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**Analysis of provisions and contingent liabilities in companies listed on B3**

**Análisis de provisiones y pasivos contingentes en empresas cotizadas en B3**

**Análise das provisões e passivos contingentes nas companhias listadas na B3**

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### Abstract

**Purpose:** Analyze the level of mandatory and voluntary disclosure of provisions and contingent liabilities in Brazilian publicly traded companies.

**Methodology:** A sample of 406 companies listed on B3 was observed. To analyze the level of mandatory and voluntary disclosure, two checklists were created based on the determinations of accounting pronouncement CPC 25.

**Results:** The most recurrent types of provisions and possible and remote contingent liabilities existing in the companies in the sample were, respectively: labor, civil and tax. The sectors with the highest levels of provision disclosure were: Public Utilities, Health and Information

Technology. In relation to Possible Contingent Liabilities, the highest levels of disclosure of companies that made a profit were observed in the Health, Public Utilities and Non-Cyclical Consumption sectors. Regarding voluntary disclosure, the Public Utility and Cyclical Consumption sectors presented a higher average of disclosure and a higher average of expressiveness, which may represent possible tendencies of these sectors to disclose their remote contingencies.

**Contributions of the Study:** The research contributes to the literature by demonstrating how Brazilian public companies are dealing with the disclosure of their provisions and contingent liabilities, addressing mandatory and voluntary disclosure in these situations, which are relevant because they have a high potential impact on the results of the year, if they are not disclosed, it is expected to pose risks to investors and other external users of the company.

**Keywords:** Provisions. Contingent liabilities. CPC 25. Disclosure.

### Resumen

**Objetivo:** Analizar el nivel de divulgación obligatoria y voluntaria de provisiones y pasivos contingentes en empresas brasileñas que cotizan en bolsa.

**Metodología:** Se observó una muestra de 406 empresas que cotizan en B3. Para analizar el nivel de divulgación obligatoria y voluntaria, se crearon dos listas de verificación con base en las determinaciones del pronunciamiento contable CPC 25.

**Resultados:** Los tipos de provisiones y pasivos contingentes posibles y remotos más recurrentes existentes en las empresas de la muestra fueron, respectivamente: laboral, civil y tributaria. Los sectores con mayores niveles de divulgación de provisiones fueron: Servicios Públicos, Salud y Tecnologías de la Información. Con relación a Posibles Pasivos Contingentes, los mayores niveles de divulgación de empresas que obtuvieron ganancias se observaron en los sectores de Salud, Servicios Públicos y Consumo No Cíclico. En cuanto a la divulgación voluntaria, los sectores de Servicios Públicos y Consumo Cíclico presentaron un mayor promedio de divulgación y un mayor promedio de expresividad, lo que puede representar posibles tendencias de estos sectores a revelar sus contingencias remotas.

**Contribuciones del Estudio:** La investigación contribuye a la literatura al demostrar cómo las empresas públicas brasileñas están abordando la divulgación de sus provisiones y pasivos contingentes, abordando la divulgación obligatoria y voluntaria de estas situaciones, que son relevantes porque tienen un alto impacto potencial en los resultados de del año, si no se divulgan adecuadamente, representan riesgos para los inversionistas y otros usuarios externos de la empresa.

**Palabras clave:** Provisiones. Pasivos contingentes. CPC 25. Divulgación contable.

### Resumo

**Objetivo:** Analisar o nível de evidenciação obrigatória e voluntária das provisões e passivos contingentes nas companhias de capital aberto brasileiras.

**Metodologia:** Foi observada uma amostra de 406 empresas listadas na B3. Para análise do nível de evidenciação obrigatória e voluntária foram elaboradas duas listas de verificação com base nas determinações do pronunciamento contábil CPC 25.

**Resultados:** Os tipos mais recorrentes de provisões e passivos contingentes possíveis e remotos existentes nas companhias da amostra foram, respectivamente: trabalhistas, cíveis e tributários. Os setores com maiores níveis de evidenciação das provisões foram: Utilidade Pública, Saúde e Tecnologia da Informação. Em relação aos Passivos Contingentes Possíveis, os maiores níveis de evidenciações das companhias que obtiveram lucro foram observados nos setores de Saúde, Utilidade Pública e Consumo Não Cíclico. No que compete à divulgação voluntária, os setores de Utilidade Pública e Consumo Cíclico apresentaram maior média de evidenciação e maior média de expressividade, o que pode representar possíveis tendências destes setores a divulgar suas contingências remotas.

**Contribuições:** A pesquisa contribui com a literatura demonstrando como as companhias abertas brasileiras estão tratando a divulgação de suas provisões e passivos contingentes, abordando a divulgação obrigatória e voluntária destas situações, que são relevantes porque possuem alto potencial de impacto no resultado do exercício, caso não sejam divulgadas adequadamente, representam riscos para os investidores e demais usuários externos da empresa.

**Palavras-chave:** Provisões. Passivos contingentes. CPC 25. Evidenciação contábil.

## 1 Introduction

Provisions and contingent liabilities are classified according to their probability of occurrence, depending on the extension of their amounts and whether or not they meet the recognition criteria, the lack of accounting disclosure of these factors can cause significant impacts on the decision-making of external users (Fonteles et al. 2013).

Provisions are liabilities in which there is uncertainty as to the maturity or value, in which case it is probable that the company will need to disburse resources to settle the obligation and the estimate of the value can be reliably made (CPC 25, 2009). Contingent liabilities are possible obligations that will be confirmed by one or more uncertain events not controlled by the entity, or in cases where there is a present obligation that cannot be reliably measured or its outflow of resources is not probable (CPC 25, 2009).

The provisions must be recognized in the liabilities of the company and disclosed in the notes to the financial statements (NFT). As for the contingent liabilities, they should not be recognized in the accounts; they should only be disclosed in the notes to the financial statements, as they are possible obligations that have yet to be confirmed based on facts that are not under the control of the entity. However, when the chances of the occurrence of contingent liabilities are remote (practically nil), the legislation does not require disclosure, unless the companies choose to do so voluntarily (Santos et al., 2022).

The contingent liabilities must be monitored, as the chances of their occurrence may become probable and thus become provisions that should be recognized in the income statement. Depending on the magnitude of the amounts involved, the impacts can be significant (Jesus & Souza, 2016).

In view of the risks and impacts that the contingent liabilities and provisions can cause, the adequate disclosure of this information in the notes to the financial statements has been increasingly required by the market, since it helps external users to make a more amplified interpretation of the performance of the organization, taking into account that the result exerts relevant representativeness in the perspective of the future projections of a company (Mesquita et al., 2018).

Some studies have found a low level of disclosure of provisions and contingent liabilities in Brazilian companies (Hennes, 2014), Garcia (2015) who found that the companies are not fully compliant with CPC 25 (2009), and Rosa and Souza (2018) who found a low level of disclosure related to the tax provisions and contingent liabilities.

The subject of provisions and contingent liabilities is regulated in Brazil by Accounting Technical Pronouncement CPC 25 (Provisions, Contingent Liabilities and Contingent Assets), issued by the Accounting Pronouncements Committee (CPC) on June 26, 2009, correlating with the international standard IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) of the International Accounting Standards Board (IASB) (CPC, 2024).

In the Technical Pronouncement CPC 25 (2009), the minimum disclosure requirements for the provisions and contingent liabilities are established, with the aim of helping external users to analyze and make decisions (CPC 25, 2009). The investors are looking for companies with more transparent information in their accounting reports. An adequate and complete disclosure policy can provide a direct relationship between the company and the external users (Hendriksen & Van Breda, 2018).

In this regard, Suave et al. (2013) point out that in order for external users to obtain clearer and more accurate information on the risks related to the contingent liabilities and provisions of a given company, it is necessary to disclose contingency values, given that only the internal users have access to the risk estimates related to the activity of the company, the adequate disclosure reduces the informational asymmetry between external and internal users.

By analyzing the standard CPC 25 (2009), it is possible to realize that the disclosure of provisions is mandatory, but the disclosure of the contingent liabilities is divided into mandatory and voluntary, because if the chances of the obligation occurring are possible (less than a 50% of chance), the disclosure in the notes to the financial statements is mandatory. On the other hand, if the chances of an outflow of resources are remote (practically zero), the disclosure is not required, unless the company does it voluntarily.

At this juncture, according to a report in the newspaper Valor Econômico (2021), the loss from provisions for legal losses grew by 88 billion in the year of 2020, the peak of the COVID-19 pandemic. From this perspective, research on the subject of the provisions and contingent liabilities is pertinent, considering that the lack of disclosure of this information can lead to inaccurate and/or mistaken decision-making (Jornal Valor Econômico, 2021).

Considering the above and with a view to contributing to the subject, the following research problem was developed: **What is the level of mandatory and voluntary disclosure of the provisions and contingent liabilities in Brazilian listed companies?** The purpose of this research is to analyze the level of mandatory and voluntary disclosure of the provisions and contingent liabilities in Brazilian publicly traded companies.

The disclosure of accounting information helps to reduce information asymmetries between external and internal users (Schipper, 2007). In this concept, the accounting disclosure is the path that allows the companies to communicate with their external users,

showing respect and transparency to the interested parties, thus developing mechanisms with the intention of achieving their strategic goals (Sousa et al., 2014).

The lack of disclosure of the contingent liabilities and provisions, or the lack of clarity in their disclosure, can influence the decisions made by the users of the accounting information (Viviani & Fernandes, 2014). Considering the above, this research presents a complete mapping covering the level of mandatory and voluntary disclosure and the expressiveness of the provisions and contingent liabilities in Brazilian publicly traded companies listed on the Bolsa, Brasil, Balcão (B3).

Previous studies by Fonteles et al. (2013), Pinto et al. (2014), Garcia (2015), Prado (2015), Oliveira (2016), Rosa and Souza (2018) and Sanson and Souza (2018) verified the disclosure of the provisions and contingent liabilities from the perspective of mandatory disclosure, the present study differs from the previous ones by addressing the analysis of voluntary disclosure and contemplating all Brazilian publicly traded companies in an updated context.

## 2 Theoretical Basis

### 2.1 The Provisions and Contingent Liabilities

To contextualize the subject of the provisions and contingent liabilities, the part for which there is no certainty that it will result in a present obligation for the entity is classified as a contingent liability, and it is only disclosed in the notes to the financial statements; however, in the cases where the chances of occurrence are remote, CPC 25 (2009) does not require the disclosure. As for the provisions, they consist of present obligations that require estimates to assess their respective value, since it is probable that funds will be required to settle the obligation, the provisions must be recognized in the accounts, as well as disclosed in the notes to the financial statements (Santos et al., 2022).

The provisions differ from the other liabilities of the company in that there is uncertainty about the timeframe or future amount to be disbursed. Thus, when it comes to provisions, there will always be a degree of uncertainty. On the other hand, other liabilities that do not constitute provisions have a significantly higher degree of certainty as to their value or maturity (Leite, 2018).

As far as the contingent liabilities are concerned, for each one the entity is required to disclose a brief description of its nature, and what the effect will be in accordance with the measurement rules. The rule for the contingent liabilities is that they should only be disclosed in the notes to the financial statements. The only exception is in situations where the chances of the obligation occurring are remote (nil), in which case CPC 25 (2009) does not require disclosure in the notes to the financial statements, unless the entity wishes to do so on a voluntary basis (CPC 25, 2009).

The research by Costa et al. (2017) carried out a study about Brazilian companies that presented the risk of contingency uncertainties, classified as possible and remote, and obtained the result that around 30% of Brazilian companies disclosed this information. Only the most relevant processes were taken into account within each category for this study (Costa et al., 2017).

As regards the disclosure of the provisions and contingent liabilities, the disclosure through the notes to the financial statements plays a fundamental role in the analysis carried

out by the external users of the accounting information and plays an enriching role in the accounting reports (Marion, 2009).

With regard to transparency and security in accounting information, it is important for the users to obtain the criteria used in the financial statements for recognizing and measuring the provisions and contingent liabilities, so that they can understand the next steps for the entity (CPC 25, 2009).

With this in mind, the quality disclosure of the contingent liabilities must be in accordance with CPC 25 (2009) and meet the needs of its users, offering the possibility to analyze the risks to the company, since such possibilities of obligations arising may come to fruition and cause strong impacts on the result for the period (Jesus and Souza, 2016).

The transparency in the disclosure of the provisions and contingent liabilities offers references for decision-making so that the investors and other external users can be aware of the items in the financial statements that have a high probability of occurrence and can make their projections in this regard (Nunes, 2017).

Along these lines, CPC 25 (2009) advises that the contingent liabilities and provisions should be monitored. This pronouncement explains that a possible obligation (which has currently been disclosed as a contingent liability) may subsequently become probable and require accounting recognition, which would affect the result for the period. Similarly, the estimates of provisions can also change, which would also result in adjustments that would be necessary to reflect the situation reliably (CPC 25, 2009). This is why it is important to control and monitor the contingent liabilities and provisions.

## 2.2 Accounting Disclosure

An environment in which information is disclosed in a complete and transparent manner provides the external users with a more solid basis on which to base their analysis and investment and financing decisions (Goldstein & Yang, 2019).

Along these lines, the main objective of accounting is to provide the information needed for deliberations, emphasizing that the disclosure is an essential condition for achieving this objective, it is through adequate disclosure that greater transparency, readability and understanding of the information made public is promoted, so that the external users can have a reliable basis to support their decisions (Pereira & Silva, 2006).

The disclosure of complete and reliable accounting information is important in the capital markets, as it is seen as one of the ways to reduce risks for the external users (Schipper, 2007). In this regard, it is stated in the Conceptual Framework for Financial Reporting (2019) that users of financial statements need information on both the position of the entity and its financial performance, and therefore the disclosure of information on the provisions and contingent liabilities are important.

Lopes and Martins (2005) affirm that the lack of accounting disclosure in companies can generate information asymmetry, in many cases resulting from conflicts of interest between the internal and external users. These conflicts of interest are explained by the agency theory, which according to Pinto Júnior and Pires (2000), concerns the relationship between the main part and the agent, and from this relationship the problems of agency conflicts can arise when the interests of the agent are different from those of the main part, and in this environment of divergent interests, information asymmetry is one of the situations that is usually present.

The information asymmetry occurs when not all the facts are known by both parts (main part and agent), this happens when the information is disclosed incompletely. The agent is directly linked to the day-to-day negotiations of the company, while the main part depends on the information that the agent provides. The agents are the internal users, since the main part (shareholders) entrusts them with the task of making decisions in the company (Hendriksen and Van Breda, 2018).

In this environment, the theory of disclosure concerns the transparency and disclosure of information and it can be applied in two ways: mandatory, which is the disclosure of information by legal imposition; or, voluntary, which is extralegal disclosure carried out by decision of the management of the company (Fabre et al., 2017).

Thus, the mandatory disclosure is closely related to compliance with the disclosure required by the accounting standards, and it is understood as compulsory disclosure (Pereira, 2008). As for the voluntary disclosure, it is done on a voluntary basis by the companies (Verrecchia, 2001).

Piacentini (2004) reports that the initiative taken by companies to present voluntary disclosures in their notes to the financial statements means that a large amount of business information can be used as a vehicle for communicating with investors. In addition, Moura et al. (2010) point out that voluntary disclosure is important for the success of individual companies, especially in relation to the critical success factors and trends that guide them, considering that studies suggest that investors have more confidence in more transparent companies.

In view of the above, it can be seen that the mandatory and the voluntary disclosure of the provisions and contingent liabilities of Brazilian listed companies have a crucial role in the capital market, the disclosure of this information has the power to affect the decisions of external users. The disclosure of information, both mandatory and voluntary, is important in the spheres of the company, as the more information, the more interest, trust and knowledge on the part of external users.

### 2.3 Similar studies

To obtain similar research, a survey was carried out on the Scientific Periodicals Electronic Library (SPELL) and Google Scholar. The keywords used were: Provisions; Contingent Liabilities; CPC 25; IAS 37; Disclosure. The research returned 09 articles related to the subject of this investigation. In Table 1, the similar studies observed are shown.

**Table 1**  
*Similar studies*

| Authors                | Objective and period analyzed   | Results  |
|------------------------|---|--|
| Fonteles et al. (2013) | To analyze the determinants of the disclosure of the provisions and contingencies by companies listed on BM&FBovespa in 2010. | The results indicated the presence of old accounting practices and the consequent inadequacy of the companies to CPC 25. |

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|-----------------------|---|--|
| Pinto et al. (2014)   | To identify whether the quantitative and qualitative disclosure of the provisions and contingent liabilities is related to the market value of Brazilian listed companies, and which factors are related to this level of disclosure. The period analyzed was from 2010 to 2013.                            | The authors found that the companies that disclose the most belong to the Software and Data sector and those that disclose the least belong to the Chemicals, Transportation and Services and Construction sectors, respectively. The average mandatory disclosure of the provisions and contingent liabilities in the notes to the financial statements was 54.2%. They found that the higher the market value, the lower the level of disclosure of information on the provisions and contingent liabilities.  |
| Garcia (2015)         | To analyze the disclosure of the contingent liabilities and provisions in the financial statements published in the year of 2014 by the companies listed on the São Paulo Stock, Commodities and Futures Exchange (BM&FBovespa), in the industrial sector and which are listed in the Novo Mercado segment. | Based on the results analyzed, the authors found that the more quantitative disclosure items of CPC 25 for the disclosure of the provisions, such as the initial and final value, additions, uses of provisions, were disclosed. As for the more qualitative items which seek to show, for example, uncertainties about the amounts and expected timing of the outflow of resources, the disclosure is weak. In some companies it is not even possible to know the nature of the provision or contingent liability. The average disclosure rate for provisions was 63.33% and for contingent liabilities 70%. In the opinion of the authors, the companies are not fully compliant with the proposed standards, despite being part of a corporate governance segment that values quality and transparency. |
| Prado (2015)          | To identify the behavior of the disclosure of potential risks during the period to the years of 2002, 2006, 2010 and 2012, in the disclosure of potential risks represented by the information contained in the provisions and contingent liabilities of the companies.                                     | The results show that the companies evolved in their disclosure of potential risks, mainly in the years of 2002 and 2006, due to the modernization of accounting regulations in this period. In the years of 2010 and 2012 there was an improvement, and they began to disclose to the market in more detail. In this way, the authors found that the companies had a learning curve as the legislation evolved.   |
| Oliveira (2016)       | To verify the compliance with the requirements of recognition, measurement and disclosure of the provisions and contingent liabilities of the companies listed on the Stock, Commodities and Futures Exchange - BM&FBOVESPA S.A. The period analyzed was the year of 2014.                                  | Based on the results analyzed, the authors pointed out that the average disclosure index is 61%, and that of the 18 companies analyzed, 12 obtained their indexes above the average and 6 companies were below.  |
| Rosa e Souza (2018)   | To verify the representativeness and the level of disclosure of tax provisions and the contingent liabilities in Brazilian publicly traded companies in the year of 2015.   | Based on the results analyzed, it was possible to see that the degree of representativeness of tax contingent liabilities is relatively greater than that of tax accruals. And the greater the tax loss, the less transparent it is.   |
| Sanson e Souza (2018) | To identify the characteristics associated with the level of disclosure of the contingent liabilities of Brazilian listed companies. The period analyzed was the year of 2016.  | The results showed a higher concentration of the contingent liabilities of a tax nature (32.04%); labor (31.52%) and civil (31.26%) in the sample analyzed. They also pointed out that the entities which have more obligations to third parts have a higher average disclosure of the contingent liabilities. It was found that the highest level of corporate governance does not influence the publication of the contingent liabilities. It was found that the highest average disclosure was in the Telecommunications (33.33%); Health (30.56%) and; Oil,  |



|                       |   | Gas and Biofuels (28.07%) sectors.   |
|-----------------------|---|--|
| Forte et al. (2021)   | To investigate the effect of the disclosure of the provisions and contingent liabilities on the market performance of the listed companies.   | The results of the study showed the influence of the disclosure of the provisions and contingent liabilities on the market performance of the B3 companies. The authors emphasized the importance of disclosing information, since it may be able to alter the perception of the various stakeholders in such a way as to affect the market performance of the companies listed on B3.             |
| Borges e Rover (2022) | To analyze the characteristics of the provisions and contingent liabilities and the reflection of the reconfiguration of the contingencies in Brazilian public companies listed on the Brasil, Bolsa e Balcão (B3). | The study found that if the contingent liabilities were reclassified as provisions, many of the companies analyzed would make a loss. The authors concluded from mean difference tests that the reclassification of the contingencies would have a major impact on the results of the companies, which indicates that the companies should carefully disclose the risks to which they are subject. |

Source: Research data (2024).

Based on the previous studies shown in Table 1, it is possible to highlight that many companies are still inadequate in the way they disclose their accounting practices, even though the disclosure is mandatory. The research shows that the complete form required by CPC 25 is not being followed by many companies in different industries, which is detrimental to external accounting users, especially the investors (Fortes et al., 2021). This situation makes it relevant to carry out updated research on the subject, and it is necessary to address both the mandatory and the voluntary disclosure.

### 3 Research methodology

#### 3.1 Research design

In terms of objectives, this research is descriptive. Gil (2008) explains that the main objective of this type of research is to describe the characteristics of a given population or phenomenon or to establish relationships between variables. The author also points out that descriptive research is carried out in accordance with practical action.

The approach to the problem is qualitative. Richardson (2014) explains that qualitative research can be characterized as an attempt to understand in more detail the meaning and characteristics of certain situations, and the analysis of the researcher is essential in this type of investigation.

With regard to obtaining data, the research is classified as documentary, since the Notes to the Financial Statements, Income Statements and Balance Sheets of the companies in the sample were analyzed. The year analyzed was for 2021, as it is a peculiar period in which Brazil is still feeling the effects of the pandemic, and companies are likely to make provisions and to be subject to the occurrence of the contingent liabilities.

#### 3.2 Research instrument

The present study used two checklists: i) one to assess the mandatory disclosure of the provisions and contingent liabilities with possible chances, and ii) a checklist to measure the level of the voluntary disclosure of information on the contingent liabilities with remote chances (since CPC 25 does not require the disclosure of such information).

### 3.2.1 Research instruments for analyzing the mandatory and the voluntary disclosure

The Checklist for measuring the mandatory disclosure of the provisions and contingent liabilities with possible chances was drawn up based on the disclosure determinations issued by Technical Pronouncement CPC 25. In Table 2 it is presented as the instrument for measuring the level of the mandatory disclosure.

**Table 2**

*Checklist relevant to the mandatory disclosure*

| <b>Disclosure of the Provisions</b>  |
|--|
| 1. Book value at the start of the period.  |
| 2. Book value at the end of the period.  |
| 3. Additional provisions made during the period.   |
| 4. Increase in the existing provisions (if any).   |
| 5. Values used during the period, in other words, incurred or written off against the provision. |
| 6. Unused values reversed during the period.   |
| 7. Increase during the period in the value discounted to the present value.                      |
| 8. Effect of any change in the discount rate.  |
| 9. A brief description of the nature of the obligation.  |
| 10. Expected timing of any resulting economic benefits.  |
| 11. Indication of uncertainties about the value or timing of these outputs.                      |
| 12. Any expected reimbursement value.  |
| <b>Mandatory Disclosure of the Contingent Liabilities (possible chances)</b>                     |
| 1. On the balance sheet date, a brief description of the nature of the contingent liability.     |
| 2. Estimate of its financial effect (value).   |
| 3. Indication of uncertainties related to the value or the occurrence time of any output.        |
| 4. Possibility of any reimbursement.   |

**Source:** adapted from the items contained in CPC 25 (2009).

Thus, the Checklist for the mandatory disclosure, shown in Table 2, has 12 analysis items on the disclosure of the provisions, which clarify what should be presented and disclosed by the entities in their statements, and it has the mandatory disclosure items for the contingent liabilities (possible chances), which covers the minimum disclosure that companies need to make in their notes to the financial statements.

Another checklist was drawn up to measure the level of the voluntary disclosure regarding the remote contingent liabilities, considering that the disclosure of these contingencies is not mandatory according to CPC 25 (2009). Any disclosure made by companies regarding the contingencies considered remote is characterized as voluntary. Table 3 shows the Checklist.

**Table 3**

*Checklist for the voluntary disclosure*

| <b>Disclosure of the Remote Contingent Liabilities (remote chances)</b>                      |
|--|
| 1. On the balance sheet date, a brief description of the nature of the contingent liability. |
| 2. Estimate of its financial effect (value).   |
| 3. Indication of uncertainties related to the value or the occurrence time of any output.    |

**Source:** adapted from the items contained in CPC 25 (2009).

The voluntary disclosure checklist shown in Table 3 has 3 items for analyzing the disclosure of the remote contingent liabilities (remote chances) in order to analyze whether companies are voluntarily disclosing this information.

### 3.2.2 Technique for assessing the significance of the Provisions and Contingent Liabilities

To calculate the representativeness of each company in the sample, the total value of the provisions recognized was divided by the total liabilities (Current Liabilities + Non-Current Liabilities). This approach is adopted for provisions because they have already been recognized, so it is possible to see their representativeness (expressiveness) in relation to the total liabilities on the balance sheet of the companies in the sample.

For the contingent liabilities in which the chances of occurrence are possible, the total amount disclosed in the notes to the financial statements was checked and divided by the amount of the Net Income for the year. In addition, the total value of these possible contingencies divided by the value of Shareholders' Equity was also analyzed.

The significance of the remote contingencies was analyzed using the same methodology used for the contingent liabilities where the chances are possible, by the total value of contingencies divided by the Net Income for the year and the total value of contingencies divided by the value of Shareholders' Equity.

### 3.3 Research procedures

To measure the level of disclosure, the disclosure indices for the mandatory and the voluntary disclosure were calculated. To do this, the methodology used in the research by Souza and Borba (2017) was used, in which 1 was assigned to the items disclosed by the companies, 0 to the items not disclosed and NA (not applicable) in cases where the company states that it does not have a certain situation and would not be obliged to disclose.

For each company in the sample, the level of the mandatory disclosure (for possible provisions and contingent liabilities) and the voluntary disclosure (in cases where it discloses remote contingent liabilities) was calculated. The formula used is shown below.

$$\text{Disclosure Index} = \frac{\text{Obtained score}}{(\text{Total} - \text{NA})}$$

After measuring the levels of the mandatory and the voluntary disclosure for each of the companies in the sample, it was possible to carry out a joint analysis of disclosure with the expressiveness of the provisions and contingent liabilities. In addition, an analysis was carried out by sector of activity. The source of the data for this research was the Notes to the Financial Statements, the Income Statement (IS) and the Balance Sheet (BS) for the year of 2021.

### 3.4 Research Sample

The research sample consists of all Brazilian publicly traded companies listed on Brasil, Bolsa, Balcão (B3), which have provisions and/or contingent liabilities disclosed in their notes to the financial statements in the fiscal year of 2021.

On October 12th, 2022, there were 474 companies listed on B3, and a detailed analysis was carried out of each company's notes to the financial statements in order to identify which companies reported having provisions and/or contingent liabilities in the year of 2021. A careful check of each of the notes to the financial statements revealed that 411 companies had provisions and/or contingent liabilities. Of these, 5 were removed from the sample because their statements were not available at the time of collection, so the final research sample totals 406 companies. In Table 4 it is shown the research sample by sector of activity and by company.

**Table 4**  
*Research sample by sector of activity*

| Sector                     | Frequency % | Quantity   |
|----------------------------|-------------|------------|
| Industrial Assets          | 18%         | 72         |
| Communications             | 2%          | 10         |
| Cyclical Consumption       | 20%         | 82         |
| Non-cyclical consumption   | 7%          | 28         |
| Financial                  | 16%         | 65         |
| Basic Materials            | 7%          | 28         |
| Petroleum, Gas and Biofuel | 3%          | 12         |
| Healthcare System          | 6%          | 24         |
| Information Technology     | 4%          | 17         |
| Public utility             | 17%         | 68         |
| <b>Total</b>               | <b>100%</b> | <b>406</b> |

Source: Research data (2023).

The research sample consisted of 406 companies divided by sector, as shown in Table 4. Each of the companies' notes to the financial statements was analyzed in detail, which made it possible to obtain the results pertaining to the level of the mandatory disclosure of provisions and contingent liabilities with possible chances and the voluntary disclosure of remote contingent liabilities.

## 4 Research results

### 4.1 Nature of the provisions and contingent liabilities

The types of possible and remote provisions and contingent liabilities disclosed by the companies in the sample were identified. The results are shown in Table 5.

**Table 5**  
*Types of Possible and Remote Provisions and Contingent Liabilities Identified in the Research*

| Nature/Types  | Nature of Identified Possible and Remote Provisions and Contingent Liabilities |            |          |            |
|---------------|--|------------|----------|------------|
|               | Provisions   | PossibleCL | RemoteCL | Total      |
| Civil         | 337  | 321        | 17       | <b>675</b> |
| Tax           | 312  | 309        | 16       | <b>637</b> |
| Labor         | 409  | 353        | 18       | <b>780</b> |
| Environmental | 44   | 43         | 1        | <b>88</b>  |
| Regulatory    | 29   | 21         | 0        | <b>50</b>  |
| Corporate     | 1  | 0          | 0        | <b>1</b>   |
| Land          | 2  | 0          | 0        | <b>2</b>   |

|                   |               |               |              |                |
|-------------------|---------------|---------------|--------------|----------------|
| Ownership         |               |               |              |                |
| Others            | 16            | 7             | 0            | 23             |
| Non-specified.    | 4             | 7             | 2            | 13             |
| <b>Total</b>      | <b>1154</b>   | <b>1061</b>   | <b>54</b>    | <b>2269</b>    |
| <b>Percentage</b> | <b>50,86%</b> | <b>46,76%</b> | <b>2,38%</b> | <b>100,00%</b> |

**Legenda:** PossibleCL = Possible Contingent Liabilities; RemoteCL = Remote Contingent Liabilities..

**Source:** Research data (2023).

It is possible to observe in Table 5 the results found in the relation to the nature of the possible and remote provisions and contingent liabilities, in which different types of nature were evidenced, among them: civil, tax, labour, environmental, regulatory, corporate, land ownership, others and some companies did not specify the type of nature.

With regard to the provisions and possible and remote contingent liabilities, Table 5 shows that the most recurrent types in the companies in the sample are labor, civil and tax, respectively. It is also important to mention the environmental category, which is a little less expressive, but has a considerable number of provisions (44) and possible contingent liabilities (43).

The results found in this research corroborate those found in the study by Sanson and Souza (2018), who analyzed the contingent liabilities and identified that the types of labor, civil and tax nature represented the largest existing portion, varying only in the order of classification, and reported that the environmental nature appeared in smaller quantities in the sample studied.

In Table 5, it can be seen that some companies recognized the provisions and disclosed possible contingent liabilities of a regulatory nature. To a lesser extent, there were also disclosures of a corporate nature, land ownership and some indicated as “other” by some companies in the sample analyzed. It was also found that some companies did not specify the type (nature) of existing provisions (4), possible contingent liabilities (7) and remote contingent liabilities (2).

Regarding the total amounts, the Table 5 shows that the largest proportion corresponds to provisions (50.86%), followed by possible contingent liabilities (46.76%) and, to a lesser extent, remote contingent liabilities (2.38%). It should be noted that the disclosure of provisions and possible contingent liabilities is mandatory, while remote contingent liabilities are voluntary.

## 4.2 Analysis of the disclosure and expressiveness of provisions

In Table 6 it is presented the average level of disclosure and the average expressiveness of provisions in relation to the total liabilities, separated by sector of activity: Industrial Assets, Communications, Cyclical Consumption, Non-cyclical Consumption, Financial, Basic Materials, Petroleum, Gas and Biofuel, Healthcare System, Information Technology and Public Utility.

**Table 6**

*Average level of the disclosure and expressiveness of provisions by sector*

| Sector of activity | Quantity | Average Level of Evidence | Average Expressiveness |
|--------------------|----------|---------------------------|------------------------|
| Industrial Assets  | 65       | 44,00%                    | 5,71%                  |
| Communications     | 10       | 45,83%                    | 3,89%                  |

|                            |            |        |        |
|----------------------------|------------|--------|--------|
| Cyclical Consumption       | 81         | 46,30% | 4,30%  |
| Non-cyclical Consumption   | 27         | 46,30% | 10,51% |
| Financial                  | 60         | 47,03% | 6,03%  |
| Basic Materials            | 27         | 46,60% | 2,70%  |
| Petroleum, Gas and Biofuel | 12         | 40,28% | 2,25%  |
| Healthcare System          | 24         | 56,25% | 2,83%  |
| Information Technology     | 17         | 52,94% | 3,27%  |
| Public Utility             | 63         | 59,66% | 3,05%  |
| <b>Total quantity</b>      | <b>386</b> | -      | -      |

Source: Research data (2023).

It can be seen that the sectors with the highest levels of disclosure of provisions are, respectively: Public Utility, Healthcare System and Information Technology. It is worth to mention that the public utility sector includes sub-sectors such as electricity, which has a regulatory agency, and the healthcare system sector is also regulated, which provides greater supervision and may be related to a higher level of disclosure. Even so, no sector had an average level of the disclosure of provisions of more than 60%, which shows that the companies still need to improve in terms of the mandatory disclosure of provisions in order to fully comply with CPC 25.

As far as expressiveness is concerned, the results show that, on average, the greatest representation of the provisions is in the Non-cyclical Consumption, Financial and Industrial Assets sectors, respectively. None of these sectors had an average disclosure level of more than 50%, suggesting that these sectors are still not fully complying with CPC 25, despite having the highest proportions of the provisions identified in the research.

The checklist items that were least disclosed by the companies were: Expected timing of any resulting outflows of economic benefits, indication of uncertainties about the amount or timing of these outflows, and any expected reimbursement amount.

### 4.3 Analysis of the disclosure and significance of the possible contingent liabilities

In Table 7 it is presented the average by sector of the disclosure and expressiveness of the Possible Contingent Liabilities in relation to Earnings and Shareholders' Equity of the companies in the sample, separated by sector of activity and calculated separately by profit, loss, positive shareholders' equity (SE) and negative shareholders' equity (NSE).

**Table 7**

*Average by sector of the disclosure and expressiveness of PCL in relation to Earnings and Shareholders' Equity*

| Sector of activity       | LE and Express. Result |          |        |      |          |        | LE and Express. PSE |         |        |     |           |        |
|--------------------------|------------------------|----------|--------|------|----------|--------|---------------------|---------|--------|-----|-----------|--------|
|                          | Earnings               |          |        | Loss |          |        | PSE                 |         |        | NSE |           |        |
|                          | Qtt                    | E        | LE     | Qtt  | L        | LE     | Qtt                 | PSE     | LE     | Qtt | NSE       | LE     |
| Industrial Assets        | 47                     | 600,17%  | 46,81% | 19   | 160,99%  | 47,37% | 54                  | 70,89%  | 48,15% | 12  | 194,69%   | 41,67% |
| Communications           | 7                      | 218,22%  | 37,50% | 3    | 311,10%  | 50,00% | 8                   | 18,87%  | 39,29% | 2   | 2155,00%  | 50,00% |
| Cyclical Consumption     | 54                     | 142,08%  | 43,98% | 26   | 1194,27% | 47,12% | 67                  | 28,12%  | 44,78% | 13  | 67,59%    | 46,15% |
| Non-cyclical Consumption | 26                     | 577,11%  | 48,08% | 1    | 1046,62% | 50,00% | 24                  | 24,68%  | 48,96% | 3   | 944,09%   | 41,67% |
| Financial                | 48                     | 135,88%  | 47,92% | 11   | 3371,58% | 43,18% | 57                  | 50,55%  | 46,93% | 2   | 40221,29% | 50,00% |
| Basic Materials          | 23                     | 443,96%  | 45,65% | 3    | 98,64%   | 50,00% | 23                  | 212,01% | 45,65% | 3   | 64,78%    | 50,00% |
| PET, Gas and Biofuel     | 8                      | 578,01%  | 46,88% | 3    | 836,69%  | 50,00% | 8                   | 40,25%  | 50,00% | 3   | 160,48%   | 41,67% |
| Healthcare System        | 19                     | 2991,35% | 51,32% | 4    | 224,46%  | 50,00% | 23                  | 164,35% | 51,09% | 0   | 0,00%     | 0,00%  |
| IT                       | 12                     | 89,57%   | 47,92% | 6    | 32,77%   | 50,00% | 18                  | 12,85%  | 48,61% | 0   | 0,00%     | 0,00%  |

|                       |     |          |        |    |         |        |     |        |        |    |        |        |
|-----------------------|-----|----------|--------|----|---------|--------|-----|--------|--------|----|--------|--------|
| Public Utility        | 59  | 1441,85% | 50,00% | 6  | 926,95% | 50,00% | 62  | 46,47% | 50,00% | 3  | 59,91% | 50,00% |
| <b>Total quantity</b> | 303 | -        | -      | 82 | -       | -      | 344 | -      | -      | 41 | -      | -      |

**Subtitles:** **Qtt:** quantity **PCL=** Possible Contingent Liabilities; **e;** **LE =** Level of Evidence; **Express.** = Expressiveness; **E=** Average Expressiveness Companies that made earnings; **L =**Average Expressiveness Companies that made loss; **PSE =**Average of positive shareholders' equity; **NSE =** Average of negative shareholders' equity; **PET.** = Petroleum; **IT =** Information Technology

**Source:** *Research data (2023).*

With regard to the disclosure of the Possible Contingent Liabilities, it can be seen that, on average, the highest levels of disclosure for the companies that made earnings are in the Healthcare System, Public Utility and Non-cyclical Consumption sectors, respectively. As for the companies that made a loss in the financial year, the highest levels of the disclosure had an average index of 50%, in the Communications, Non-cyclical Consumption, Basic Materials, Petroleum, Gas and Biofuel, Healthcare System,, Information Technology and Public Utility sectors.

With regard to the disclosure of the Possible Contingent Liabilities, the highest average levels of disclosure for the companies with positive shareholders' equity are: Healthcare System, Petroleum, Gas and Biofuel, Public Utility, Non-cyclical Consumption, Information Technology and Industrial Assets, respectively. With regard to the highest levels of the disclosure of the companies with negative shareholders' equity, the Communications, Financial, Basic Materials and Public Utility sectors stand out, with the Cyclical Consumption, Non-cyclical Consumption, Industrial Assets and Petroleum, Gas and Biofuel sectors having the lowest proportions, followed by the other sectors which did not have any disclosure.

In view of the results shown in Table 7, it can be seen that only the Healthcare System sector had an average level of disclosure of the possible contingent liabilities above 50%, both in the disclosure of the companies that made earnings and the companies that had positive shareholders' equity, which shows that companies still need to improve in order to achieve all the requirements of CPC 25.

The Table 7 also shows the average value of the companies that made earnings with the sectors with the highest averages being: Healthcare System, Public Utility, Industrial Assets, Petroleum, Gas and Biofuel, Non-cyclical Consumption, respectively, followed by the sectors with the lowest averages, Basic Materials, Communications, Cyclical Consumption, and Financial, respectively. As for the companies that made a loss, the sectors with the highest averages were, respectively: Financial, Cyclical Consumption, Non-cyclical Consumption, Public Utility, Petroleum Gas and Biofuel.

The companies with the lowest average shares were, respectively: Communications, Healthcare System, Industrial Assets and Basic Materials. It is important to emphasize that the sector with the lowest proportion of both earnings-making and loss-making companies was Information Technology.

With regard to the average value of the companies with positive shareholders' equity, the sectors with the highest averages are Basic Materials, Healthcare System and Industrial Assets, respectively. The sectors with the lowest averages are Non-cyclical Consumption, Communications and Information Technology. As for companies with negative shareholders' equity, the sectors with the highest averages are, respectively: Financial, Communications, Non-cyclical Consumption, with the lowest proportions being Industrial Assets, Petroleum, Gas and Biofuel, Cyclical Consumption, Basic Materials and Public Utility, followed by the other sectors which did not show any significant levels.

Also noteworthy is the Healthcare System sector, which had the highest level of disclosure (51.32%) and expressiveness (2991.35%) of the possible contingent liabilities, in relation to the companies that made earnings in their financial year. The same goes for the Financial sector, which had a higher level of disclosure (50%) and expressiveness (40221.29%) of the possible contingent liabilities, in relation to companies that had negative shareholders' equity.

The average value of these sectors warns of the impacts of these amounts becoming probable and having to be recognized in the accounts, which demonstrates the importance of the adequate accounting disclosure of the contingent liabilities. These results corroborate those of Borges and Rover (2022).

#### 4.4 Analysis of the disclosure and significance of the remote contingent liabilities

In Table 8 it is presented the average by sector of the disclosure and expressiveness of the Remote Contingent Liabilities in relation to Earnings and Shareholders' Equity of the companies in the sample, separated by sector of activity, calculated separately by earnings, loss, positive shareholders' equity and negative shareholders' equity.

**Table 8**

*Average by sector of disclosure and expressiveness of RCL in relation to Earnings and PSE*

| Sector of activity       | LE and Express. Result |          |        |           |         |        | LE and Express. PL |         |        |          |        |        |
|--------------------------|------------------------|----------|--------|-----------|---------|--------|--------------------|---------|--------|----------|--------|--------|
|                          | Qtt                    | E        | LE     | Qtt       | L       | LE     | Qtt                | PSE     | LE     | Qtt      | NSE    | LE     |
| Industrial Assets        | 2                      | 286,40%  | 66,67% | 1         | 147,34% | 33,33% | 3                  | 34,85%  | 55,56% | 0        | 0,00%  | 0,00%  |
| Cyclical Consumption     | 3                      | 281,75%  | 66,67% | 2         | 66,67%  | 62,35% | 4                  | 110,37% | 66,67% | 1        | 0,55%  | 66,67% |
| Non-cyclical Consumption | 3                      | 1310,40% | 55,56% | 0         | 0,00%   | 0,00%  | 2                  | 1,08%   | 66,67% | 1        | 17,17% | 33,33% |
| Financial                | 2                      | 55,33%   | 66,67% | 3         | 94,30%  | 55,56% | 5                  | 8,25%   | 60,00% | 0        | 0,00%  | 0,00%  |
| Basic Materials          | 1                      | 0,02%    | 66,67% | 1         | 4,85%   | 66,67% | 1                  | 0,02%   | 66,67% | 1        | 4,07%  | 66,67% |
| PET, Gas and Biofuel.    | 0                      | 0,00%    | 0,00%  | 1         | 125,84% | 66,67% | 1                  | 35,86%  | 66,67% | 0        | 0,00%  | 0,00%  |
| Healthcare System        | 0                      | 0,00%    | 0,00%  | 1         | 8,99%   | 66,67% | 1                  | 0,26%   | 66,67% | 0        | 0,00%  | 0,00%  |
| Public Utility           | 9                      | 15,06%   | 66,67% | 1         | 237,44% | 66,67% | 10                 | 6,50%   | 66,67% | 0        | 0,00%  | 0,00%  |
| <b>Total quantity</b>    | <b>20</b>              | -        | -      | <b>10</b> | -       | -      | <b>27</b>          | -       | -      | <b>3</b> | -      | -      |

**Subtitles:** RCL = Remote Contingent Liabilities; Qtt = quantity; LE = Level of Evidence; Express. = Expressiveness; E = Average Expressiveness Companies that made earnings; L = Average Expressiveness Companies that made loss; PSE = Average of positive shareholders' equity; NSE = Average of negative shareholders' equity; PET = Petroleum.

**Source:** *Research data (2023).*

In relation to the disclosure of the Remote Contingent Liabilities, it can be seen that the highest levels of disclosure for the companies that made earnings are in the Public Utility, Cyclical Consumption, Industrial Assets, Financial and Basic Materials sectors, all with a 66.67% disclosure rate. As for the companies that made a loss in the financial year, the highest levels of disclosure are in the Basic Materials, Petroleum, Gas and Biofuel, Healthcare System and Public Utility sectors. It is important to emphasize that the industrial assets and public utility sectors showed higher levels of disclosure both in the companies that made earnings and in those that made a loss in the financial year.

With regard to the disclosure of the companies with positive shareholders' equity, on average, the highest levels were found in the Cyclical Consumption, Non-cyclical Consumption, Basic Materials, Petroleum, Gas and Biofuel, Healthcare System and Public



Utility sectors. As for the disclosure of the companies that had negative shareholders' equity, on average we can highlight the Cyclical Consumption and Basic Materials sectors.

The Table 8 also shows the average value of companies that made earnings, with the sectors with the highest averages being: Cyclical Consumption, Industrial Assets and Petroleum, Gas and Biofuels, respectively. As for the companies that made a loss, the sectors with the highest average figures were, respectively: Public Utility, Industrial Assets, Petroleum Gas and Biofuel and Financial. The companies with the lowest averages were, respectively: Cyclical Consumption, Healthcare System and Basic Materials, followed by the other sectors which did not obtain any averages.

In terms of the average number of the companies with positive shareholders' equity, the sectors with the highest averages are Cyclical Consumption, Petroleum, Gas and Biofuels and Industrial Assets, respectively. As for companies with negative shareholders' equity, the sectors with the highest averages were Non-cyclical Consumption and Basic Materials.

It is also possible to emphasize the Public Utility sector, which had the highest level of disclosure (66.67%) and expressiveness (237.44%) of the remote contingent liabilities, in relation to the companies that made a loss. The same happens in the Cyclical Consumption sector, which had a higher level of disclosure (66.67%) and expressiveness (110.37%) of the remote contingent liabilities, in relation to the companies that had positive shareholders' equity. These findings corroborate Sanson and Souza (2018) who also identified the public utility sector among the highest levels of disclosure.

## 5 Conclusions

The purpose of this study was to analyze the level of the mandatory and the voluntary disclosure of the provisions and contingent liabilities in the Brazilian publicly traded companies. As far as the mandatory disclosure is concerned, the results show that the companies still need to improve the level of the disclosure of possible provisions and contingent liabilities in the notes to the financial statements in order to fully comply with CPC 25, the complete disclosure of this information is important for the external users to be able to make their projections.

In relation to the voluntary disclosure of the remote contingent liabilities, the Public Utility and Cyclical Consumption sectors showed the highest average disclosure and the highest average expressiveness, which may represent possible tendencies for these sectors to disclose their remote contingencies, even without the obligation of CPC 25, which is positive for the purposes of informing the external users.

With regard to the possible contingent liabilities, the public utility, healthcare system and information technology sectors showed the highest levels of disclosure. The study by Sanson and Souza (2018) also identified the public utility sector among the best levels of disclosure of the contingent liabilities.

As for the nature of the Possible and Remote Provisions and Contingent Liabilities identified in the research, it was observed that the most recurrent types existing in the companies in the sample are: labor, civil and tax, respectively. It was found that the environmental category appeared in smaller numbers, however, it presented considerable numbers in the provisions (44) and possible contingent liabilities (43). The Public Utility sector, which showed the highest level of disclosure and expressiveness, showed no relationship with the environmental category.

The results of this research show that accounting professionals may still have doubts about the standard, considering that there are deficiencies in the accounting disclosure of the provisions and contingent liabilities. The study contributes to the literature by demonstrating how the Brazilian listed companies are dealing with the disclosure of their provisions and contingent liabilities.

It should be noted that the results of this research are restricted to the sample and period analyzed and cannot be extended to other companies and/or different periods. As a suggestion for future research, a temporal analysis could be carried out, using statistical tools, of the level of the disclosure and representativeness of the provisions and contingent liabilities.

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