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Original Article

Impacts of the elimination of the proportionate consolidation on Itaúsa financial statements

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ABSTRACT

This research aims to evaluate the impacts of the elimination of the proportionate consolidation method to recognize joint ventures investments, with the adoption of the Technical Pronouncement CPC 19 (R2), on the accounting amounts reported by Itaúsa – Investimentos Itaú S.A., and identify which accounting adjustments are necessary to explain the differences in reported amounts. Until December 31, 2012, there were two methods to recognize these investments: proportionate consolidation and equity method. The adoption of CPC 19 (R2), from January 1, 2013, brought relevant changes and the elimination of the proportionate consolidation method was the most controversial one. There are many users and researchers that argue that this method provides more relevant information. The effects of this change, with significant impacts on the amounts reported by the joint venturer firm, were even more relevant in Brazil, since almost all Brazilian firms used the proportionate consolidation. It was chosen the case of Itaúsa and, consequently, of Itaú Unibanco Holding because this is the largest private group in Brazil and represents a relevant investment for its joint venturers. The analyses indicated that the total asset reported by Itaúsa using proportionate consolidation was 832% higher than the value reported by the equity method. For liabilities and revenues, this percentage was even higher: 5,096% and 17,771%, respectively. This impact affects financial indicators, industry rankings, and other financial analyses. For example, the debt indicator decreased from 91% to 16%, when the accounting method was changed to the equity method. The analyses also indicated a set of accounting adjustments that explain the differences in the accounting amounts reported by Itaúsa, and these adjustments are beyond the recognition of the proportionate amounts of joint ventures, including goodwill, unrealized intercompany results, among others. The main contribution of this research is to discuss the relevance of CPC 19 (R2) to the Brazilian market and its consequences for the largest private group in Brazil.

Keywords: proportionate consolidation, equity method, joint ventures, Itaúsa.

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1. INTRODUCTION

Until December 31, 2012, prior to the effective date of the International Financial Reporting Standards (IFRS) 11, there was no consensus between the international and American standards bodies, namely the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), on conceptual aspects to evaluate investments in joint ventures (Furuta, 2005; Richardson, Roubi & Soonawalla, 2012).

There were basically two methods: proportionate consolidation and equity method. In the latter, the joint venturer firm recognizes its interest in the net assets of the investee in a single account; this is also true in the results. In the proportionate consolidation, the joint venturer firm adds the proportional participation that it holds in each of the amounts of its investees (not in a single line, as in the equity method) to its own assets, liabilities, revenues and expenses. The use of one method to the detriment of the other can result in significant differences in the values reported by joint venturers (Furuta, 2005; Richardson et al., 2012; Santos, 2011) and, consequently, in the understanding and analyses made from them.

This divergence of practices is old and the FASB, the American standardization body, has never accepted proportionate consolidation as a valid option for the recognition of investments in joint ventures. However, the IASB, until December 31, 2012, not only allowed but also recommended the proportionate consolidation of such investments. In Brazil, CVM Instruction 247/1996, in line with the IASB, made mandatory the use of proportionate consolidation, and this was maintained by Technical Pronouncement CPC 19 (Accounting Pronouncements Committee [CPC]), 2009), when Brazil adopted the IFRS.

It is important to note that, although this accounting choice was not allowed for the Brazilian companies regulated by the securities exchange commission (Comissão de Valores Mobiliários – CMV), it was allowed in the international accounting standards issued by the IASB. Thus, there was a great variability of accounting practices among companies, with the equity method predominating in countries of Anglo-Saxon origin and proportionate consolidation in Continental European countries (Santos, 2011).

This divergence between the IASB and the FASB lasted until May 2011, when the IASB issued IFRS 11 - Joint Arrangements, which replaces the International Accounting Standards (IAS) 31 and the Standard Interpretation Committee (SIC) 13, and represented the largest revision made in this standard since its issuance in 1990 (International Accounting Standards Board [IASB], 2007a). IFRS 11 has been in force since January 1, 2013, and in Brazil, was translated by the issuance of Technical Pronouncement CPC 19 (R2) - Joint Arrangements (CPC, 2012).

It is precisely this change in the accounting standard about joint venture investments that justifies this research. IFRS 11, and consequently CPC 19 (R2), brought significant changes in conceptual and practical terms, but one of the most controversial was the elimination of the proportionate consolidation as a valid alternative for the recognition of investments in joint ventures.

Thus, from 2013, the use of the equity method became mandatory and this, for some companies, had a very significant impact on the amounts reported, given that, in general, the change from proportionate consolidation to the equity method leads to a reduction in the value of assets, liabilities, revenues, and expenses reported by the investors. Therefore, the adoption of IFRS 11 influenced not only the presentation of financial statements and financial indicators but also possible disclosures of industry rankings, explanatory notes and even the need to renegotiate covenants (Betancourt & Baril, 2013, Ernst & Young, 2011; Leitner-Hanetseder & Stockinger, 2014).

This impact was quite evident in Brazil, given that almost all the companies used proportionate consolidation. In 2011, prior to the issuance of CPC 19 (R2), there were 134 publicly traded companies in the Brazilian market with investments in joint ventures. Only three of these did not use proportionate consolidation: Gerdau S.A., Metalúrgica Gerdau, and Banco Santander. This demonstrates the relevance of CPC 19 (R2) and the importance of studying its effects on the Brazilian market.

Besides the potential to generate relevant impacts, this standard was also quite controversial. After all, countries such as France, the Netherlands, Spain, Sweden, Switzerland, Brazil, and Canada defended the approach of proportionate consolidation (Furuta, 2005, Santos, 2011, Sarraz, 2015, Souza, Tavares, Anjos & Lopes, 2015). In addition, part of academic research does not support the IASB's decision to eliminate proportionate consolidation, since they argue that this method produces information of greater relevance to the user (Bauman, 2007; Betancourt & Barril, 2013; Soonawalla, 2006; Stoltzfus & Epps, 2005). These studies suggest that proportionate consolidation provides information with greater predictive power (Graham et al., 2003), more relevant to bond risk premiums (Stoltzfus & Epps, 2005) and to explain the bond ratings (Bauman, 2007), with greater predictability of future earnings and higher relevance (Soonawalla, 2006).

The degree of this controversy can be measured by the number of comment letters sent in response to the Exposure Draft 09 - Joint Arrangements. During the IASB public consultation period, of the 111 letters received, more than 61% (i.e., 68 letters) expressed opposition to the elimination of proportionate consolidation. Also, of all boards and standards bodies from Europe and audit firms that manifested themselves through comment letters, approximately 80% do not agree with the IASB's decision.

Even with all the criticisms received and contrary evidence, the IASB maintained its decision and eliminated the possibility of using proportionate consolidation. Among the arguments used by the IASB, the two main ones are: (i) proportionate consolidation contradicts the definitions of assets and liabilities of the Conceptual Framework; (ii) all information previously provided by proportionate consolidation can be obtained by means of the explanatory notes. This second argument was one of the main motivators of this research.

Given the above, considering both the impact generated for companies and the controversy of this standard, this paper aims to answer the following research question: what are the impacts of the elimination of the proportionate consolidation method, with the adoption of CPC 19 (R2), on the accounting amounts reported by Itaúsa - Investimentos Itaú S.A.?

The objective of this paper is to analyze which impacts the adoption of CPC 19 (R2) caused in the accounting amounts reported by Itaúsa, seeking to recompose the values using the explanatory notes. In other words, this paper aims to evaluate the impacts of the "deconsolidation" of Itaú Unibanco Holding's information on the amounts reported by its main investor, Itaúsa, as well as to identify the adjustments necessary to explain the differences in the reported values.

We decided to analyze the impacts of the adoption of CPC 19 (R2) in a firm from Brazilian capital market, considering that in Brazil the impact of the change in the standard was quite significant, as mentioned. Specifically, we decided to choose the Itaúsa case for three main reasons: (i) Itaú Unibanco Holding, a joint venture of Itaúsa, is Brazil's largest private bank, as well as the largest private group in Brazil, according to *Exame* magazine's *Anuário Melhores & Maiores*; (ii) Itaú Unibanco Holding represents a relevant investment for Itaúsa, being its main asset; and (iii) as it will be evidenced throughout this paper, among all the publicly traded companies in the Brazilian capital market, Itaúsa was the one that had the highest impact with the elimination of the proportionate consolidation method, when adopting CPC 19 (R2). Thus, the choice to use Itaúsa's financial statements in this research is justified.

It is believed that the main contribution of this article is not only to discuss a relevant accounting standard, but to demonstrate its impact on the financial statements of the largest private group in Brazil, with the proposal, using the explanatory notes, to recompose that which would be the consolidated financial statements, if CPC 19 (R2) had not vetoed the proportionated consolidation method.

Although the standard has been in force in Brazil since 2013, the discussion about the relevance and adequacy of proportionate consolidation is still necessary and timely. After the mandatory use of the equity method to recognize these investments, some Brazilian firms continued to disclose information about their operating segments using the proportionate consolidation method, because they argue that this type of information is more relevant to managerial decision making. As an example, Companhia Siderúrgica Nacional (CSN) and Bradesco explicitly mention the fact that the company's management decided to disclose their operating segment using the proportionate consolidation, given that such information is more relevant for decision making. Klabin followed suit by disclosing the revenue that would be reported if its joint venture investments were still proportionally consolidated.

In addition, considering the magnitude of the results found in the Itaúsa case analysis, the present study also extended this analysis to other firms, to verify whether the effects of adopting CPC 19 (R2) would also be significant. Therefore, the results of this research also contribute by demonstrating that the impacts of the elimination of the proportionate consolidation method, with the adoption of CPC 19 (R2), were not only relevant to Itaúsa, but also to other firms from Brazilian capital market.

Besides the introduction, this paper is structured in six other sections. Section 2 presents the discussion between proportionate consolidation and equity method, section 3 addresses the process of issuing IFRS 11, section 4 describes the methodological procedures, sections 5 and 6 present the analyses of the Itaúsa case and the application for other firms, respectively, and section 7 presents the final remarks.

2. PROPORTIONATE CONSOLIDATION *VERSUS* EQUITY METHOD

By the end of 2012, prior to IFRS 11, IAS 31 allowed the choice of the method of recognition of joint venture investments between proportionate consolidation and equity method. In the equity method, also known as "consolidation in a single line", the investor recognizes its participation in the net assets of the investee in a single account, just as it does for the results. In contrast, in the proportionate consolidation, the investor recognizes its participation in each of the joint venture's assets, liabilities, revenues, and expenses in its own financial statements, in each of the corresponding accounts, and not in a single account, as in the equity method. It works as if the value of the investment were distributed, line by line, for each asset and liability of the investor's balance sheet, as well as the share of results of joint ventures distributed, line by line, for each revenue and expense that are included in the investor's income statement (Martins, Gelbcke, Santos & Iudícibus, 2013).

For Richardson et al. (2012), the main point of the discussion about the adequacy of the two methods is whether the investor should consolidate jointly controlled assets and liabilities together with fully controlled assets and liabilities, that is, if the investor firms indeed jointly controls and has obligations on the jointly controlled assets and liabilities, respectively, that justify their inclusion in the balance sheet. This is the main reason why the FASB has never accepted the proportionate consolidation method as a valid alternative for the recognition of these investments. For this regulatory body, the existence of joint control does not meet the definition of full control (since the parties share control of the business) and, therefore, investments in joint ventures cannot be recognized by the consolidation approach, even if proportional (Furuta, 2005; Martins et al., 2013).

The literature presents several arguments favorable and contrary to both equity method and proportionate consolidation. Table 1 summarizes these arguments.

Table 1
Arguments favorable to both proportionate consolidation and equity method

Proportionate Consolidation-friendly	
Arguments	**Source**
Better reflect the nature and economic substance of the investment in the joint venture, producing higher quality information, since it better demonstrates the level of interaction of the investor in the investee, the values of the investee, as well as the risks to which the investor is exposed.	Betancourt and Baril (2013), Richardson et al. (2012).
Proportionate consolidation makes it impossible for investors to use investments in joint ventures to keep off-balance sheet liabilities, which could result in a misleading view of the investor's actual financial position.	Betancourt and Baril (2013), Furuta (2005), Lourenço and Curto (2010), Reklau (1977), Richardson et al. (2012).
By recognizing investments in joint ventures using the equity method, two investments with quite distinctive characteristics will be accounted in the same way: investments in associates, where there is only significant influence, and investments in joint ventures, in which the investor has joint control. The level of interaction between the investor and the investee is higher when there is joint control than when there is only significant influence.	Saccon and Dima (2015), Soonawalla (2006).
Equity Method-friendly	
Arguments	**Source**
The proportionate consolidation would be contrary to the definitions of assets and liabilities of the Conceptual Framework, given that a jointly controlled asset does not meet the concept of control required in the definition of an asset, since the investor cannot control, through the use or right of use, its proportional share of the assets of the joint venture. Likewise, the liabilities of the joint venture do not represent current obligations to the investor.	Graham et al. (2003), IASB (2007b), Milburn and Chant (1999).
Assets and liabilities are of the joint venture. The joint venturers have only rights over the net assets of the joint venture, that is, the result generated by a set of assets and liabilities and not rights on each asset and obligations on each liability of the investee. Therefore, the equity method would be more appropriate than proportionate consolidation.	Furuta (2005), Lourenço and Curto (2010).

Source: *Elaborated by the authors based on previous literature.*

In summary, as observed in Table 1, the equity method may be keeping off-balance sheet liabilities in which the investor is responsible, as well as the proportionate consolidation may be recognizing assets in the consolidated financial statements of the investor that it does not control (Richardson et al., 2012). In this context, it is important to note that, while proportionate consolidation makes it impossible for joint venturers to keep off-balance sheet liabilities, it also allows the recognition of the proportional share of each asset of the joint venture. It should be noted, however, that the recognition of equal values for assets and liabilities does not result, from a relative point of view, in similar effects on financial analyses and indicators.

The use of one method over another can result in significant differences in the values reported by the joint venturers (Furuta, 2005; Richardson et al., 2012; Santos, 2011; Sarquis, 2015). In general, the amounts of assets, liabilities, revenues, and expenses of the joint venturers are lower when reported by the equity method than when reported by the proportionate consolidation.

This impact may be even more relevant in some industries, such as construction and transportation, industrial and public utility. Because of the impact on the amounts reported by firms, the adoption of proportionate consolidation or equity method can impact several financial indicators, sectoral rankings, the need for additional controls, renegotiation of covenants arising from loan and financing agreements and, consequently, the decision-making process (Betancourt & Baril, 2013).

3. PROCESS OF CHANGE IN THE STANDARD: THE ISSUANCE OF IFRS 11

The analysis of the public consultation period and the comment letters sent by several users of the accounting information during the issuance of IFRS 11 are a good indication of the controversy created with the IASB's decision to eliminate the proportionate consolidation.

The issuance of a standard by the IASB is a complete and time-consuming process. Among the phases that make up this process, it is worth highlighting the development and issuance of the Exposure Draft (ED), a mandatory step, since it represents the main vehicle used by the IASB to consult the public. During the period in which the ED is sent for public consultation, several users of accounting information may send comment letters expressing their views about the changes proposed by the IASB. These comment letters are reviewed by the IASB and considered before issuing a new standard.

In the case of IFRS 11, the IASB issued the Exposure Draft 09 - Joint Arrangements, on September 13, 2007, and the public consultation period for sending the comment letters was opened until January 11, 2008. The IASB received 111 comment letters from more than 35 countries, in response to the proposed change of the IFRS 11. The considerable number of comment letters sent is an indication of both the importance and the uncertainty of the accounting information users about the changes proposed by the IASB.

Approximately 70% of the comment letters were sent by representatives of European countries. In addition, 11 comment letters were sent by North American countries (10%), nine by Asia (8%), five by Africa and Oceania (5% each), two by Central America (2%) and only one comment letter was sent by the countries of South America. The main user groups that manifested themselves were: boards and regulators (33%) and non-financial companies (32%). No comment letter was sent by Brazilian entities or professionals, despite the representativeness of joint venture investments in our country.

In ED 09, the IASB suggested five questions to guide respondents by submitting their comments: a question related to proposed definitions and terminologies, two issues related to accounting for joint venture investments, and finally two questions about the proposed level of the disclosure requirement.

To get an idea of the controversy caused by the IASB proposal for the elimination of the proportionate consolidation, of the 111 letters sent, more than 61% (i.e., 68 letters) expressed opposition to the IASB's decision. This is a very significant number and can be considered as evidence that the change proposed by the IASB was quite controversial. The arguments used by the respondents that are against the elimination, in their majority, are in line with the arguments favorable to proportionate consolidation found in the previous literature and presented in Table 1. In addition, there was a concern from part of the respondents that the IASB sought greater convergence with the FASB (since it never allowed the proportionate consolidation), but at the expense of the quality of accounting information.

Furthermore, of the 21 boards and regulatory bodies from Europe that sent comment letters, 17 were against the IASB's decision. This represents more than 80% of these entities. Similarly, four of the five audit firms from Europe (Ernst & Young, PricewaterhouseCoopers [PWC], Deloitte and KPMG) opposed the elimination of proportionate consolidation.

In general, the arguments used by these four audit firms are similar. For example, the four mentioned that the IASB did not provide sufficient explanation of why the equity method is more appropriate than the proportionate consolidation. They recognized that proportionate consolidation might have conceptual inconsistencies, but they also argued that the equity method cannot be considered superior, as it also presents conceptual inconsistencies that were not considered by the IASB. For Deloitte, the two methods have inconsistencies with the Conceptual Framework, and the use of the equity method may not achieve the principle of faithful representation, given that it does not adequately reflect the performance and cash flow of the joint venturers. In our opinion, such inconsistencies arise from the negative points (limitations) of the equity method discussed in section 2 of this research, the main one being the possibility of keeping off-balance sheet liabilities.

Therefore, PWC emphasized that the IASB should not eliminate the proportionate consolidation without first analyzing the validity of alternative methods. To that end, both KPMG and PWC mentioned that, given the relevance of this issue, the IASB should have conducted a broader (rather than short-term) project. Ernst & Young argued that the IASB, which previously defended proportionate consolidation, changed its position without explaining the reasons, and pointed out that the IASB should not treat investments in associates and joint ventures in the same way.

This information together indicates that both the number of comment letters sent and the arguments presented contradict the IASB's decision to eliminate the proportionate consolidation. With all the criticisms and suggestions received, the IASB made some changes to ED 09 prior to the issuance of IFRS 11, but maintained its decision to eliminate the proportionate consolidation as an option for recognition of joint venture investments.

The arguments used by the IASB to eliminate the proportionate consolidation are basically the same as those presented by those who defend the equity method that we highlighted earlier. Moreover, the IASB also argues that all the information that investors could obtain with the use of the proportionate consolidation can now be obtained in the explanatory notes. This is because, together with the issuance of IFRS 11, the IASB also issued a specific standard for regulating the disclosure of information about investments in other firms, including joint ventures: IFRS 12 - Disclosure of Interests in Other Entities.

Regarding this argument of the IASB, it is important to note that, despite the increase and improvement in disclosure requirements for joint ventures, investors do not evaluate in the same way the information disclosed in the financial statements and in explanatory notes. For Jifri and Citron (2009), investors may be devaluing the information disclosed in the explanatory notes, both for lack of knowledge and for the cost of processing information that is not directly obtained in the financial statements.

Even considering the argument of the IASB as valid, it is believed that, although the proportionate consolidation presents some inconsistencies in relation to the Conceptual Framework, since the company cannot give the destination that it judges most appropriate for its proportional share in the assets of the joint venture without the unanimous consent of all parties involved, this is the method that produces information of higher relevance to the user. In some situations, although the liabilities are effectively of the joint venture, the investor firm may be, even if not legally, jointly responsible for these obligations, maintaining responsibility for the performance and maintenance of the joint venture's operations. The reputation of the investor will be clearly affected whether the joint venture does not comply with its obligations (Betancourt & Baril, 2013). Consequently, our opinion is that these obligations should be reflected in the financial statements of the investor.

4. RESEARCH DESIGN

The objective of this research is to evaluate the impact of the elimination of the proportionate consolidation with the adoption of CPC 19 (R2) in the accounting amounts reported by Itaúsa, as well as to identify which accounting adjustments are necessary to explain the differences in reported amounts. It was decided to analyze the financial statements of a single firm, to deepening the analyses and, above all, about the nature of the accounting adjustments necessary to explain the differences between the accounting amounts reported by the proportionate consolidation and by the equity method. Itaúsa was chosen because, as mentioned previously, its main joint venture is Itaú Unibanco Holding, the largest private group in Brazil, and because it is the firm from Brazilian capital market that had the highest impact on the amounts reported with the adoption of IFRS 11/CPC 19 (R2).

Considering the nature of the proposed objective, the methodological approach used by this research can be classified as descriptive, guided by documentary technique (Martins & Theóphilo, 2009), since all the information was collected from the financial statements published by Itaúsa.

It is important to highlight that, even though the analysis was about a single firm (Itaúsa), this research cannot be classified as a case study. According to Major (2017), the case study approach has been widely used and recommended to obtain more specific knowledge, since it seeks to study reality through the interaction of the researcher with the evidence. However, the author emphasizes that the case studies, because they generally use organizational and sociological theories, differ from those that seek to describe accounting practices (Major, 2017). In this sense, this research is more aligned with the descriptive methodological approach rather than the case study design.

Itaúsa is a holding company whose purpose is to support the firms in which it invests. Through its investees, it operates in the financial segment (Itaú Unibanco Holding), wood paneling, sanitary ware and metal fittings manufacture (Duratex), information technology (Itautec) and chemical products (Elekeiroz). All the financial decisions of the conglomerate are concentrated in Itaúsa.

Itaúsa has investments in two joint ventures: in Itaú Unibanco Participações (Iupar), where it holds direct interest, and in Itaú Unibanco Holding, where it holds both direct and indirect interest, through Iupar itself. With the adoption of CPC 19 (R2), Itaúsa no longer proportionally consolidates its investments in Itaú Unibanco Holding and Iupar, and now uses the equity method.

It is important to mention that the most relevant investment of Itaúsa is Itaú Unibanco Holding. As a result, the elimination of the proportionate consolidation, with the adoption of CPC 19 (R2), had a relevant impact on the accounting amounts reported by Itaúsa, considering that the transition to the equity method results in the reduction of assets, liabilities, revenues, and expenses.

The choice of the case of Itaú Unibanco Holding and, therefore, of Itaúsa to carry out this research can be justified by three main reasons. First, Itaú Unibanco Holding is the largest Brazilian private bank, as well as the largest private group in Brazil. Second, Itaú Unibanco Holding, as well as Iupar, are relevant investments for Itaúsa. Third, as it will be shown, among all publicly traded firms in the Brazilian capital market, Itaúsa was the one that had the highest impact with the elimination of the proportionate consolidation on the amounts of assets, liabilities, revenues, and expenses.

To achieve the proposed objective, it was used the restated accounting amounts published by Itaúsa when adopting CPC 19 (R2), which came into effect on January 1, 2013. In the 2013 financial statements, firms had to restate the 2012 financial statements, as well as the reconciliation between the originally published accounting amounts using the proportionate consolidation and the restated accounting amounts after the adoption of CPC 19 (R2) using the equity method.

Therefore, to answer the research question of this paper, we collected the information of Itaúsa's financial statements ended in 2013, the year of adoption of CPC 19 (R2), and, in a comparative way, the information of the financial statements ended in 2012. Based on the accounting amounts restated by Itaúsa, it was possible to identify the impacts on the amounts reported and, based on the information about the investments in the joint ventures (Itaú Unibanco Holding and Iupar) disclosed in explanatory notes, also identify the accounting adjustments that justify the differences in accounting amounts reported.

Finally, it is important to mention that, with the information disclosed, it was possible to analyze the impact on three accounting amounts of Itaúsa's financial statements: total assets, total resources (liabilities + shareholders' equity) and revenues. From the technical point of view, the ideal would be to present in more detail the various components of these groups, but with the information disclosed, this was not possible. As it can be seen, this is another loss of information caused by the replacement of proportionate consolidation by the equity method.

5. ANALYSIS OF THE CASE OF ITAÚSA

The Itaúsa case will be analyzed in two stages. First, the impacts of the elimination of the proportionate consolidation method, with the adoption of CPC 19 (R2), on the amounts reported by Itaúsa will be analyzed, since its investments in Itaú Unibanco Holding and Iupar are no longer consolidated. Following, the accounting adjustments that explain the differences in the accounting amounts reported by Itaúsa will be identified and described. Specifically, we will identify the adjustments that are necessary to recompose the values that would be reported by the proportionate consolidation method, from the information presented by using the equity method.

As already mentioned, the financial statements of 2013 and 2012 were analyzed (in a comparative way). However, the reference values are for the financial statements ending in 2012. On December 31, 2012, Itaúsa had a direct interest in Iupar of 66.53%, and in Itaú Unibanco Holding its direct participation was 19.59%, but considering the indirect interest held through Iupar, it totaled 36.78%. Both investments are classified as joint ventures of Itaúsa.

5.1 Analysis of the Impacts on the Accounting Amounts Reported by Itaúsa

To demonstrate the magnitude of the impact of the elimination of the proportionate consolidation method on the accounting amounts reported by Itaúsa, Table 2 presents, in the year of adoption of CPC 19 (R2), the amounts initially reported on December 31, 2012, using proportionate consolidation and, subsequently, the same amounts restated on December 31, 2013, after the change from the proportionate consolidation to the equity method.

Table 2
Statements of 2012 restated: Itaúsa – Investimentos Itaú S.A. (in millions of reais)

Consolidated balance sheet	Statement of 2012 published on 12/31/2012 (PC)	Statement of 2012 republished on 12/31/2013 (EM)	Difference (%)
Asset	364,017	39,050	832
Liabilities	331,308	6,376	5,096
Shareholders' equity	32,709	32,674	0
Consolidated statement of income	**Statement of 2012 published on 12/31/2012 (PC)**	**Statement of 2012 republished on 12/31/2013 (EM)**	**Difference (%)**
Interest and similar income	35,028	196	17,771
Interest and similar expense	(17,734)	(322)	5,407
Share of income of unconsolidated companies	72	4,607	-98
Net income of controlling shareholders	4,539	4,539	0
Consolidated net income	5,040	4,836	4

PC: proportionate consolidation; EM: Equity method.
Source: *Standardized financial statement for 2013 of Itaúsa.*

As can be seen from Table 2, the differences can reach relevant amounts. For the values of equity and net income, the differences appear as irrelevant because the equity method represents a simplified form of consolidation. However, the differences are quite significant in the other amounts of Itaúsa's financial statements. For example, the value of the total assets of Itaúsa obtained by the proportionate consolidation method is 832% greater than the value that would be obtained by the equity method. Likewise, the amount of $ 35,028 recognized as interest and similar income in the financial statements prepared under the proportionate consolidation method is reduced to only $ 196 when elaborated by the equity method. That is, the amounts of interest and similar income of Itaúsa prepared by the proportionate consolidation are 17,771% higher than the values obtained by the equity method.

These values show how the impacts of the elimination of the proportionate consolidation method, when adopting CPC 19 (R2), were significant for the amounts reported by Itaúsa. The magnitude of this impact can be justified considering that, as mentioned, of the investments held by Itaúsa, investments in joint ventures are the most relevant. When using the proportionate consolidation method to recognize its investments in Itaú and Iupar, Itaúsa's liabilities represent an amount that is 5.096% higher than the value of liabilities reported by Itaúsa with the use of the equity method.

This change in the amounts reported by Itaúsa substantially impacts the company's financial indicators. For example, with the information elaborated by the proportionate consolidation method, the company's indebtedness indicator (liabilities/assets) was approximately 91%. This indicator drops to only 16% when using the equity method. Thus, it is verified that the elimination of the proportionate consolidation method, with the adoption of CPC 19 (R2), had a significant impact on its financial indicators. This, for example, can mean sensitive changes in industry rankings and even the need to renegotiate covenants.

5.2 Identification of the Accounting Adjustments Made by Itaúsa

The confirmation of the enormous differences presented in Itaúsa's statements indicated the need to verify whether, by means of the explanatory notes, as the IASB justified, it would be possible to recompose the values previously disclosed by the proportionate consolidation method from the values published by the equity method. For this purpose, we collected from Itaúsa's explanatory notes all available information about joint ventures, as well as the accounting amounts restated by Itaúsa, and then we began to identify the accounting adjustments that were made. The identification of these adjustments was almost complete, considering that after making the adjustments, the accounting amounts obtained are very similar to what was published by Itaúsa. The adjustments made to the values of total assets, total resources (liabilities + shareholders' equity) and revenues will be shown below.

5.2.1 Accounting adjustments for the value of Itaúsa's total assets.

Table 3 presents the set of adjustments made that explain the differences in the value of the total assets reported by Itaúsa, starting from the values obtained by the equity method, using the information contained in the explanatory notes, and then obtaining the value presented by the proportionate consolidation method.

Table 3
Accounting adjustments identified for the value of total assets of Itaúsa - Investimentos Itaú S.A. (in millions of reais)

Adjustments	Itaúsa		
	Itaú	Iupar	Total
Value of total assets by the equity method (A)			**39,050**
(+) Recognition of proportionate assets of the joint ventures (B)	352,078	6	352,084
Total assets of joint ventures	957,154	19,644	
(-) Investments between investees	0	(19,635)	
(-) Intercompany balances and transactions	0	0	
(=) Adjusted total assets	957,154	9	
(x) Percentage (%) of interest	36.78	66.53	
(=) Proportional assets of the joint ventures to be recognized	352,041	6	352,047
(-) Unrealized intercompany results, net of tax	(220)	0	(220)
(+) Net asset surplus value	0	0	0
(+) Goodwill	257	0	257
(-) Unpaid dividends and/or interests on equity	0	0	0
(=) Total	352,078	6	352,084
(-) Elimination of investment in joint ventures (C)	14,906	12,221	27,127
Shareholders' equity of joint ventures	75,902	18,369	
(x) Percentage (%) of interest	19.59	66.53	
(=) Proportional shareholders' equity	14,869	12,221	27,090
(-) Unrealized intercompany results, net of tax	(220)	0	(220)
(+) Net asset surplus value	0	0	0
(+) Goodwill	257	0	257
(+) Advance for future capital increase	0	0	0
(=) Total	14,906	12,221	27,127
Value of total assets by proportionate consolidation (A + B - C)			**364,007**

Source: *Developed by the authors.*

Following the accounting adjustments described in Table 3, it is possible to verify that the estimated value of Itaúsa's total assets using the proportionate consolidation method would be $ 364,007. When comparing this amount with what was published by Itaúsa ($ 364,017), as shown in Table 2, a minimum difference of only $ 10 is obtained, evidencing that the accounting adjustments identified are relevant to explain the differences in reported amounts.

The following are the descriptions of the main accounting adjustments identified:

- Exclusion of investments between investees – Itaúsa has investments in both Iupar and Itaú Unibanco Holding, and the interest in the latter occurs both directly and indirectly (through Iupar). Thus, this adjustment must be done to avoid duplication of values. In addition, not only the value of the investment that Iupar has in Itaú Unibanco Holding, but also amounts of assets and/or liabilities that may exist between the two companies should be eliminated. In this case, the amount of interest on equity that existed between Iupar and Itaú Unibanco Holding was adjusted. Note that after this adjustment, Iupar's total asset value is only $ 9.
- Elimination of Intercompany Transactions Balances – On December 31, 2012, there were no transaction balances between Itaúsa and its joint ventures, but if they existed, such values should be eliminated to recompose the amounts that would be reported by the proportionate consolidation method. Furthermore, it is important to note that, regardless of whether Itaúsa's financial statements show a debit or credit balance for the joint ventures, the sum of the balances in both assets and liabilities must be considered, even whether it is being done only the analysis of the total asset.
- Unrealized intercompany results, net of tax – In the case of Itaúsa, there is an unrealized result of $ 220 arising from transactions between Itaúsa and Itaú Unibanco Holding. In the Itaúsa balance sheet prepared by the equity method, the specific asset that generated this unrealized result was inflated by $ 220 and, as a counterpart, there was an investment reduction account in the same amount. When the proportionate consolidation occurs, the specific asset that was inflated is reduced by the unrealized result of $ 220. The counterpart will be in the investment reduction account, which is also eliminated in the consolidation process, justifying the second adjustment of $ 220 in the investment account in Itaú Unibanco Holding.
- Goodwill – According to note 20 of Itaúsa's 2013 financial statements, in May 2010, Bank of America Corporation (BAC) sold its interest in the capital of Itaú Unibanco Holding, and the common shares were purchased by Itaúsa. On the purchase date, Itaúsa recorded a goodwill of $ 257. In the Itaúsa balance sheet prepared by the equity method, this goodwill amount will be recorded in a subaccount of investments. However, at proportionate consolidation, the value of goodwill must be transferred from the investment account to the intangible asset. Therefore, to recompose the proportionate consolidation amounts, starting from the information presented by the equity method, the value of the goodwill is adjusted as an addition to the proportional assets of Itaú Unibanco Holding that will be recognized, while the counterpart will be in a subaccount of goodwill in the investment group, which will no longer exist in the consolidated statement.
- Net asset surplus value – This is not the case. However, if any of the investments in joint ventures of Itaúsa had been acquired with net asset surplus value, in the balance sheet prepared by the equity method, this amount would be recognized in a subaccount of investments. However, in the consolidation, this amount is transferred from the investment account to the asset and liability accounts that generated this surplus value. Therefore, when estimating the accounting amounts using the proportionate consolidation method based on the information obtained by the equity method, the net asset surplus value should be adjusted in the proportional assets and liabilities of the joint ventures, having as counterpart the investment account, since it will be eliminated. It should be noted, however, that the net asset surplus value generates deferred income tax. In the investor's balance sheet, this net asset surplus value is recorded net of deferred tax. However, when consolidation occurs (even that proportional), this net asset surplus value will be reclassified to the asset and liability accounts that generated it, but this transfer occurs in the gross amount (without deducting deferred income tax). In contrast, a deferred income tax account will be recognized in the non-current liabilities of the consolidated balance sheet.
- Dividends and/or interest on equity – On December 31, 2012, there were no dividend and/or interest on equity amounts between Itaúsa and its joint ventures. However, if they existed, these amounts should be eliminated in the proportionate consolidation. It should be noted, however, that dividend and/or interest on equity amounts should be adjusted differently from intercompany balances and transactions. In the case of intercompany transactions, part of the amount, which corresponds to the interest of the other investor of the joint venture, is considered to be realized and, therefore, the value of the transaction must be eliminated proportionally. In contrast, in the case of dividends and/or interest on equity declared by the joint venture and not yet paid to the investor, this amount already corresponds to the amount due to the investor and, therefore, must be eliminated in full.
- Advance for future capital increase – Although not observed in the case of Itaúsa, this adjustment is very

relevant. This type of advance is usually accounted for in the investment account or in another account of the non-current assets of the investor. However, this difference does not impact the value of the adjustment, it only changes the order of presentation. In the case of the joint venture, this advance will be accounted for in a liability account. When consolidation occurs, these amounts are eliminated: the amount accounted in the investor's assets against the amount accounted in the liabilities of the joint venture. However, an observation must be made, since the advance for future capital increase can be considered both as a liability or an equity instrument. This classification will depend on the terms and conditions of the advance. If it is considered as a liability of the joint venture, it will be necessary to eliminate the investor's assets against the liabilities of the investee, as explained above. However, if it is considered as an equity, it will not be necessary to make any adjustment, either in assets or liabilities, since the value of the advance will already be included in the value of the joint venture's equity and, by equivalence, in the equity value of the investment of the investor in the joint venture. When this investment is eliminated against the equity of the joint venture, the value of the advance is also eliminated.

5.2.2 Accounting adjustments for the value of Itaúsa's total resources.

Table 4 presents the set of adjustments made that explain the differences in the total resources (liabilities and shareholders' equity) values reported by Itaúsa, starting from the value obtained by the equity method and then obtaining the value presented by the proportionate consolidation method.

Table 4

Accounting adjustments identified for the value of total resources of Itaúsa - Investimentos Itaú S.A. (in millions of reais)

Adjustments	Itaúsa		
	Itaú	Iupar	Total
Value of total resources by the equity method (A)			**39,050**
(+) Recognition of proportionate liabilities of the joint ventures (B)	324,089	848	324,937
Liabilities of joint ventures	881,156	1,275	
(-) Intercompany balances and transactions	0	0	
(=) Adjusted liabilities	881,156	1,275	
(x) Percentage (%) of interest	36.78	66.53	
(=) Total	324,089	848	324,937
(+) Additional adjustments (C)	35	0	35
(-) Unpaid dividends and/or interests on equity	0	0	0
(-) Advance for future capital increase	0	0	0
(-) Provision for negative shareholders' equity	0	0	0
(+/-) Change in shareholders' equity	35	0	35
(=) Total	35	0	35
Value of total resources by proportionate consolidation (A + B + C)			**364,022**

Source: *Developed by the authors.*

Following the order of the adjustments presented in Table 4, it is possible to verify that the estimated value of Itaúsa's total resources using the proportionate consolidation method would be \$ 364,022. When comparing this amount with what was published by Itaúsa, which was \$ 364,017, there is a difference of only \$ 5, confirming that the accounting adjustments identified by us are relevant to explain the differences in the amounts reported by Itaúsa.

The descriptions of the main accounting adjustments identified to explain the differences in the value of total resources reported by Itaúsa are presented below:

- Intercompany balances and transactions – As already described in the total assets adjustments, if there were balances of transactions between Itaúsa and its joint ventures, such amounts should be eliminated in the consolidation process (even if proportional).
- Dividends and/or interests on equity – This adjustment has also been described in the total assets adjustments. However, it is important to note that only the share of mandatory dividends should be considered in this adjustment, given that additional dividends remain classified in shareholders' equity, since they depend on the approval of the shareholders' meeting. Given that additional dividends generate only an internal change in equity, they do not cause impacts for the equity method purposes.
- Advance for future capital increase – If Itaúsa had made an advance for future capital increase and it was

accounted for as a liability in the joint venture, that amount should be eliminated in the proportionate consolidation. Whether it was accounted for as an equity instrument, no adjustment is required, as described before.

- Provision for negative shareholders' equity – This adjustment would be necessary if Itaúsa had an investment in a joint venture with negative shareholders' equity. In the statements prepared by the equity method, when the investor's share in the losses of the joint venture equals or exceeds the carrying amount of its investment, the investor must discontinue the recognition of its participation in future losses (and, thus, no longer recognizing the investment in the asset). After reducing the carrying amount of such investment to zero, the investor may recognize additional losses by recognizing a liability only to the extent that it has in fact incurred legal or constructive obligations on behalf of the joint venture. If this situation has occurred, this recognized liability will be eliminated against the negative shareholders' equity account in the consolidation process.
- Changes in shareholders' equity – This adjustment is very interesting since initially it would be expected that both the shareholders' equity and the consolidated net income of the investor would not suffer variations because of the change in the method used (equity method or proportionate consolidation). However, when analyzing the case of Itaúsa, there is a difference in the value of the consolidated shareholders' equity, and this difference occurs in the "non-controlling shareholders" account. This difference can be justified considering that Itaúsa has investments in joint ventures that control other companies with an interest of less than 100%, resulting in the appearance of non-controlling shareholders. In the consolidated shareholders' equity of Itaú Unibanco Holding, the value of non-controlling shareholders is $ 96. When proportionate consolidation occurs, Itaúsa will recognize its share of interest in these non-controlling shareholders in its own shareholders' equity. This justifies a change in Itaúsa's shareholders' equity when the equity method is changed to proportionate consolidation. In the case of Itaúsa, this adjustment was $ 35, which corresponds to its total interest in Itaú Unibanco (36.78%) multiplied by the value of non-controlling shareholders ($ 96).

Finally, if the intention was to identify the accounting adjustments necessary to explain the differences only in the value of Itaúsa's liabilities (and not of the total resources), it would be enough to only not adjust the changes in shareholders' equity, that is, the adjustment of $ 35.

5.2.3 Accounting adjustments for the value of Itaúsa's revenue.

Table 5 presents the set of adjustments necessary to explain the differences in the amounts of revenue reported by Itaúsa. It is worth noting that the interest and similar income line was used, considering that its main joint venture is Itaú Unibanco Holding. In addition, since Iupar's main purpose is to maintain the interest in Itaú Unibanco Holding, its revenue is composed of the result of the equity method, thus not presenting interest and similar income.

Table 5

Accounting adjustments identified for the revenue of Itaúsa - Investimentos Itaú S.A. (in millions of reais)

Adjustments	Itaúsa		
	Itaú	Iupar	Total
Value of net revenue by the equity method (A)			**196**
(+) Recognition of proportionate revenues of the joint ventures (B)	35,443	0	35,443
Total revenue from joint ventures	96,364	0	
(-) Intercompany transactions	0	0	
(=) Adjusted total revenue	96,364	0	
(x) Percentage (%) of interest	36.78	66.53	
(=) Total	35,443	0	35,443
Value of net revenue by proportionate consolidation (A + B)			**35,639**

Source: *Developed by the authors.*

The accounting adjustments identified to explain the differences in revenue reported by Itaúsa are much simpler than those identified for the values of total assets and total resources since no additional adjustments were identified beyond the recognition of the proportional revenue of the joint ventures. Thus, from the revenue of the joint ventures, intercompany transactions are eliminated, such as the purchase and sale of goods and products.

Subsequently, the percentage of interest is applied.

Given that no transaction amounts were identified between Itaúsa and its joint ventures during the period, the estimated value of Itaúsa's revenue using the proportionate consolidation method would be $ 35,639. The amount of revenue effectively published by the company, according to Table 2, was $ 35,028, resulting in a difference of only 1.7%.

6. ANALYSIS OF OTHER COMPANIES WITH INVESTMENTS IN JOINT VENTURES IN THE BRAZILIAN MARKET

The elimination of the proportionate consolidation method as a valid alternative for the recognition of investments in joint ventures with the adoption of CPC 19 (R2) did not only affect Itaúsa. At the end of 2013, the first year of adoption of CPC 19 (R2), there were 125 publicly traded companies in the Brazilian capital market with investments in joint ventures. Although the analysis of the impact of adopting CPC 19 (R2) in these companies is not part of the main purpose of this research, which was to explore the impacts on Itaúsa's financial statements, it is believed that such information may be of great relevance to the reader, since 45 of these 125 companies also presented significant differences in the amounts reported when adopting CPC 19 (R2). To demonstrate the magnitude of these impacts, Table 6 shows the differences found in the accounting amounts reported by some companies in which the change from proportionate consolidation to the equity method produced an impact of at least 10% in the value of total assets/total resources and/or in the value of revenues.

Table 6

Impact on amounts reported by other companies (in millions of reais)

Company	Assets/total resources			Net Revenue		
	Statements of 2012 published on 12/31/2012 (PC)	Statement of 2012 restated on 12/31/2013 (EM)	Difference (%)	Statement of 2012 published on 12/31/2012 (PC)	Statement of 2012 restated on 12/31/2013 (EM)	Difference (%)
L. F. Tel.	19,361.2	1,557.0	1,144	7,245.0	[-]	[-]
Jereissati Telecom	12,981.5	1,066.5	1,117	4,731.9	[-]	[-]
Itaúsa – Investimentos Itaú	364,017.0	39,050.0	832	35,028.0	196.0	17,771
Alfa Holdings	3,343.5	709.0	372	321.5	0.2	163,921
Jereissati Participações	16,862.8	4,878.3	246	5,142.8	382.8	1,243
Consórcio Alfa de Administração	6,470.1	2,459.9	163	27.6	27.0	2
Litel Participações	44,687.6	22,266.3	101	16,003.4	[-]	[-]
Battistella Administração e Participações	496.3	289.7	71	819.6	789.1	4
Andrade Gutierrez Participações	8,936.9	5,313.0	68	1,325.0	63.4	1,989
Uptick Participações	115.8	70.8	64	67.0	[-]	[-]
Construtora Adolpho Lindenberg	28.9	18.2	59	32.5	32.5	0
Andrade Gutierrez	6,652.8	4,438.9	50	1,282.6	63.4	1,922
CPFL Geração de Energia	7,634.6	5,390.0	42	1,496.4	779.7	92
Magazine Luiza	5,664.8	4,107.7	38	7,665.1	7,066.8	8
Cemig	40,773.0	32,451.7	26	18,460.4	14,137.4	31
Cosan Limited	33,796.3	27,553.8	23	30,016.5	4,586.2	554
Cosan Indústria e Comércio	33,800.0	27,557.5	23	30,016.5	4,586.2	554
Eletrobrás	172,195.6	142,434.2	21	34,064.5	28,014.3	22
Inepar Indústria e Comércio	4,331.7	3,585.0	21	1,868.0	1,205.9	55
Unipar Carbocloro	769.6	644.5	19	355.4	[-]	[-]
Biomm	8.3	7.0	19	[-]	[-]	[-]
Eneva	9,451.2	8,039.6	18	490.9	48.8	906
CTEEP	9,836.6	8,370.9	18	2,819.0	2,015.0	40
São Martinho	5,633.1	4,904.9	15	290.3	219.5	32
Évora	2,339.5	2,053.8	14	1,821.4	1,318.8	38
CCR	14,305.8	12,711.3	13	5,767.7	5,123.6	13
Banco do Brasil	1,136,007.5	1,015,259.2	12	107,931.4	94,180.8	15
EDP - Energias do Brasil	14,429.8	13,031.2	11	6,567.3	6,454.5	2

Table 6 *(cont.)*
Impact on amounts reported by other companies (in millions of reais)

Company	Assets/total resources			Net Revenue		
	Statements of 2012 published on 12/31/2012 (PC)	Statement of 2012 restated on 12/31/2013 (EM)	Difference (%)	Statement of 2012 published on 12/31/2012 (PC)	Statement of 2012 restated on 12/31/2013 (EM)	Difference (%)
Ideiasnet	866.6	788.4	10	1,704.6	1,613.5	6
GPC Participações	702.4	640.6	10	611.1	466.1	31
Bardella	768.7	708.6	8	393.2	310.1	27
MRV Engenharia e Participações	11,108.7	10,340.2	7	4,265.9	3,803.8	12
Ecorodovias Infraestrutura e Logística	6,196.0	5,783.5	7	2,409.1	2,087.5	15
Marcopolo	3,512.1	3,329.4	5	3,817.1	3,369.9	13
EZETEC Empreendimentos e Participações	2,142.8	2,042.2	5	799.5	632.4	26
Lupatech	1,632.0	1,560.7	5	619.7	561.5	10
Brookfield Incorporações	10,279.0	9,838.9	4	3,253.4	2,788.6	17
Gafisa	9,071.0	8,712.6	4	3,953.3	3,590.3	10
Tekno Indústria e Comércio	253.1	243.7	4	147.4	125.8	17
Tegma Gestão Logística	1,095.5	1,056.7	4	1,799.7	1,634.0	10
Invepar	20,432.0	20,147.6	1	2,510.3	2,290.0	10

PC: proportionate consolidation; EM: Equity method.
Source: *Developed by the authors.*

Table 6 shows that not only for Itaúsa but for several other companies in the Brazilian market, the values reported by the proportionate consolidation method are significantly higher than the values reported by the equity method.

To assess whether the accounting adjustments identified to explain the differences in the amounts reported by Itaúsa are also applicable to other companies, it was decided to analyze whether the estimated amounts, based on the accounting adjustments identified for these other companies, are also similar of what was published by them.

For this purpose, it was analyzed the group of 45 companies, which represents all the publicly traded companies in the Brazilian market with investments in joint ventures, that were affected by the adoption of CPC 19 (R2) exclusively by the change from proportionate consolidation to the equity method, and that restated the comparative financial statement with sufficient information in the explanatory notes about their joint ventures.

The analyses indicated that the accounting adjustments identified for the case of Itaúsa are also applicable for almost all other companies. Considering a difference of up to 2% between the values obtained based on the accounting adjustments identified and the amounts effectively restated by the companies for the total assets and total resources, the accounting adjustments identified in the case of Itaúsa also explain the differences observed in the values of 38 of the 45 companies analyzed. In the case of revenue amounts, this number is 29 companies (out of 39 companies with information available, since 6 of the 45 companies did not disclose the value of the revenue).

7. FINAL REMARKS

The purpose of this research was to analyze the impacts of the elimination of the proportionate consolidation method, with the adoption of IFRS 11/CPC 19 (R2), in the accounting amounts reported by Itaúsa. Specifically, we sought to assess the impacts of Itaú Unibanco's "deconsolidation" on the amounts reported by its joint venturer, Itaúsa, as well as to identify which accounting adjustments are necessary to explain the differences in reported amounts.

The adoption of CPC 19 (R2), effective on January 1, 2013, brought significant changes, but one of the most controversial was the elimination of the proportionate consolidation method as a valid alternative for the recognition of investments in joint ventures and the consequent mandatory use of the equity method. This decision of the IASB was very controversial, since many countries applied the proportionate consolidation method, and in general, academic research suggests that this method produces information of greater relevance.

It is believed that, although the proportionate consolidation presents some conceptual inconsistencies with the asset and liability definitions of the Conceptual Framework, this is the method that produces information of greater relevance to the user. The use of the equity method to recognize investments in joint ventures can produce a distorted view of the company's real economic and financial situation, especially regarding the level of indebtedness. In some situations, although the liabilities are effectively the joint venture, the investor company may be co-responsible for these obligations, even if not legally. Consequently, in our opinion, these obligations should be reflected in the investor companies' financial statements.

As a practical example, it is worth highlighting the environmental disaster that occurred in 2015, with the rupture of the Samarco dam, a joint venture between Vale and BHP Billiton. Even having only joint control and not full control, both Vale and BHP Billiton were jointly responsible for Samarco's liabilities. These liabilities are not presented in the financial statements of Vale and BHP Billiton, since the investment in Samarco is accounted for by the equity method, producing a distorted view of the financial situation of these companies.

The change from proportionate consolidation to the equity method can produce significant impacts on the values reported by investors, and these impacts were evident in the Brazilian market, in which almost all companies used proportionate consolidation. Among the companies in the Brazilian market, we have chosen the case of Itaúsa as a highlight. This choice was because Itaúsa is the largest private group in Brazil, and Itaú Unibanco Holding represents a significant investment for its investor. Another fact that was important for the choice was the fact that Itaúsa was the company in the Brazilian market that presented the highest impact on the reported amounts.

The analyses indicated that the value of the asset reported by Itaúsa using proportionate consolidation was 832% higher than the value obtained by the equity method. Likewise, the value of Itaúsa's liabilities using proportionate consolidation is 5,096% higher than the value obtained by the equity method. In the case of interest and similar income, this percentage is 17,771%. These numbers demonstrate the relevance of the variations caused by the adoption of CPC 19 (R2) in the amounts reported by Itaúsa. Such an impact ultimately affects financial indicators, industry rankings and even the need to renegotiate covenants.

With the analysis of the Itaúsa case, it was possible to identify a set of accounting adjustments that explain the differences in the accounting amounts reported by the company. Especially in the case of values of total asset, total resources and interest and similar income, adjustments go beyond simply recognizing the proportional values of joint ventures, such as, for example, the existence of net asset surplus value, goodwill, unrealized intercompany results, among other adjustments. It was also observed that the accounting adjustments identified in the case of Itaúsa also explain the differences in the values reported by most of a group of 45 companies in the Brazilian market.

In this context, it is believed that the objectives of this research were achieved, and the research question answered. In analyzing the consequences of the elimination of the proportionate consolidation method, with the adoption of CPC 19 (R2), in the amounts reported by Itaúsa, as well as identifying and discussing the accounting adjustments that justify these observed differences, it is possible to better understand the nature and importance of the CPC 19 (R2) for the Brazilian market, as well as its consequences for the largest private group in Brazil. This discussion is timely and relevant since some companies, such as CSN, Bradesco, and Klabin continue to disclose, in the operating segments' explanatory note, the amounts that would be disclosed whether their investments in joint ventures were still proportionally consolidated, even after the adoption of CPC 19 (R2), because they consider that this method produces information of greater relevance for managerial decision making.

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