

ACCOUNTING REGULATION AND REGULATION OF ACCOUNTING: THEORIES AND THE BRAZILIAN CASE OF CONVERGENCE TO IFRS*

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Abstract

The convergence process of national accounting practices into international standards requires significant changes on accounting regulation. Brazil has many examples of that: the creation of the Brazilian Accounting Standards Committee (CPC), the issuance of the Federal Law 11.638/07, the January 14th Letter to the Market issued by the Brazilian Securities Exchange Commission (CVM), the translation of the Framework for the Preparation and Presentation of Financial Statements (issued by the International Accounting Standards Board), translated by CPC and approved by CVM. It is expected that accountants and auditors are working hard to understand and to get familiar with “new” standards to adopt and audit them on their firms and/or clients. However, as important as to adopt and audit the adoption of International Financial Reporting Standards (IFRS), it is important to understand changes on accounting regulation. Although, there are not been discussed the incentives and consequences of this accounting regulation tsunami in the Latin-American context. This theory-based paper examines the Brazilian IFRS convergence experience in an interdisciplinary perspective. All five theories of regulation examined (Public Interest, Capture, Interests Group, Reale’s, and Habermas’) are concurrent among them but are helpful in examining IFRS convergence phenomenon; in some cases they provide complementary explanations.

Keywords: Accounting Regulation; Regulation of Accounting; Public Interest Theory; Capture Theory; Interest Groups Theory; Tridimensional Theory; Habermas’ Approach; Accounting Theory.

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1. Introduction

Is not deny that recently the Brazilian accounting standards changed in convergence to the international accounting standards and that it is the most relevant accounting theme during the first half of 2008. To start with the edition of the Federal Law 11.638 on December 28th, 2007, and in chronological order: the publication of the Letter to the Market by the Brazilian

Securities Exchange Commission (CVM – *Comissão de Valores Mobiliários*, the Brazilian-SEC, hereafter CVM) in January 14th, the adoption of the Framework for the Preparation and Presentation of Financial Statements, originally issued by the International Accounting Standards Board (IASB), translated by the Accounting Pronunciation Committee (CPC – *Comitê de Pronunciamentos Contábeis*, the Brazilian IASB or FASB, hereafter CPC) and approved by CVM's Standard 29/86 of the CVM's Standard 539/08. Proofs of that relevance are the uncountable seminars and conference held by academies and by audit-firms upon the Federal Law 11.638/07 and the International Financial Reporting Standards (IFRS) adoption in Brazil. Not even mentioning the editorial movement to update the Financial Accounting literature¹, also many articles were published in specialized newspapers and magazines (such as, *Valor Econômico*, *Gazeta Mercantil*, *Carta Capital* and *Conjuntura Econômica*) in order to help practitioners in understanding what was going on accounting standards.

Although practitioners and academics have devoted efforts on IFRS adoption, few emphasis have been devoted to understanding this regulation process. In addition, Accounting Theory's books do not discuss regulation theories, even less how those theories are applied to accounting regulation; at most, they comment, on their first chapters, about some regulatory movements in a historical perspective (normally from the United States experience).

This paper intends to show, in an interdisciplinary perspective, some regulation theories and how they help to understand the accounting regulation phenomena and its consequences, taking as an example, the recent edition of the Brazilian Federal Law 11.638/07.

2. Regulation of what?

This paper specifically treats about accounting regulation; therefore, it is important to clarify what accounting means.

McCowen (1946) presents accounting as an art. We can agree with this definition, but it does not help to discuss the regulation, as a matter of fact, from this perspective, the notion of art's regulation would be mistaken with censure, a not promissory alternative.

Mautz (1963) and Sterling (1975) present accounting as a social science. This definition is not disagreeable, but it is not use in regulation studies, because *to regulate a science*, maybe demand a supra scientific knowledge.

Anthony and Reece (1989) present accounting as a tool (or system) that provides information about an entity's performance and financial position. This definition is broadly used to teach accounting to non-accountants, however, it is worth nothing to regulation study. The regulation of a tool would be an engineering activity, as like as the regulation of an informational system – that is not the point of this paper.

So, to understand the accounting regulation, it seems to be more profitable to understand Accounting as a set of mechanisms dedicated to reduce information asymmetric, to help in designing incentives structures and signaling them, and to develop performance measurement process and models. In other words, we can think of Accounting as a societal institutional (Ordelheide, 2004). Being a societal institution, it is important to know who act, interact and share the beliefs and values that build accounting. In this sense, Beaver (1998) presents the constituencies in the financial reporting environment – *Table 1*.

Table 1. Constituencies in the Financial Reporting Environment

3. Regulation Theories

Economists and lawyers, individually or in group – as the followers of the *Law and Economics*, have been studying regulation by decades. Diverse theories appeared to explain the regulation and to anticipate when and how markets probably would or not be regulated or deregulated. Among those diverse theories, five deserve to be mentioned and might help understanding accounting regulation.

According to the taxonomic purposed by Viscusi, Vernon and Harrington Jr. (2000), the regulation theories evolution could be analyzed in three stages, the normative analyses of the Positive Theory (hereafter Public Interest Theory), the Capture Theory and the Economic Theory of Regulation (hereafter Interest Groups Theory).

3.1. Public Interest Theory

The Public Interest Theory follows the classic point of view according to which regulation “takes care” of the public interest. As like if, the State (regulatory agency) were a “watch-dog” that acts whenever the public interest is about to be sacrificed – for example, the

regulator avoids that a firm acting in a natural monopoly market prejudice consumers. According to this theory, the regulation is justified, mainly, in cases that involve natural monopolies and negatives externalities.

Beaver (1998: 164) explains the Public Interest Theory: “This view implicitly assumes that the incentives of regulators are aligned so as to further the public interest and that the concept public interest is well-defined”. King (2006: chapter 5) suggests that financial accounting rules and Securities Acts issued by the US Congress in 1933 and 1934 were designed to protect the public interest in recovering the confidence on the stock market and in avoiding new crises similar to the great depression. In the same way, King (2006: chapter 14) suggests that the Sarbanes-Oxley Act was also designed in the public interest, because it was necessary to avoid others financial scandals. Laughlin (2007: 277-278), ironically uses the term “Public Interest” as the justification of Margaret Thatcher’s conservative government, during the Cold War, to banish the Value Added Statement disclosure from the UK, in 1979, just four years after it had been established by The Corporate Report, instituted by the Labour Government Party. Verrecchia (2004) presents the deadweight private information-gathering, the manager’s opportunism, and the agency costs as arguments to defend the study of public disclosure regulation of accounting information, as if such environment features were market failures.

3.2 Capture Theory

The Capture Theory was developed as an alternative to the Public Interest Theory, once many empirical evidences supported that regulation were exercised in favor of the regulated firms, in prejudice of the public interest.

Beaver (1998: 164), explains the Capture Theory: “the prime beneficiaries of regulation were not the public (or investors, in the case of the Securities Acts), but rather those being regulated”. According to Stigler and Friedland (1962), the electric power service regulation (a natural monopoly) granted abnormal gains to the concessionaries (power companies). Cohen and Stigler *apud* Beaver (1998: 165) presented that “the primary beneficiaries of the Acts are the various members in the professional investment community rather than investors at large”. Viscusi, Vernon and Harrington Jr. (2000: 317-318) affirm that according to the Capture Theory, “either regulation is supplied in response to the industry’s demand for regulation (in other words, legislators are captured by industry), or the regulatory agency comes to be controlled by industry over time (in other words, regulators are captured by the industry)”.

3.3. Interest Group Theory

Since former theories are located on opposed extremes and are based exclusively in empirical evidences, they were hardly criticize, until the emergence of the Interests Group Theory. According to this one, the legislator's and the regulator's main goal is to keep itself in power. So, they design regulation in a way that can attend the needs of the interests group that exercises more relative pressure on them. Many authors comment about this: Stigler (1971), Posner (1971), Peltzman (1976) and Becker (1983) are some examples.

The Interest Group Theory can be viewed through the lens of Mechanic Physics' Vector Theory. The regulation can be presented as a pendulum, and pressure made by each group can be shown as a vector, as presented on *Figure 1*.

Figure 1 – Interest Groups Theory – Vectors

If pressures are equivalent and exercised in opposite ways, the pendulum remains unchanged (the regulation maintains the *status quo*). Although, if one group exercises its pressure more intensely than contenders groups, that probably will get the regulation in accordance to its demands. Based on this theory, pressures are exercised in many different ways, including financial support to elections' campaigns.

McLeay, Ordelheide and Young (2004) adopted the Interest Groups Theory to examine the impacts of three different groups of interests (lobbying) – accountants that work for industries (practitioners), auditors and academics – during the transformation of the Fourth European Company Law Directive in German accounting law.

All three theories presented have in common the fact that they follow the *Law and Economics* paradigm. But this is not the only way to examine regulation. There are other theories that follow different paradigms (as the societal and the philosophical). Examples are the Tridimensional Law Theory of Miguel Reale (hereafter Tridimensional Theory) and the Habermas' Approach interpreted by Laughlin. These two later theories are aligned to Ordelheide's point of view (2004: 273), that affirms:

[...] accounting, like other societal institutions, only exists because we think it or conceive of it [...] accounting exists because we believe it exists. I invoke this notion to demonstrate that the content of

what we conceive of as accounting is determined by the functions that we associate with it. Accounting is an instrument, it is a mean to an end, and it is these ends that imbue it with significance [...] accounting becomes a societal institution when parts involved share a common view of its functions, and accounting can only fulfill its functions provided that they are so shared [...] these functions have an implicitly normative character. From all of this it follows that values, desires, and utilities constitute accounting.

3.4. Tridimensional Theory

Reale² developed his theory (1963, 1977, 1994, 1995, 1996, 2005) that tried to understand the creation of laws. According to Reale, regulation is a societal construction that comes from the dynamic dialect between fact, value and norm.

Summarizing, we can say that norm (N) is produced by an entity, that has normative power (P), that can be interpret facts (F) according to values (V1, V2, V3) sharing by society (beliefs). The *Figure 2* helps to understand the process.

Figure 2 – Normative Process according to Reale

Pohlmann and Alves (2004) purposed that the Reale's Approach could be utilized to understand accounting regulation, but it was Silva (2007), that effectively adapted the Tridimensional Theory to accounting regulation. Silva (2007) concludes that:

There are three elements considered essential for the Tridimensional Law Theory: fact, norm and value, all of them can be identified in the accounting framework. The juridical fact appears as a process moment, that can be, a connection of human acts reactions. The accounting event (fact) is basically related to the natural economic events, able to change the entity's financial position.

The juridical norm can be treat as the way used to express what should or not be done, to make a value happens or avoid devalues. The accounting norm can be considerate one complementary rule that obey the fundamentals principles and is conceived as a necessary standard to help the recognition of the most diverse transactions and to help financial reporting production.

The value can be defined as a dialectic element for mediation between fact and norm [...], according to which the man is considered the value-origin of all the values, only he is originally capable of having conscience to understand what is important to his life.

The norm, as a quality of cultural reality, is made of conflicts and interest, in constant renewing, due to tensions involving facts and values (axiological fact relation). According to this view, the process of

norms emission, in the accounting field, can be develop by the continuously value intention, that focus in a determinate economic event defined the “ways” to be follow. The standards would be represented by the accounting norms, with the interference of regulators who have the power. Notice that the accounting norm cannot appear spontaneously in the facts and values. It needs to be established by an entity with power authority and power.

3.5. Habermas’ approach according to Laughlin

The Habermas’ approach³ interpreted by Laughlin (2007) is very similar to the Tridimensional Theory developed by Reale, at least by the fact that regulation as a societal construction surrounded by values and formalized by institutions that have normative power mechanisms (normative directions). The *Figure 3* facilitates understanding.

Figure 3 – Normative Process according Habermas / Laughlin

Tenório (2007) notices that agreements (explicit or implicit) about values occur, according Habermas, in the “public sphere”, and that it is fundamental for democracy constituency⁴. To Laughlin (2007) and Broadbent (1998) the mechanisms presented in the Habermas’ Theory match the accounting logic of the double entry book-keeping, as not just only accountants, but all the society agents evaluate costs and benefits of its actions – that means, the relation costs vs. benefits being access by debit and credit, that shows both sides of the same transaction, that means, “cash is exchanged for something in return” (Laughlin, 2007: 280).

Laughlin (2007) distinguishes regulation of accounting from accounting regulation. Accounting regulation is external to the accounting and can be formalized by the accounting standards, and also, by the societal regulation based on the accounting logic. The accounting regulation materialized by the accounting standards is the accounting regulation as it says, that means, the one emanate by an institution that has normative power (for example, the CVM, CPC, IASB, the Financial Accounting Standard Board – FASB, the Brazilian Federal Reserve – BACEN, and others regulatory agencies). Besides that, accounting regulation is also materialized by societal regulation, which means economic regulation or non-accounting (CARDOSO, 2005 and 2007, RODRIGUES, 2008). Examples of societal regulation are many: the Bankruptcy Act (Brazilian Federal Law 11.101/05), price regulation, tax and tax relief regulation. All these forms of regulation are confident on numbers provided by financial reports and are based on the accounting logic. On the other hand, the regulation of accounting

is internal to accounting, which means, coming as a reaction to external regulation. Similar to what Benham (2005) calls responses to the regulations, which can be licit or illicit. Discussions about licit or illicit responses to accounting regulation presuppose the definition of fraud, what is not pacified in the accounting literature. In earnings management literature, the difference between earnings management and accounting fraud is based on compliance to accounting standards, if with-in GAAP would be earnings management, otherwise fraud (DECHOW and SKINNER, 2000). On the other hand, on the fraud literature, there is no mention about the accounting principles. The National Association of Certified Fraud Examiners of United States *apud* McKee (2005) defines fraud as a distortion or intentional omission deliberate of material facts or accounting information, when considered as a group, with all the available information, can take the reader to change he/she judgment or decision. This point of view is shared with Moura (2007) who analyzing the Brazilian Judges conviction in regards to accounting fraud in three bankruptcy cases. Although, fraud is not the theme focus of this paper, register that we do not agree with Dechow and Skinner (2000) definition. Because that sounds based merely on the legal form of GAAP rather than on the economic substance of transactions been reported (the opposite of the Substance over Form accounting concept).

According to Laughlin (2007: 283-285), firms' responses to the regulation are based on the taxonomy of firms' values and activities, in sacred and secular, showing that firms are be able to scarify the secular values and activities, in order to preserve their sacred values and activities. Being intuitive, we notice that all of us tend to act this way, when we are threatened. As an example, when we stumble and do not fall, our first reaction is to project our arms to the front of our body, to protect our face (sacred), even not protecting our hands (secular). Based on this taxonomy of values and activities, the analysis' of firms' responses to regulation goes to the absorption topic, with four possible situations, two of first order (the sacred is not affected) and two of second order (sacred is affected). To avoid first order situations, organizations can act proactively (avoiding that the organization could be affected by the regulation) or reactively (when the organization is effect, but can 'reorient' itself in a way that protects the sacred). On the other hand, when the sacred is affected, the organization can choose to change (evolution) or will have to be force to change (colonization).

The following section is dedicating to the analyses of the Brazilian Federal Law 11.638, based on the five theories just addressed.

4. The Brazilian Federal Law 11.638/07

The Federal Law 11.638 approved in December 28th of 2007 originated from debates that had occurred for more than one decade in various forums: at academy, at CVM, at other regulators and at the Congress, provided some significant changes on the Brazilian Securities Act (Federal Law 6.404/76). Among the primarily changes are:

- That required the preparation, audit and disclosure of the Statement of Cash Flow, at the same time that banished the Statement of Sources and Applications of Funds;
- Required the preparation, audit and disclosure of the Value Added Statement;
- Created a new subgroup on the left hand of the Balance Sheet: Intangible Assets;
- Eliminated the Retained Earnings account from Stockholders Equity, right hand of the Balance Sheet;
- Prohibited the recognition of assets revaluation, from now on;
- Required the mark-to-market measurement to trading securities and available for sale securities;
- Required value present adjustment for long-term assets and liabilities, and allowed the value present adjustment for short-term assets and liabilities, when relevant;
- Required the impairment test for long-lived assets (property, plant, and equipment – PPE, and intangible assets);
- Required the recognition of capital lease as PPE and its respective liability;
- Required that CVM emits accounting standards in convergence to the international accounting standards;
- Required that big size firms⁵ adopt accounting standards from the Securities Act, and required that these entities submit their financial reports to external (independent) auditors; even though those big size firms are not publicly held.

Applying the regulation theories presented in the preview section to the changes promoted by the Law 11.638/07 in the Brazilian Securities Act, we identified that those theories can be applied in a complementary way and in some cases, one theory seems to be more appropriate than others.

The substitution of Statement of Sources and Applications of Funds by the Statement of Cash Flow, and the requirement concerned to the Value Added Statement can be explained by the Public Interest Theory. A significant amount of publicly held firms disclosed the Statement of Cash Flow and the Value Added Statement in 2008 (relatively to year-ended on December

31st, 2007)⁶. Maybe, the regulatory choice was undertaken to attend the yearnings of accounting information users', because now, all firms must disclose Statement of Cash Flow and Value Added Statement, while before the Law 11.638/07 it was voluntary. Although, this hypotheses is weakly supported when we exclude from the sample those firms that are certified by *Bovespa* (the Brazilian Stock Exchange) as adopting corporate governance practices (New Market Bovespa Mais, Level 2 and, Level 1 – since all of these levels of corporate governance certifications require the disclose of annual Statement of Cash Flow), remaining 345 firms on the sample, among which 16.8% and 9.9% respectively disclosed the Statement of Cash Flow and the Value Added Statement, as additional information to the Notes. This regulatory choice attends; also, the demands from publicly held firms that used to complain about disclosing the Statement of Sources and Applications of Funds, even though less readers of the financial reports consider that statement worthiness.

The prohibition to recognize new revaluations also can be seen as a regulation that seeks to attend the public interests because, according to the common sense, many firms adopted that accounting practice to manipulate the financial reporting numbers.

It is know that many firms have been using the revaluation to reduce, deliberately, dividend's distribution, even when PPE will not be replaced. Other firms have adopted the revaluation when felt that their equity is lower and the indexes of debt/equity are compromised [...] (Iudícibus et al., 2007: 345).

This way, we could argue that this regulatory choice has the purpose to avoid that publicly held firms manipulate information, trying to improve reliability and faithfulness. Curiously, IFRS allows reevaluate in some specific cases, while Brazilian-GAAP (already modified in the spirit of the convergence process – Law 11.638/07) does not allow revaluation at all, what will prejudice IFRS's full adoption in Brazil.

The mark-to-market and the present value adjustment requirements can be understood by the Tridimensional Theory, as such as by the Habermas' Approach interpreted by Laughlin. It can be argued that the value shared by society is not the information based on historical acquisition cost, but on fair value⁸. According to Reale, norms must follow changes and new societal demands (values).

The obligation of the CVM to emit accounting standards in convergence to IFRS can be understood in part based on the Interests Group Theory. On one hand (group 1) are the international investors and Brazilian institutional investors (that intend to reduce transaction

costs incurred while identifying risks and comparing Brazilian firms' performance with their foreigner contestants). Brazilian firms' performance and financial position that capture resources overseas and/or the holding is a foreigner firm, also, those that control firms located in other countries, all of them need to consolidate all the economic group (that intend to create an unique set of financial reports that simultaneously attend overseas investors and Brazilians ones), and international audit-firms that intend to reduce the costs of staff's training. On other way (group 2) are the publicly held firms that did not issue depositary receipts, and as the holding is Brazilian (they are satisfied with Brazilian accounting standards). In this scenario, it is reasonable to believe that group 1 has capacity to exercise more pressure upon the regulator (CVM, Republic President, and the National Congress) relatively to group 2. Group 2 is more dispersed than group 1, being more vulnerable to free-rider effect, and group 1 has more funds, in the way that pressure is costless for group 1 than for group 2.

Besides tax effects, the Law 11.638/07 originated an intense debate about the obligation of big-sized closely held firms to publicly disclose their financial reports. This debate have received significant attention in the specialized media, as an example, the article published at *Carta Capital* magazine of February, 2008, that presented contradictory arguments about the same point:

In TozziniFreire Lawyers suggest that big-sized closely held firms are free from the disclosure onus [...] At Barbosa, Mussnich & Aragão lawyers have gotten to the same conclusion: "The obligation does not go beyond book-keeping and preparing financial reports in accordance to the Securities Act". Modesto Carvalhosa interpreted that the law have obligated big-sized closely held firms to publicly disclose their financial reports [...] According to him, it does not make any sense the law requires book-keeping, preparing financial reports, and auditing them in accordance to the Securities Act, if those information are not available to the public.

Carvalhosa's argument seems to be very logic, but it is partial, due to not considering that many big-sized closely held firms are audited by independent auditors (eventually registered in CVM), because of partners/shareholders demands, or due to its the Brazilian holding being a public held firm that need to consolidate the business' group financial reports.

Even thought, we can use the Interest Group Theory to understand the independent auditing obligation, even without any disclosure. To analyze this topic, it is necessary to verify documents prior to the Law 11.638/07. By the pre-project of reformulation of the Law 6.404/76 (Brazilian Securities Act) and for the project-law 3.741/00, big-sized closely held firms should be obligated to publish and to archive in public available database, their financial

reports. Further, the substitutive of the project-law “said” that big-sized closely held firms should publish their financial reports on the internet, as if the “public interest” demanded a reduction on the asymmetry information between publicly held firms and their big-sized closely held firm competitors. Notice that some of nowadays Brazilian big-sized closely held firms used to be publicly held, but decided to close their capital in order to avoid compliance costs, since CVM’s requirements have increased significantly on the last decades; in addition, the avoided giving publicity to their financial reports. Now, Carvalhosa’s point of view intends to turn innocuous that prior business restructure. So, is reasonable to imagine that those firms (nowadays closely held) exercised pressure upon the legislative in order the avoid mandatory disclosure. According to the Habermas’ approach *apud* Lauhglin (2007), it can be said that big-sized closely held firms were proactive in the sense to avoid being affected by regulation. Finally, the world publication was substitute by disclosure. The practical difference between publication and disclosure is enough significant and directly impacts firm’s cash flows. Publication requires that financial reports are printed on newspapers (hardcopy), while disclosure allows financial reports been available in any kind of media, even on the firm’s website. Occurs that without publication, the newspaper industry, which thought of multiplying their earnings on the first quarter of each year (period of financial reports publications), would not get that extraordinary gain (positive externality). So, it is reasonable to guess that they exercised pressures upon the legislator, in the sense of demanding the publication (on the newspaper’s hardcopy). Assuming that both group’s pressures were equivalent and in opposite ways, it is reasonable to understand why the final content of the Law 11.638/07 did not required publication or disclosure, maintaining the status quo. Even if it is in the public interests that big-sized closely held firms disclose how they consume society’s resources, it would not happen in anyway – at least considering traditional financial statements. Society would only be aware of that if firms disclosure their Social and Environmental Statements – what was not mentioned in any of the official documents associated to the Law 11.638/07.

In general terms, there is no doubt, that subjectivity is a part of any regulation process – as like of any rule’s interpretation and adoption. Values are converting into norms based on the appreciation of an authority with power to regulate. According to Iudícibus (1997: 30) “we have to have capacity to exercise a responsible subjectivity, learn how to deal with values and [...] not relax only with a false objectivity notion”.

This way, from the tridimensional perspective, the functional correlation between foundations (values that legitimate the emitted norms), validity (legal capacity of the norm emitted by the

regulatory entity that has power for that) with efficiency (applied norm in a concrete case) is crucial to analyze the normative process.

The efficiency issue involves a larger approximation to the societal-historical research, according to Cella (2006: 41):

The higher is the need for a societal conduct, more intense is the societal pressure that makes the norm been broadly observed. On the other hand, as lower is the need for a societal conduct, less intense is the societal pressure which leads to the loss of the norm's effectiveness.

In relation to the foundations, is not possible to establish a norm that is not attached to the finality that legitimated its efficiency and validity. For example, standards issued from now on may be elaborated in accordance to the international accounting standards. It's clear that all accounting regulation follow some ends and those ends represent values that guide the conceptual framework and influences IFRS, International Accounting Standards (IAS), International Financial Reporting Interpretation (IFRIC), and Standing Interpretation (SIC).

5. Final Comments and Futures Research

I demonstrated that all five theories presented (Public Interest, Capture, Interests Group, Reale's, and Habermas') help in understanding some of the main changes in the accounting regulation. That was feasible because we considered accounting as a societal institution, what we believe is crucial to examine accounting regulation.

Regarding to the case analyzed on this paper, the issuance of the Federal Law 11.638/07 as the determinant start-up of the international convergence process in Brazil, those five theories provided relevant insights to understand political and accounting regulation choices. But Reale's and Habermas' approaches are linked, at best, to a democratization of the accounting process, going toward the direction of an end, opening the "black box" of the regulation process that many times, or maybe always, escape from the *demos*' attention⁹.

I expect that future researches examine how these theories fit on the study of the regulation of accounting that is been motivated by the convergence process. As well as, how these theories help understanding the convergence to IFRS in others Latin-American countries and in the other three BRIC countries.

Notes

¹ Three examples of this movement in the edit market are: the publishing of the supplement to its 7th edition of the “*Manual de Contabilidade*” by Iudícibus *et al.* (2008); publishing of the book “*Mudanças contábeis na lei nº 11.638, de 28-12-2007*”, by Braga and Almeida; and the second edition of “*Contabilidade Geral: uma introdução à Contabilidade Societária*”, by Szuster *et al.* (2008).

² Miguel Reale was born in São Bento do Sapucaí (SP, Brazil) in November 6. Was a lawyer since 1934, and a lawyer professor. Wrote many works about law’s philosophy, supervised the Commission that created the “new” Civil Code, was awarded with a *Doutor honoris causa* from many Brazilian and foreigner universities, he died in April 14, 2006.

³ Jürgen Habermas was born in Dusseldorf (German) in april 18th, 1929, is a philosopher and sociologist, one of the most important authors of the second’s generation from the Social Research Institute (Frankfurt). He wrote many works about philosophy and sociologist, his most famous work are related to the “Public Sphere”, “Communicative Rationality”, and “Communicative Action”.

⁴ Tenório (2007: 55) teaches: “According to Habermas, the public sphere can be describe as a proper network with communication contents, opinion and strategic choices; on it, the communicative ways are filtered with synthesized being condensed to public opinions full of specific term’ (1997, vol. II, p.92)”. Further, Tenório (2007: 60-61) as was explaining the concepts of deliberates citizenship, liberalism and republicanism, adds: “[...] for the politics, in a civic auto-legislation, market is not the paradigm, but the dialogue. This dialogue conception believes politics as a discussion of values, and not only about preferences (Habermas, 2004, p. 201)”.

⁵ Big size firms are those that have a total assets of R\$ 240 million or more (equivalent to €94.76 million as of July 9th, 2008), or annual gross revenue of R\$ 300 million or more (equivalent to €118.45 million at the same date).

⁶ At 2007, from 499 publicly held firms with stocks traded at Bovespa and with data publicly available <www.bovespa.com.br> until April 2nd, 2008, 41.3% disclosed the Statement of Cash Flow, and 18.4% disclosed the Value Added Statement.

⁷ Publicly held firms certified by Bovespa as adopting corporate governance practices (New Market Bovespa Mais, Level 2 and Level 1) had already to disclose the Statement of Cash Flow in addition to ‘traditional financial reports’ required by the Securities Act until 2007.

⁸ Sunder (2008) criticized the title “fair value”, and compared different measurement’s criteria impacts’ on net income and on stockholders’ equity.

⁹ *Demos*, in Greek, means people, citizens.

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Table 1. Constituencies in the Financial Reporting Environment

1 – Investors	A. Diversified vs. Undiversified B. Active vs. Passive C. Professional vs. Nonprofessional
2 – Information intermediaries	A. Financial Analysts B. Bond Rating Agencies C. Stock Rating Agencies D. Investment Advisory Services E. Brokerage Firms
3 – Regulators	A. FASB [IASB, CPC] B. SEC [IOSCO, CVM] C. Congress
4 – Management	A. Large vs. Small Firms B. Publicly vs. Closely Held Firms
5 – Auditors	A. [International vs.] National vs. Local Firms B. SEC [CVM] Practice vs. Non-SEC [Non-CVM] Practice

Source: An adaptation of Beaver's (1998: 13) *Table 1-1 Constituencies in the Financial Reporting Environment*.

Figure 1 – Interest Groups Theory – Vectors

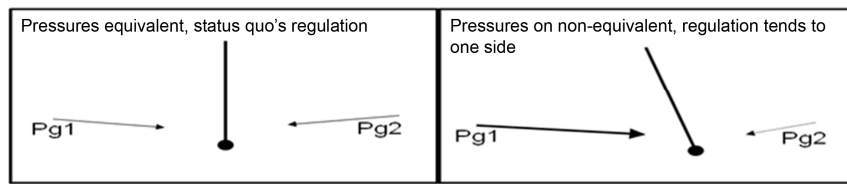
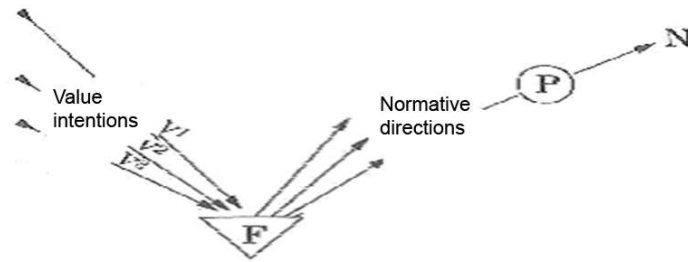
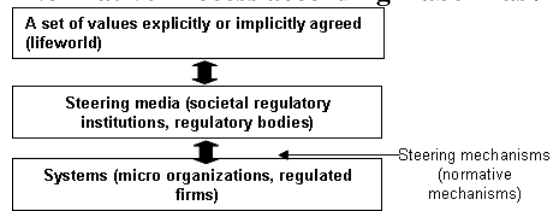


Figure 2 – Normative Process according to Reale



Source: Reale (2005: 123) – Law's Nomogenesis.

Figure 3 – Normative Process according Habermas / Laughlin



Source: Adapted from Laughlin (2007: 276) – Fig. 2. Habermas' model of society