and auditors are held accountable for the information veracity. Welker (1995) discusses, however, that despite the elaboration, accounting treatment and disclosure restrictions, companies still have some discretion in the determination of the scope, content, period and form of disclosing the information to the users.

According to Daske, Hail, Leuz and Verdi (2013), economic and institutional aspects can also limit the effectiveness of a set of standards. As the interpretation of standards is based on subjectivity, the authors suggest that monitoring practices, legal institutions, corporate governance and auditing influence the disclosure quality. Ball, Robin and Wu (2003) signal that, besides the enforcement mechanisms, the property structure can also make the companies present different levels of compliance with the standard. In line with La Porta *et al.* (1999), the more concentrated the property structure, the lower the information disclosure, the lower the information disclosure rates, as most investors would have the power to obtain privileged information from other sources. Similarly, Ball, Kothari and Robin (2000) consider that, when the control is more dispersed, the disclosure is more used in the reduction of information asymmetry and tends to be more timely.

The convergence process with the international accounting standards in different countries has aroused the interest in these aspects. Some researchers have discussed that the adoption of international accounting standards is subject to political pressure and is unable, by itself, to represent an improvement in the disclosure quality (Ball, 2006; Ramanna, 2008). On the other hand, there is empirical evidence that the adoption of international accounting standards is potentially useful, as the companies in relatively weak regulatory environments can benefit from a lower cost of capital (Frost, Gordon & Haves, 2006; Silva, 2013) and present, on average, better information quality of the profits (Barth, Landsman, & Lang, 2008).

In Brazil, the accounting convergence process with the international standards led to the creation of the Accounting Pronouncements Committee (CPC) in 2005 and to the change of the Corporate Law in 2007. The complete adoption of the international standards only happened in 2010 though. According to Oliveira and Lemes (2011), the initial adoption of the international standards in Brazil tends to increase the companies' disclosure level. Other studies have indicated deficiencies in the compliance with certain compulsory disclosure requisites, like in the disclosure of the effects of the first convergence phase in the results for 2008 for example (Santos, & Calixto, 2010), criteria for the recognition, measuring and disclosure of intangible assets (Avelino, Pinheiro, & Lamounier, 2012; Moura, Dallabona, Fank, & Varela, 2011) and the impairment of fixed and intangible assets (Ono *et al.*, 2010; Souza, 2011; Albano, & Almeida, 2012; Machado *et al.,* 2013).

2.3 Impairment of Goodwill

The goodwill is the extra value attributed to a company in function of its reputation, competitive position and client loyalty for example (Martins, Almeida, Martins & Costa, 2010). The goodwill represents the "future economic benefits resulting from the assets acquired in a business combination operation, which are not individually identified and separately recognized" (CPC 15, 2011).

Martins, Diniz and Miranda (2012) clarify that goodwill starts to exist "after all attempts to objectively measure everything additional that is being acquired. Differently from the previous accounting practice, in which the entire difference between the value paid and the book value was commonly classified as this type of capital gain" (p. 307). Therefore, conceptually, goodwill and capital gain resulting from the difference in the market value of liquid assets are distinct meanings. The goodwill is calculated based on the difference between the acquisition value of the investment and the fair value of the investee's liquid assets, accounted for by the net value of the accumulated impairment losses. The capital gain resulting from the difference in the market value of liquid assets corresponds to the difference between the fair value and the book value of the investee's liquid assets and is amortized according to the maturity of these assets.

The origin of the goodwill is therefore linked to the intangible assets that are not identified separately and that partially represent the expected future profitability, as well as the intentional and distorted allocation of the transaction value (Shalev, 2009). There are certainly different reasons guiding the recognition of goodwill, such as acting in different market and increasing the share in markets the company is already active in, or tax reasons for example.

To check if the premises used in the identification of the goodwill remain stable and if the future profitability expectation will be put in practice in the post-acquisition period, differently from what happens with other assets, the impairment test should be applied, at least annually, independently of any indications of losses. Any impairment loss in the goodwill should be recognized in the income statement and, as opposed to the other assets, once fully or partially recognized, there is no possibility of reversal in later periods (CPC 01, 2010). Therefore, the impairment value in the goodwill should not be accounted for in a rectification account, which is the case with the impairment value of fixed assets.

In Brazil, before the convergence with the international accounting standards, the goodwill was amortized in function of the expected usage period of its economic benefit, which in practice received fiscal influence. In function of the amortization, the assets and net equity were reduced over time, as well as the net profits and earnings per share that absorbed the impact in each period. As there is no longer a specific period for the recognition of its benefits, the impairment test is needed.

Studies in different countries which attempted to assess the impact of the transition to the international standards in the income and net equity demonstrated that the adjustments deriving from the treatment of the goodwill and the fair value of financial assets are the most relevant, significantly affecting the company income (Perramon & Amat, 2006; Stenka, Ormrod & Chan, 2008). The positive variation in the profits reported by companies in the United Kingdom, as presented by Stenka *et al.* (2008), was mainly due to the non-amortization of the goodwill, which contributed to a total increase in profits by 24%, with an average 39% growth in function of the adjustment to the standards.

Differently from the results presented by Perramon and Amat (2006) and Stenka *et al.*(2008), Santos (2012) found that, on average, the exclusion of the transaction costs and premiums in the issuing of bonds and the inclusion of tax incentives in the income were responsible for the increase in reported profits. Nevertheless, the interpretation of these results implies considering that, in Brazil, the companies received different options to comply with the standards. As an example, since 2008, the application of the goodwill impairment test was previewed, but the CVM only enforced this procedure in 2009 through Deliberation 580/2009. Therefore, this matter still hampers the valuation of the reflexes of the amortization versus the goodwill impairment test in accordance with the standards.

The goodwill should be "tested for impairment at a level that reflects the way the entity manages its operations and which the capital gain is normally associated with" (CPC 01, 2010, item 82). Therefore, this asset should be allocated to a cash-generating unit (CGU) or groups of CGUs. It is considered that, in case of a loss in a CGU that contains goodwill, first, the loss must be attributed to the goodwill up to the limit of its value. If, when the goodwill is zeroed, there is still a loss for write-off, it must be distributed proportionately to the assets in the respective CGU.

According to Zucca and Campbell (1992) and Bini and Bella (2007), the identification of CGUs depends on the investigation and judgment by the company management. Therefore, the way these are defined is fundamental for the identification of losses in the goodwill. Also, depending on the premises used, the impairment test may not recognize the existence of a loss, or may only recognize losses in specific economic situations. In that sense, through a survey, Petersen and Plenborg (2010) investigated the treatment Danish companies applied to the implementation of the goodwill impairment test and found that the procedures for the identification of CGUs and calculation premises are neglected. In addition, the discount rate used in the cash flow projections is not consistently established.

As the allocation of goodwill to a CGU and the management's identification of the calculation premises are discretionary, how and when the losses occur needs to be disclosed. The disclosure in terms of minimal requisites in the final phase in the application process of the goodwill impairment test (CPC 01, 2010, items 126 - 135), independently of signs of losses or their occurrence (Figure 1).

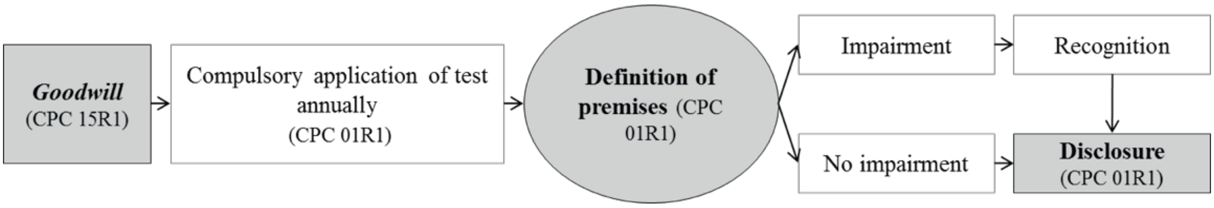


Figure 1. Phases of the goodwill impairment test process

Although the accounting standards determine that the companies should disclose information about calculation premises, the base used and the circumstances that brought about the impairment loss, studies have indicated that this does not always happen (Li, Shroff, Venkataraman & Zhang, 2011; Carlin, Finch, & Ford, 2007; Bens, Heltzer, & Segal, 2011). In Brazil, Souza (2011) found that the companies that recognized an impairment loss in 2008 and 2009, including in the goodwill, did not inform mainly the calculation base used and the discount rate. In addition, the author identified that there were no significant changes in the disclosure levels in 2009 in comparison with 2008 and that larger companies audited by one of the Big Four and with lower profitability rate tend to show a better disclosure level.

Carvalho, Rodrigues and Ferreira (2010) observed that, in Portugal, the way the companies disclose the requisites regarding the recognition and measuring of the goodwill, as well as the impairment test, is heterogeneous. The information is insufficiently disseminated, mainly regarding the procedures and bases used to apply the test. These authors also identify disclosure problems related to the adjustments deriving from the convergence. The conciliations in the income and net equity are not always understandable, which affects the comparability and relevance of the information disclosed among the companies. These issues are even more enhanced due to the attachment to concepts and disclosure models the companies adopted earlier.

3. Methodological Procedures

3.1 Sample Characteristics

The sample includes the Brazilian publicly traded companies traded on BM&FBovespa with an active register between 2009 and 2011, defined according to the selection criteria described in Table 1.

Table 1
Sample selection

Criteria	Number of companies	%
Companies with active register in 2011	360	100
Exclusions:		
Companies without consolidated statements	(83)	23
Companies without intangible assets	(15)	4
Companies not listed in one of the years	(9)	3
Companies without goodwill in the three years	(152)	42
Companies without goodwill in one of the years	(15)	4
Final sample (2009-2011)	**86**	**24**

To identify the companies with goodwill, the Balance Sheet and Notes to the Financial Statements about the intangible group were accessed. The choice to analyze only companies with an active register in the triennium, despite the survival bias, is due to the need to adapt the sample to the study proposal, which permeates the companies' continuous adaptation process to the requirement to apply the impairment test. Thus, the final sample includes 86 companies.

3.2 Data Collection Instrument

To verify the disclosure level of the goodwill impairment test, a measure was elaborated based on the disclosure requirements established in CPC 01 (2010). The measure consists of 13 items, the first three of which are related to the disclosure of a loss only. Items 4 to 13 refer to the disclosure of the goodwill impairment test procedures, which is compulsory at least once per year (Figure 1).

Item	Requirements
1	Value of the loss to the Cash-Generating Unit (segment, production line, etc.)
2	Line in the income statement the loss was included in
3	Events or circumstances that led to the recognition of a loss
4	The base on which the recoverable value was determined (value in use or fair value)
5	Description of Cash-Generating Unit (segment; production line; operating unit; geographic area, etc...)
6	Inform the method used to calculate the recoverable value
7	Discount rate used in the current estimate
8	Description of key premises underlying the calculation
9	Description of the management approach to determine the values allocated to each key premise (reflecting past experience or based on external information)
10	Specify the period (years) on which the management projected the cash flow
11	Growth rate used to extrapolate the cash flow projections
12	The reflexes from a possible change in the key premise that can result in a higher book value than the recoverable value
13	The book value of the goodwill allocated to the Cash-Generating Unit or group of units.

Figure 1. Measure to verify the disclosure requirements

Source: Accounting Pronouncement CPC 01 (2010).

It is highlighted that pronouncement CPC 01 was changed in 2010 and started to be called CPC 01R1. This revision, as regards the disclosure of the impairment test, requires information about the value of the segment loss (if that is the case) and the value and reasons why the part of the goodwill continued without allocation (if that is the case). As the other disclosure requirements were not substantially changed, the decision was made to ignore these two items in the measure, making it valid to analyze the three years. This decision was made after the analysis of the Notes to the Financial Statements, as inconsistencies were perceived in the way the segment information is reported. Also, none of the companies in the samples declared that it did not identify the capital gains resulting from a business combination while still in the reporting period.

No information was considered either about: (a) the reasons to use the budgets and previsions as the base for more than five years; (b) changes in the CGU's set of assets since the final estimate; and (c) the discount rate used in the earlier estimate. This information depends on the disclosure of other data, which does not permit homogeneous information treatment among companies in the sample, whether in function of the analysis period or the particularities in each company's application of the test.

To check whether the goodwill impairment test was applied and, eventually, whether a loss was accounted for, the Note about the intangible assets was fully read. To solve any doubts, mainly in those cases in which the information was inconsistent or missing, the following key words were used: recoverable, impairment; imparity and capital gain due to expected future profitability. This permitted the collection of information from other sections of the Notes. To code the measure, each item disclosed was scored 1 (one) and, if not disclosed, 0 (zero). To obtain the percentage of compliance with the measure items, each company's total score was divided by the total number of items.

During the data collection, some mistakes were found in the companies' disclosure. Company WLM disclosed a different value for goodwill in the balance sheet and the Notes to the financial statements for the three years investigated. Similar problems were found in the disclosure of Camargo Correa in 2009, Anhanguera in 2010 and Suzano in 2011.

At the end of the data collection, it was verified that few companies indicated write-offs due to goodwill impairment, with two in 2009, two in 2010 and four in 2011. In that sense, items 1 to 3 are not considered in the joint analysis of the measure items because they specifically refer to the disclosure of a loss in a relatively small number of companies. Among these, none indicate the line of the Income Statement the loss was included in in 2009 and 2010 and, in 2010 and 2011, the events or circumstances that led to the recognition of the loss. It is highlighted that the indication of the circumstances in which the loss occurred and the line of the Income Statement it was included in allows external users to better understand possible variations in balance sheet analysis indicators and, consequently, guarantee the comparability of the information between different years or companies.

Among the companies that recognized a loss, Gerdau (2009) and Lupatech (2011) have a more representative goodwill in relation to the intangible and total assets. In Gerdau, the *goodwill* represents 89.46% of the intangible and 18.90% of the total assets. In Lupatech, 95.18% of the intangible and 32.80% of the total assets. The companies Gafisa (2011) and Ideiasnet (2010) recognized a greater impairment loss in relation to the goodwill in the period, 5.70% and 4.99% and, in relation to the intangible assets, 4.54% and 3.84%, respectively. Both companies showed a loss in those years in which they disclosed the loss. In Gafisa, the loss increased by 1.17% and, in Ideiasnet, by 11.33%. The companies Amil (40%) and Ideiasnet (0%) reveal the lowest disclosure rate among the companies that recognized an impairment loss in the goodwill, with a maximum percentage of 100%. The differences in the percentage of compliance with the disclosure measure are explored next.

4. Results and Analysis

In the course of the study period, there was a trend for the companies to address a larger number of information disclosure items about the goodwill impairment test, which is more perceivable when comparing 2009 and 2010 (Figure 2). This fact can be associated with the companies' adaptation to the identification of the premises for the test and the compliance with the disclosure requirements. This expansion, however, did not change the companies' "preference" for the disclosure of certain items, although CPC 01 does not attribute distinct levels of importance to each of the items listed in the measure.

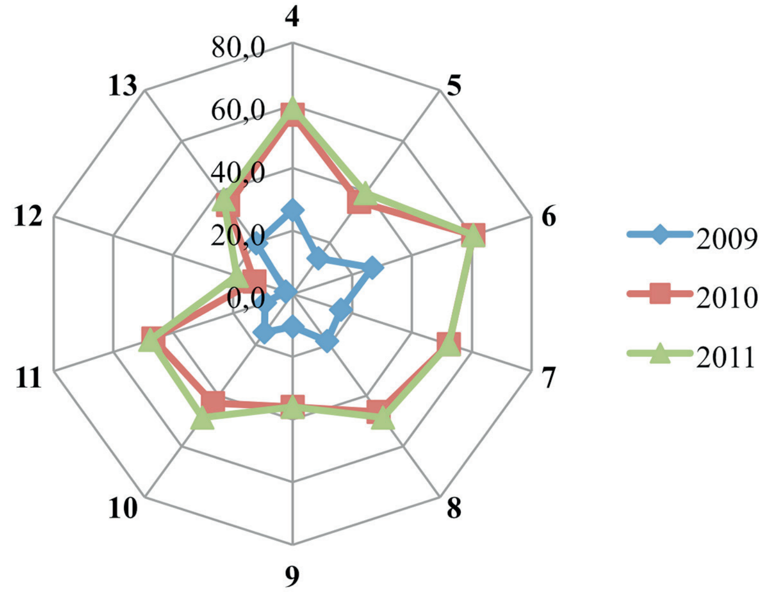


Figure 2. Disclosure percentage of items 4 to 13 in the measure

The reflexes of a possible change in the key premise (item 12) was the least evidenced item during the period, corresponding to 2.3% in 2009, 12.8% in 2010 and 18.6% in 2011. This item also showed the smallest growth between 2009 and 2010. The method used to calculate the recoverable value (item 6), the discount rate used in the current estimate (item 7) and the description of the approach to determine the values allocated to each key premise (item 9) maintained the same disclosure percentage between 2010 and 2011, 60.5%, 52.3% and 36.0%, respectively.

All companies in the sample that informed the method used to calculate the recoverable value (item 6) applied the impairment test based on the value in use, by means of the discounted cash flow. In an analysis of the disclosure level of the companies that accounted for an impairment loss in the fixed and intangible assets, in 2008 and 2009, Souza (2011) verified that the base used to calculate the loss and the discount rate were the items the companies disclosed least.

The discount rate used for the current estimate (item 7) and the cash flow projection period in years (item 10) are parameters that influence the calculation of the loss value and, nevertheless, only little more than half of the companies in the sample disclose these items. This disclosure contributes to analyze the reflection of the amount of write-offs due to impairment or the absence of its accounting treatment by external users, and also permits inferences based on the comparative analysis between companies and sectors.

Table 2
Descriptive statistics of disclosure percentages

	2009	2010	2011
Mean	15.93	42.56	45.23
Median	0.00	45.00	45.00
Standard Deviation	26.50	34.95	35.60
Variation coefficient	166.33	82.13	78.71
Minimum	0.00	0.00	0.00
Maximum	100	100	100
Companies	86	86	86

The results displayed in Table 2 indicate that, on average, the percentage of the companies' disclosure varied positively between 2009 and 2011 (183.93%). The standard deviation for the three years indicates that, in relation to the average, the disclosure percentage is very dispersed, as some companies do not disclose anything, while others disclose aspects related to all items measured.

When adopting the variation coefficient as a parameter, the disclosure is very heterogeneous in 2009 in comparison with later years. In that year, 59.77% of the companies in the sample did not disclose any of the required information for the impairment test, but 29.70% and 25.58% evidenced that information in 2010 and 2011, respectively. Besides the companies that did not disclose any of the required information, some disclose low percentages, such as 10%, 20% and 30% for example. In 2009, only five companies in the sample presented a disclosure rate between 80% and 100%, against 19 in 2010 and 22 in 2011. Only three companies disclosed 100% of the items throughout the period though.

These evidences are in line with the results found in other studies, indicating that, in Brazil, compliance with certain compulsory disclosure requisites is deficient, like recognition, measuring and disclosure criteria of intangible assets (Moura *et al.*, 2011; Avelino *et al.*, 2012) and the recognition of a loss in the recoverable value of fixed and intangible assets (Ono *et al.*, 2010; Souza, 2011). That is not just one characteristic found in Brazil as, in the international context, disclosure problems about the goodwill impairment test have also been documented by Li *et al.* (2011), Carlin *et al.* (2007), Devalle and Rizzato (2012) and Carvalho *et al.* (2010).

As the index was very heterogeneous, the sample companies' compliance with the disclosure requirements of the goodwill impairment test was verified in relation to the proportion of these assets in the intangible group (GI) and in the total assets (GA). Therefore, the values of each of these variables were grouped in quartiles (Figure 3) to highlight the characteristics of the sample companies.

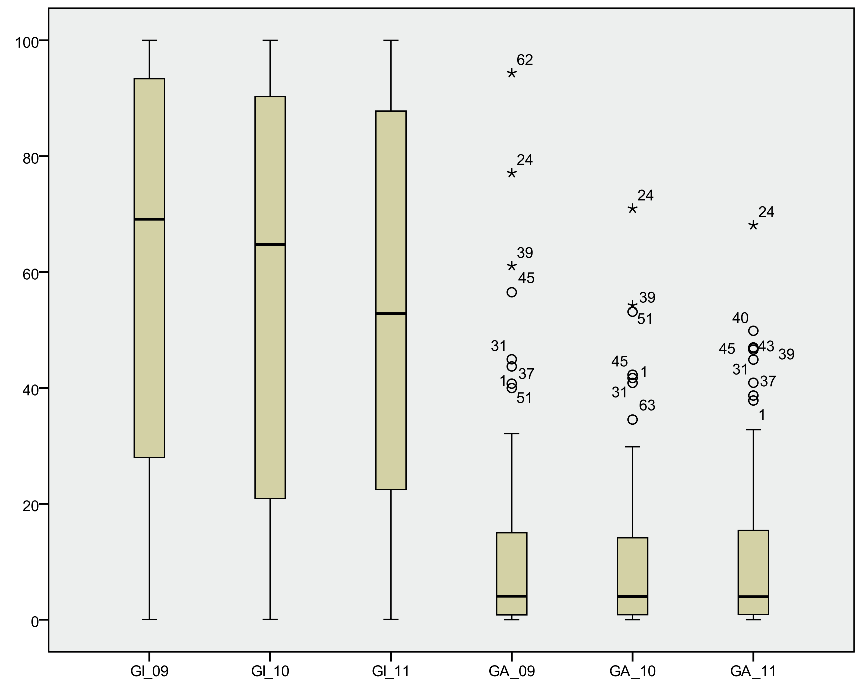


Figure 3. Proportion of goodwill in the intangible group (GI) and in the total assets (GA)

In 75% of the companies, the GA variable corresponds to less than 16% for both years. As observed, however, in some companies, the proportion of goodwill in the total assets is superior to 40% (extreme values) and, in 25% of the companies in the sample, it is hardly representative, perhaps due to the particularities of the business. In 2009, 75% of the observations of the variable GI are inferior to 93.62% and, in 2011, 87.81%. As perceived, in some companies, the goodwill represents the only intangible asset registered.

To analyze the disclosure percentage of companies with a higher and smaller proportion of goodwill in the intangible group and in the total assets, only the data from the first (1Q) and fourth quartile (4Q) were considered.

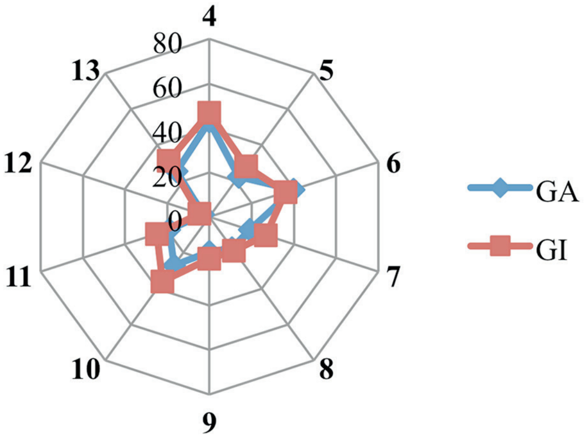


Figure 4. Disclosure percentage of companies in 1Q (2009-2011)

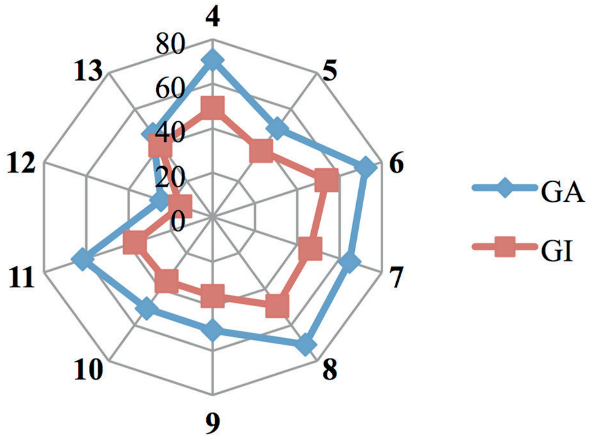


Figure 5. Disclosure percentage of companies in 4Q (2009-2011)

In general, the greater the representativeness of the goodwill in relation to total (GA) and intangible assets (GI), the greater the disclosure tends to be. The companies grouped in the first quartile of the GI (Figure 4) disclose more than those grouped in the first quartile of the GA (Figure 5). There is an inversion in the fourth quartile though, where the companies in the GA disclose more and the difference between the quartiles is greater than in the first case.

This point may reflect the company management's discretion in the cost/benefit assessment of the disclosure of the test requisites. Companies with a low representativeness of the goodwill in the total assets may not be encouraged to disclosure if the eventual recognition of the loss does not significantly compromise the business. The characteristics of the market these companies act in and, consequently, the diversification of the productive or commercial activities and funding sources may also interfere. In addition, it may be a matter of corporate governance, as Moura *et al.* (2011) suggest in the investigation of compulsory disclosure aspects of intangible assets.

As observed, even in situations of compulsory disclosure, the companies in general tend to retain information. La Porta *et al.* (1999) argue that this matter may be associated with the private benefits of control. The authors explain that the concentration of control is one of the adaptations the market has created to compensate for a weak investor protection structure. In that sense, the property concentration structure indicates the stockholders' level of diversification and the potential agency problems between majority and minority stockholders.

The creation of internal and external mechanisms to guarantee that the corporate decisions will be taken in the majority and minority stockholders' best interest comprise aspects of the companies' corporate governance. In that sense, Andrade and Rossetti (2006) discuss that best practices in corporate governance make the companies assume a commitment with transparency and compliance with laws and regulations. Therefore, to explore the sample companies' knowledge in relation to the disclosure of the impairment test and contribute to the analysis, aspects are considered such as: (i) concentration of control rights and (ii) listing segments on BM&FBovespa.

In Brazil, the stock control is predominantly concentrated, contributing to the agency conflict between majority and minority stockholders (Silveira, Leal, Barros & Carvalhal-da-Silva, 2009; Saito & Silveira, 2010). According to Carvalhal-da-Silva (2004), stock control is a measure of the voting power and, in that sense, the concentration of control rights represents the percentage of ordinary stock the controlling stockholder possesses. In line with Siffert Filho (1998), the economic opening and the privatizations that occurred in Brazil in the 1990's implied further changes in the controllers' identity than in the degree of stockholder concentration. As Carvalhal-da-Silva (2004) observes, on average, three main stockholders have control over the companies. Among the companies investigated in 2002, 90.2% had one majority stockholder and only 9.8% had a more dispersed property structure.

In this research, four categories were considered to analyze the concentration of the stock control, which were adapted from the studies by Pedersen and Thomsen (1997), Silveira *et al.* (2009) and Saito and Silveira (2010), as follows segue: (i) dispersed – when the main stockholder holds less than 30% of control; (ii) dominant – when the major stockholder holds between 30 and 50% of control; (iii) majority – when the major stockholder holds more than 50% of control; and (iv) diffuse – when declared as such by the company, that is, no stockholder agreement and no identification of the controlling stockholder. The stock control information was obtained from the companies' reference form available on the CVM website. When a stockholder agreement was indicated, the sum of the percentages held by the ordinary stockholders who were part of the agreement was considered.

When observing the percentage of items the companies disclosed according to the stock control characteristics (Figures 6 to 9), the main difference in compliance with the disclosure requirements of the impairment test is found among companies with dispersed and majority control, as displayed in Graphs 4 and 6.

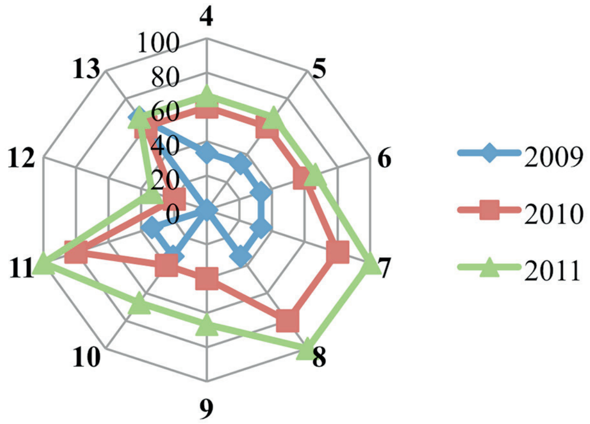


Figure 6. Disclosure percentage versus dispersed stock control

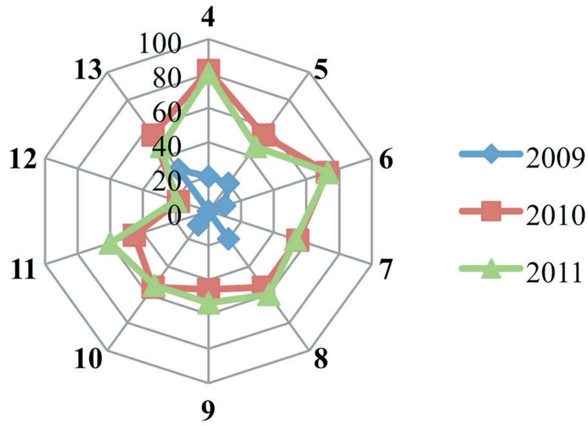


Figure 7. Disclosure percentage versus dominant stock control

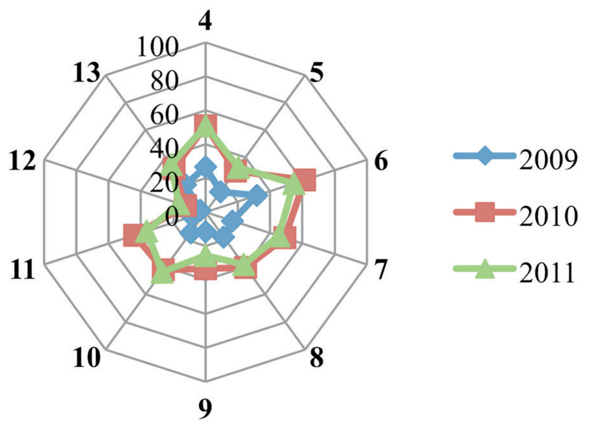


Figure 8. Disclosure percentage versus majority stock control

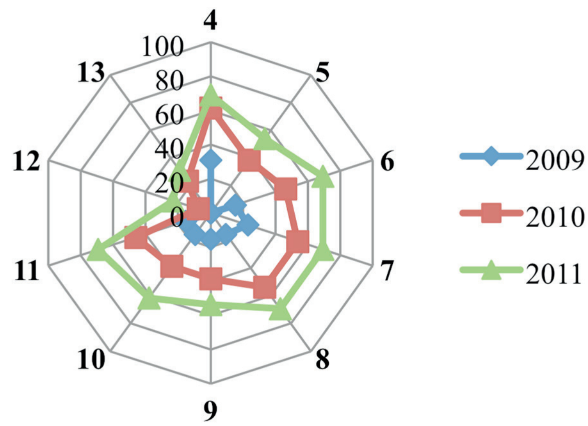


Figure 9. Disclosure percentage versus diffuse stock control

As observed, the companies with dispersed control disclosed most. The discount rate, the key premises and the growth rate (items 7, 8 and 1, respectively), were evidenced by up to 100% of the companies in this category. On the other hand, the companies with majority control disclosed less. Up to 60% of the companies disclose the calculation base only (item 4). The disclosure percentage of companies with diffuse and dominant control (Figures 7 and 9) is similar, as about 60% of the companies disclose most of the items.

In Graph 8, these aspects are considered throughout the analysis period. As observed, independently of the year and the stock concentration, the companies have not disclosed the reflexes of a possible change in the key premise (item 12), the period (in years) on which the management projected the cash flow (item 10) and the description of the approach adopted to determine the values allocated to each key premise (item 9).

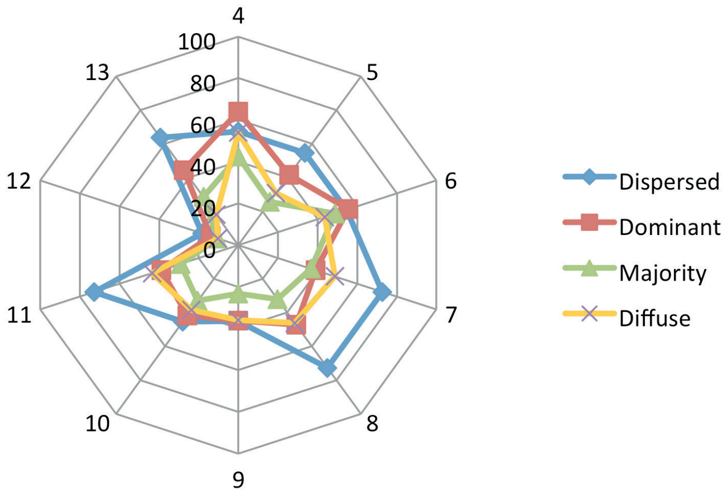


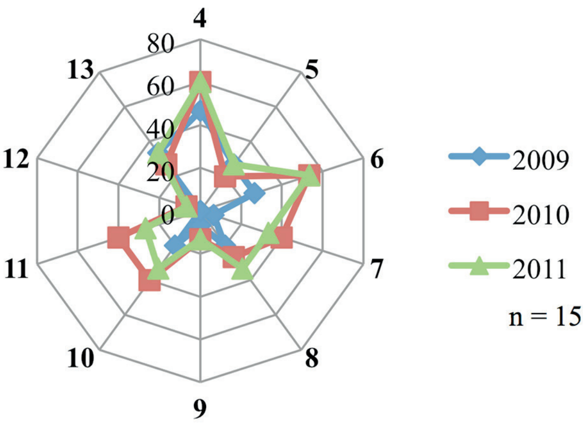
Figure 10. Disclosure percentage versus characteristics of stock control (2009-2011)

The grouped data indicate that, even if the companies have displayed a similar behavior over the years, that is, the increase in the percentage of items disclosed over time did not alter the perception that companies with more dispersed control disclose more.

These evidences suggest that the stock control tends to influence the companies' disclosure. In accordance with Lopes and Alencar (2008) and Leuz (2006), as opposed to what happens in companies with concentrated stock control, the companies with dispersed control tend to disclose more in order to reduce the information asymmetry. Companies with more concentrated control aim to solve asymmetry problems through private channels, as investors who hold control are part of the company management, the board of administrators, favoring direct information access.

Another aspect that can interfere in the companies' information disclosure process is the adherence to the different stock exchange listing segments. In 2002, BM&FBovespa created distinguished corporate governance levels, called Level I, Level II and New Market, which the companies could voluntarily adhere to. For each of the Levels and in the New Market, additional information disclosure requirements are established. Level II companies not only accept the requirements related to Level I, but need to adopt a broader set of governance practices and additional rights for minority stockholders. To be listed on the New Market, besides the Level II requirements, they are subject to the emission of ordinary stock only (BM&FBOVESPA, 2013).

When classifying the sample companies according to the listing segments they belong to (Graphs 11 and 14), it is observed that, over the years, Level I companies expanded their information disclosure. It is highlighted that, in 2009, it was the group of companies that best adapted to the disclosure requirements of the goodwill impairment test. Level II and the New Market, contrary to expectations, are not the listing segments that most disclose information about the goodwill impairment test. On the other hand, these segments maintained the percentage variation per disclosed item more consistent and stable between 2010 and 2011, while the disclosure percentage dropped for some items in the other segments.



Figur 11. Disclosure percentage in Traditional segment

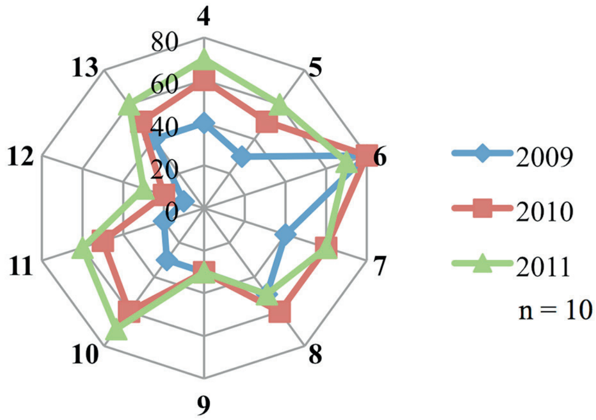


Figure 12. Disclosure Percentage in Level 1 segment

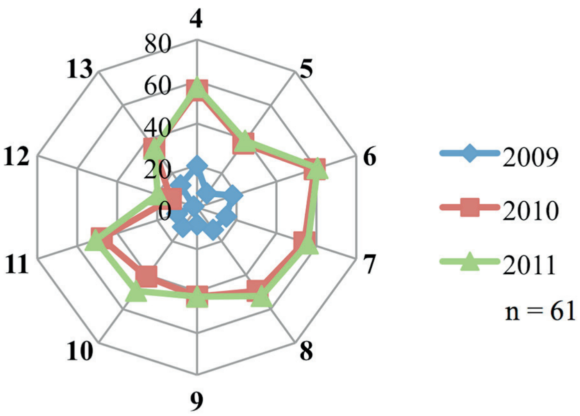


Figure 13. Disclosure percentage in Level 2 and New Market segments

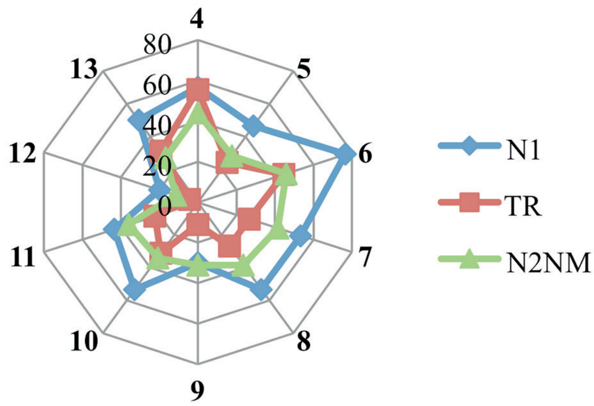


Figure 14. Disclosure percentage per listing segments (2009-2011)

Figure 14 groups the disclosure percentage per item in the analysis period. As observed, Level I companies have a disclosure percentage per item that is higher or equal to the other segments. In principle, this goes against the supposition that Level II and New Market companies disclose more as they are subject to better corporate governance practices. It is also observed that the number of sample companies at Level I is six times higher than at Level II and in the New Market. In that sense, benchmarking aspects and intrinsic characteristics of each company's activity sector may also have contributed to the obtained results.

Efforts were made to check whether the companies' disclosure percentage at Level II and in the New Market receives influence from the representativeness of goodwill in relation to assets and intangible assets. It was verified, however, that in relation to the other analysis segments, on average, this group corresponded to the companies with a larger proportion of goodwill in the intangible group and in the total assets. Similarly, there is no explicit evidence that the control concentration may have exerted influence, as it could not be inferred that, in those segments, companies with dispersed control are predominant.

In the assessment of the disclosure of the impairment test in the fixed and intangible assets of companies listed in the New Market segment in 2010, Albani and Almeida (2012) concluded that the companies have not displayed information completely. The authors also identified that 92.45% of the companies in that segment were audited by the big four and suggest that the characteristics of the audit companies have not substantially influenced the disclosure of the impairment test.

Similarly, the results by Machado *et al.* (2013) indicate that companies from the same listing segment present distinguished disclosure levels of the impairment test in the fixed and intangible assets. This study was undertaken in New Market companies. The companies that accounted for a loss or reversals due to impairment showed better disclosure levels of the test premises adopted in relation to the companies that did not disclose a loss. It is highlighted, however, that this result should be considered with caution. The companies should estimate the fixed assets' recoverable value only in case of any indication of devaluation, as opposed to what happens with intangible assets with an undefined useful life or intangible assets that are not available for use yet, in which the companies have to estimate it at least annually, independently of any signs of loss.

In general, the variability of the disclosure index per company and between different years indicates that compliance with the impairment test standard can be a matter of adaptability as, in 2009, the companies present a discrepant disclosure percentage in relation to the other years. In 2010 and 2011, however, some items are disclosed by less than 60% of the companies. In addition, the companies' compliance with the disclosure of the goodwill impairment test can be associated with corporate governance aspects. In that sense, it could be verified that the disclosure percentage of the impairment test is higher in companies with dispersed control. When comparing the disclosure percentage of companies from the Traditional listing segment, such as Level II and New Market companies, it can be inferred that better governance practices contribute towards more consistent disclosure. On the other hand, the evidence is somewhat distorted when comparing the disclosure percentage of Level 2 companies with the percentages of Level II and New Market companies.

5. Final Considerations

The goodwill impairment test results from a different approach in the valuation of this asset in comparison to the approach the Brazilian companies had adopted until 2009. In addition, the adoption of a fair-value approach based on the value-in-use in the determination of the recoverable value does not depend on the existence of an active market. The Technical Pronouncement CPC 01 explains that the recoverable amount should be estimated on reasonable based that fundamentally represent the economic foundations of the company's business. Therefore, all premises used to calculate the recoverable value should be disclosed to the information users.

In that sense, this article was aimed to verifying whether the Brazilian publicly traded companies published the information required in the accounting standard about the reduction in the recoverable value of the goodwill. In addition, the following theoretical hypotheses were considered in the analysis: (1) companies with dispersed control tend to disclose more information about the reduction in the recoverable value of the goodwill than companies with concentrated stock control, and (2) companies listed in the New Market segment of BM&FBovespa tend to disclose more information about the goodwill impairment test than companies listed in the other segments. The elaboration of a measure with compulsory disclosure items revealed a compliance index with the standard and also permitted surveying what information the companies have disclosed.

There are signs that, over time, the companies have increased the percentage of disclosed items, but this does not mean saying that the companies expanded the information in terms of content. Although the analysis does not consider the quality of the information the companies provide, it was perceived that the information about the goodwill impairment test is often incomplete and imprecise, or suppressed between one year and the other. Based on the analysis of the results, it can be inferred that the companies in general neglect the information disclosure about the goodwill impairment test. This study is in accordance with Carvalho *et al.* (2010) in the Portuguese context; Carlin *et al.* (2007) in the Australian context and Devalle and Rizzato (2012) in the European context. Also in line with the studies by Li *et al.* (2011), Bens *et al.* (2011) and Souza (2011), it could be identified that the companies only inform that doing the test without providing details on how they proceeded, while other simply present some of the information required.

When the disclosure is imprecise and inconsistent, the external users' decision making ability may be impaired, as the utility of the available information is questionable. More specifically, if the impairment test comes with a certain degree of subjectivity, the potential effects of accounting for losses due to goodwill impairment and their future implications should be available to the financial information users with a view to the appropriate diagnosis of the company's financial position. This aspect arouses reflections as to whether the financial statement preparer is able to assess the importance of each disclosure requirement for the user.

In response to the study's theoretical hypotheses, the results demonstrate the greatest disclosure of goodwill impairment test information in companies with dispersed control. On the other hand, Level II and the New Market, against expectations, are not the listing segments that most disclose information about the goodwill impairment test. This shows that the results are aligned with hypothesis 1, but without any evidence to reaffirm it, as the results for hypothesis 2 were not consistent.

One potential role of compulsory disclosure, as presented in the Theoretical Framework, is to serve as a commitment device and, consequently, make the companies reveal information at bad as well as good times. The effectiveness of compulsory disclosure can be very limited without appropriate enforcement mechanisms and appropriate valuation of the information the market participants disclose. As suggested in Verrecchia (2001), the costs and benefits of the regulation are not obvious, because the companies tend to support the information retention costs and have private incentives to provide information voluntarily. In summary, these research results raise an aspect identified in Bushee and Leuz (2005) about the accounting standards' inability to reduce divergences between the companies' financial policies.

Another question is if the companies are prepared to comply with the standards and whether the regulator has adopted a posture that leads to the elaboration of clear and objective standards. These study findings may simply reflect the manifestation of the companies' lack of accumulated experience with impairment test procedures and the fact that the observed cases of non-compliance with the standards will disappear over time. That is one question whose response will only be evidenced in the future though. The obtained results and the inferences made serve as a reminder that, despite the existence of complex information rules, independent audit structures and constant capital market scrutiny, the information disclosed shows inconsistencies.

Concerning the research limitations, the achievement of the study objective was conditioned to the premises adopted in the elaboration of the disclosure measure, as it does not consider criteria to verify the quality of the impairment test disclosure. In addition, what the researchers consider as compliance with the standard may differ from the understanding of the people who elaborate the financial statements and Notes. Therefore, the conclusions obtained are restricted to the component items of the measure and the criteria underlying the data collection.

The research results can be further elaborated, in theoretical as well as empirical terms, as follows: (a) specifically addressing the projection period, discount and growth rates to understand the degree of conservatism or aggressiveness in the companies' estimates of the value-in-use, like in the case of the goodwill impairment test; (b) exploring how the financial statement users read, interpret and use the financial information about goodwill; (c) the reasons that make the companies vary or not disclose information required in standards; and (d) consequences of regulatory intervention in the quality of information disclosure and its relevance for investors.

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