

## **NEW ACCOUNTING RULES FOR BRAZILIAN COMPANIES**

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Law 11.638 of 12/28/2007 makes significant changes to our accounting system regarding companies (S.A.) and economically large entities.

Changes wish to adapt the Brazilian accounting to international standards and establish the need for auditing, includes presentation of mandatory new balance sheets an intangible account and the use of market price as a standard.

The changes are still to be further ruled by our Securities Exchange Commission - CVM - Comissão de Valores Mobiliários viewing to adapt to international standard and include the mandatory cash flow and aggregate value balance sheets for all Sociedade Anônimas that are subject to control of the CVM and have a net asset over two million reais, as well as determines that the books must be audited by a CVM approved professional.

As these rules are for Sociedades Anonimas and large companies (a company or group under same control that has in the previous fiscal year assets over R\$ 240.000.000,00 or an annual gross income over R\$ 300.000.000,00). There may be further interpretation on the matter to be yet released by the Accounting Department Rules as the Sociedade sAnônimas rules eventually apply to Sociedades Limitadas.

There is now an intangible account in the permanent asset where all trademarks, patents and other assets shall be registered, including acquired goodwill.

In the account classification, the permanent assets include now transactions that transfer to company the benefits, risks and control of tangible assets that view the maintenance of the activities of company. The deferred shall include pre-operational and restructuring expenses that contribute to the increase of the result of more than one tax year and are not a mere cost reduction or increase of operational efficiency. The previous law established solely the value application in expenses that contributed to the result of more than one tax year.

The premium received for the debenture issuance, donations and subsidies for investment are no longer included in the capital reserve account.

An important change is that the increases or decrease of value due to the market valuation must be classified as adjustment to the asset evaluation while not reflected in the result of the fiscal year. Previously the changes were only foreseen when deriving from an increase of an asset based on a valuation approved by the general assembly.

Financial, right and securities applications shall be classified by its market value, when there are to be negotiated or furthermore sold and by its cost or issuance value, duly adjusted to the possible sale value, when this is less than the first possibility, for the other applications and the rights and securities. Intangibles shall be included according to the price of acquisition duly amortized. Long term transaction related assets shall be up dated to present value, adjusted when there is a important effect.

The market value definition is maintained for raw material and inventory (reacquisition price), assets and rights to be sold (net sale price, excluding taxes, expenses and profit margin), investments (net sale value). The change includes the effective market value for financial instruments and, in their absence, the analogy criteria (the value that could be obtained in the market, present net value of future cash flow for financial similar instruments) or math-statistic valuation.

The reducing of values of assets shall be periodically registered in the depreciation accounts (when of depreciation or no longer use), amortization (loss of value applied in

industrial property rights or having limited duration) or exhaustion (exploitation of mineral or forest resources or assets applied in such exploitation).

The is no longer a 10 year limitation for amortization and is now mandatory an analysis of the value recuperation to register losses when there is a decision to stop enterprises or is proved that they may not produce enough results to recover this value or the criteria to establish the economic life are reviewed or adjusted.

The result demonstration shall continue to include debenture participation of employees and managers, even if in financial documents and for entities or assistance or social security employee funds, as long as they are not expenses.

The limit to the value increase due to re-evaluations only after the receipt of values shall no longer exist and in market M&A and split off operations by independent parties with control transfer the assets and debts of the company to be acquired or resulting from merger or split off shall also be accounted for by its market value.

The asset equivalence method for investment in affiliated companies with a participation of less than 20% shall be used and there is a specific rule for a reserve for tax incentive.

Our CVM has already issued a preliminary report on the law and has informed that shall review its standards and issue new rules in the year of 2008. In a decision (case Trikem - Braskem) it has already established that intangibles, tax credits judicially disputed or other assets that are not included in the balance sheet but have a measurable value, must be considered in the valuation report. Before, such assets would not be included in this evaluation.