DISCRETIONARY ACCRUALS, LIQUIDITY AND CORPORATE GOVERNANCE INDEX IN BRAZIL

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Abstract

This study investigates if the level of discretionary accruals (DAs) is different for companies whose corporate governance level is certified by Bovespa compared to those ones that are not. And also for companies whose stocks negotiated at Bovespa have high liquidity compared to the ones with low liquidity. The main purpose is to comprehend the phenomenon of accounting choices (measured as DAs), its incentives and counter-incentives. In this context, the issues were: i) Is there any difference of DAs intensity between certified and non-certified companies, considering the corporate governance level?; ii) Is there any difference of DAs intensity with high liquidity stocks at Bovespa and those ones with low liquidity? This research took into consideration Jones` original model (1991), a sample with 1,791 observations collected from 1997 to 2004. Empirical results from our study show that there is no significant statistic difference in the level of DAs between the firms listed or not in the corporate governance index. This suggests the need to consider incentives and counter-incentives from the capital market to those different set of firms, in relation with accounting choices.

Keywords: Discretionary accruals; Earnings Management; Liquidity; Corporate Governance; Capital Market

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1. Empirical background of accounting choice practices

International literature about earnings management is large and widespread between the accounting academy, practitioners, and regulators (HEALEY and WAHLEN, 1999; DECHOW et al, 1995; BENEISH, 2001; McKEE, 2005). On the other hand, Brazilian publication about this issue is pretty modest, but increasing (MARTINEZ, 2001 TUKAMOTO, 2004; ALMEIDA et al, 2005), and still even less spread between accountants, practitioners and regulators. This phenomenon is not widely known for its incentives, counter-incentives, operation, limits, effects, and consequences. In spite of all empirical evidence, there is a lack of specific theory about this phenomenon and its real economic motivations.

Literature presents evidence of the phenomenon in accordance to relevant incentives. Mulford and Comiskey (2002) summarize the North American literature related with the empirical evidence of accounting information manipulation and their incentives. Stlowy and Breton (2004) abstract US, Canadian, Welsh, Australian, Finish, and French literature. Within the evidence found, incentives to do manage earnings go through the need to maintain or increase the firm's value and/or to reduce its stock's risk, and also incentives to meet thresholds with others agents as creditors and regulation agencies.

Taking Brazilian institutional context into consideration, few evidence has to do with an intention to prevent from an undesired answer from the market due to the interpretation of profit variations as a increasing risk, which could lead to fall the stock prices (MARTINEZ, 2001), and protect firm from a intervention by the regulatory agency (CARDOSO, 2005).

In the brazilian financial market, Fuji (2004) shows that the account provision for loan loss is used to smooth banks' earnings through discretionary accruals. Tukamoto (2004) verified that there is no significant difference between discretionary accruals practiced by Brazilian companies – which stocks are negotiated at BOVESPA (São Paulo Stock Exchange) as so the ADRs in the NYSE (New York Stock Exchange) - reported in accordance to the BRGAAP and the same firms that report in the USGAAP. Almeida et al (2005) found evidence in Brazil about earnings management in a few industries as retail, electronics, telecommunications and textile. Additionally Almeida (2006) shows by the discretionary accruals that there is heterogeneous groups of firms (Strategic Groups) within the same industry managing their earnings.

In this study, accounting choices are options made by agents in the moment of development and announcement of private information to the market, according to agent's intentions, which might or might not be related to the principal interest. This point of view is supported by Schipper (1989), Healy and Wahlen (1999), Sunder (1997), Fields et al (2001) and Mckee (2005).

Economic comprehension of the phenomenon leads through the evidences of its own manifestation in the analyzed environment (capital market), linked to the set of incentives and counter-incentives that affect all agents involved. In this research, earnings management analysis presents two sources of complexity, regarding explanation effects. Firstly, all public information – financial statements – is a result of accounting choices that outsiders are not able to observe or just partially. They are not supposed to be observed; only its reflexes and impacts are. This means that ordinary agents are not able to plenty identify accounting choices by the numbers announced. Secondly, incentives (and counter-incentives) take place on the same time. So effects will have mutual minimization and maximization according to the signal (positive and negative correlation).

2. Theoretical Background

A firm is seen as a set of contracts (ALCHIAN and DEMSETZ, 1972; JENSEN and MECKLING, 1976) among agents that deal with rational choices with limited cognitive capacity (SIMON, 1947) and tries to maximize their sum of utility set – self interest – even causing information distortion and omission in order to reach their goals (WILLIAMSON, 1975, 1985, 1996). The environment where accounting information is produced, announced and used is made by properties rights not totally delimited, which have costs to transact these information's. These costs include resources spent to defining, monitoring and guarantying property rights (BARZEL, 1989; WILLIAMSON, 1975, 1985; NORTH, 1990).

Because bounded rationality, contracts are incomplete. Incentives arrangement, by assumption, are not able to realize the complexity of agents preferences and future contingencies, emerging opportunities for future expropriation of property right, making relevant the procedure adopted to solve potential conflicts, and also fair adaptations between agents. Including a non perfect delimitation of transacted property rights and positive cost of monitoring and coercion, there is a contract design optimization, as in the choices that have to be made related to accounting information as well as performance delimited in contracts (MASTEN, 1999; WILLIAMSON, 1975).

As a result, new possibilities as changing in agents incentives arrangements; in regulation environment; and competition, may turn, in the future, into an efficient path for a while, in a less efficient solution, leading to a substitution of the first one. This conception agrees to Watts and Zimmerman (1986) point-of-view, and follows one of the three dominant lines about "accounting choices" included in literature: agent's opportunist choices (HOLTHAUSEN, 1990).

Assuming that firm doesn't have any other intention beyond to inform the real economic performance about its future cash flows. So, the firm would not take into consideration this information impact on its ex post cash flows. Also managers would not take into consideration the impact on this set of utility. In this specific condition, information announced could be considered free of intentions, except for the duty to inform what the firm and their agents recognize to be a real result, following agents rationality and practice accepted – there is a real intention to inform in this case. In another condition, where agents from the firm take into consideration the impacts of these announcements regarding future cash flows and sets of individual utility, it is not possible to assure information. But it is possible to stand for a disinformation possibility. Part of the information tries to mislead the reality.

In this paper, we assume that accounting information impacts the firm's future cash flow, as also, in the agents' utility. Part of this impact comes as a result of signaling (WATTS and ZIMMERMAN, 1986). Signaling effect modifies value perception of both of the parts related to the object informed (NELSON, 1970 and 1976; SPIER, 1992; MILGRON and ROBERTS, 1986; SHAPIRO, 1983; FELTOVICH, HARBAUGH and TO, 2002). By ignoring information impact in the future cash flows, it is brought out what Sunder (1997) calls "law of conservation of income". Dechow (1994), Dechow, Kothari and Watts (1998) discuss and show that in a long term, cash flows generated by the firm is the same as profit flow (concerning to accrual accounting and historical cost principle) at the same period, according to Sunder (1997).

Considering that accounting choices are endogenous from the organizational and financial structure, Watts and Zimmerman (1990, p.153) assure that "*changes in accounting procedures occur simultaneously with changes in the firm´s investment opportunity set, its financial and compensation contracts, its organizational structure, and even in its political environment*." Therefore any variation in agents' incentive arrangement may modify the distribution of accounting choices possibilities to them.

Taking into consideration all assumptions presented, the issue that guides this research is: What are the main incentives (and counter-incentives) to accounting choices?

The answers from agents to regulation can be legal or illegal (BENHAM, 2004). The same occurs with the set of accounting choices. The probability of one or another choice when information is produced is function of positive incentives, and its costs to produce including penalties. These penalties are a function of a potential risk involved, when a brake of information asymmetry about the choice made and also its penalties imposed by regulation or a loss of "honest executive" reputation.

This paper does not intend to investigate all incentives and counter-incentives, but only two of them, which are presumed to have a relation with capital market: the relationship between discretionary accruals, stock liquidity, and firm-level in the corporate governance index.

3. Signaling: theoretical background

Uncertainties stated of Agents', a result of a lack of information about attributes to be negotiated and future conditions that may impact pricing, is economically relevant. Information asymmetry represents either a condition of a lack of plenty information and a not equal distribution of information's among agents involved in a specific transaction (AKERLOF, 1970; STIGLER, 1961).

Value given transaction of the property rights in the market depends on information available to the buyer (BARZEL, 1989). These information's can be observed directly or even built by measurement procedures adopted by agents involved – as firm's financial data –, which approximates a future cash flows expectation.

Quality of attributes in previous period is useful as signaling of goods and services benefits produced during actual period (SHAPIRO, 1983, P. 659). It makes salesmen of property rights have incentives to develop their reputation about been capable to produce attributes with high performance. This reputation is developed by signaling of goods or services with high quality made and delivered in last periods, showing that this supplier is more reliable than competitors, influencing the probability to the buyer come back, on the last case, *ceteris paribus* affecting on the liquidity of the asset (good). Reputation is a dynamic concept built with a overlapping of transactions from the past and expectations that were satisfied.

As an answer to signaling, firms with standard on higher levels, in order to impose a differentiation between themselves and the competitors on low or median levels, prefer not to signal about their attributes, which could be seen by the market as a high performance one because the information is misunderstanding. The effect is known as counter-signaling. A balanced situation of this model happens when there is a wide difference between high and middle levels – information misunderstanding – so the first one makes no signaling (FELTOVICH, HARBAUGH and TO, 2002).

Information sets available to investors (specialized) is formed by financial data announced at specific meetings, concerning when reports were received by CVM (Brazilian SEC), and also by others information in a couple of details between announcements. We assume that a complete set of information about the firm is known only by its Chief Executive Officers (CEO). On the other hand, the controller, board, and minorities shareholders have access to parts of information sets. Still, for the most specialized external agent private information are not accessible. Thus, information reported makes signaling when executives allow other agent to deal with a part of the complete set of information.

These signaling are information that became public to the market about operational choices made or actual or expected performance. They were private information by nature, and would be accessed by outsiders for a very high value. This information comes out public by CEO speeches, the press or any non-official channel, making out a signaling about the firm. By the moment that the firm does not make any effort to protect these private information or also incentives to publicly them not properly, it is known as deliberated signaling. Assuming that agents are self interests, these information are supposed to be strictly about positive facts or they have to be about a reduction of future expectation, as soon as the firm notices that decreasing future discrepancy between what is announced and the market's expectation.

4. Brazilian Corporate Governance Institutions

Corporate governance is here understood as relationships of the triumvirate following Roe (2005, p 371): board of directors, managers, and shareholders, in three dimensions: vertical, horizontal, and external. First dimension – vertical – is responsible to bring CEO's into line with shareholders´ interests. The second – horizontal – relies to deal with the majority shareholder opportunism over other shareholders. Both of dimensions shown are a result from information asymmetry between agents. So the third – external – is in charge of firm legitimacy in society.

Roe (2005) presents 10 corporate governance institutions that promote lining of agents involved in a North American perspective: market, board of director, method of remuneration, collision between shareholders (by takeovers and others), information distribution, laws, capital structure, and bankruptcy.

Since 2001, in Brazil, with a "new" edition of public held corporations law (modified by laws 10.303/01 and 10.411/01); capital market has experienced a great improvement about its regulatory issues. Regulations go against a set of facts related to the horizontal dimension, which is very much present in Brazilian capital market because high concentration of stocks. Its horizontal means are related to limitations concerning to issue preferential stocks (to receive preferred dividends), acquisitions made by controllers with a fair value to the minority shareholders about the share value, election of board members by minority shareholders, and development of arbitrage methods to end up conflicts between major and minor shareholders and related to the attributions to CVM (Security Exchange Commission) as a autonomous regulator agency.

The "Novo Mercado" (New Market) level of corporate governance index in Brazil, launched in 2000 by Bovespa (São Paulo Stock Exchange), was a very important initiative for Brazilian capital market. It is divided into three levels – level 1, level 2, and the "New Market", hereafter L1, L2 and NM, respectively– and its rules are based in corporate governance levels. Level 1 establishes the company an obligation to present cash flow statement quarterly a year, and mechanisms to favor capital dispersion before public share offerings. Level 2 makes itself different from level 1 because companies need to report financial statements in accordance with international accounting standards (GAAP), specific duties to the board members, preferential shares with vote right and adherence to the arbitrage chamber. And so for the "New Market" sustains that the capital stock is solely represented by common shares.

From a horizontal market dimension as the Brazilian one, "New Market" (NM) lines itself up with institutions described by Roe (2005), where can be noticed a relationship that starts with the market creation itself, lined up with the same term quoted by the author, ahead one of its ordinary functions with a liquidity of shares and disclosure. So it brings to signaling to prospect of new investments. Board of Directors – for the NM and L2 – follows prerogatives established by actual legislation and social statute of the companies. But the author considers that in institutions with horizontal governance the board is less relevant because of the possibility to be captured by majority shareholders. As for the information disclosure, all of three levels in the index which information will be available, period, and authorized person in charge of publicizing, according to shareholders demand of receiving these information.

A few results lead to the influence of the improvement in corporate governance in Brazil. A positive relationship between diversification, size of the board and director remuneration in profits were evidenced (MENDES-DA-SILVA and MAGALHÃES, 2004). Also, firms that sustain better practices of corporate governance had a reduction of volatility on stock pricing value before external economic reality (SROUR, 2002). Non-simultaneous functions of CEO and Board President reinforced a better valorization of the company by the market (FAMÁ, BARROS and DI MICELI, 2003). However, there are authors whom have not found a relationship with the fact like some companies that adopted L1 and could not reach a stock valorization with the change (AGUIAR, CORRAR, and BATISTELLA, 2004). Alencar (2005) has not found any evidence about implementation of different corporate governance as motivations for a capital cost reduction.

5. Hypotheses and Variables

A firm that makes a decision to adopt a level of corporate governance index (CGI) does it as a signaling to investors. Thus, market realizes that increasing governance level, the firm will have restriction of practices that expropriate value from minorities' shareholders, and the stock liquidity has a potential high, as a positive and instant answer to a new level of governance adoption. That would be an incentive to adopt higher levels of CGI, sharing in a different intensity by CEOs, board, major and minor shareholders.

By adopting CGI practices, the firms reduce the possibilities of CEOs to act freely about choices accepted by agents. In this sense, a CGI's Level inputs, with a transaction cost, potential benefits and penalties to the set of usefulness of each executive. Also, if the firm keeps trying to line up impacts in the set of usefulness of CEOs and controllers, it reduces incentive discretion about the others (minorities' shareholders and other agents). So it comes to a reduction of incentives to do earnings management, measured by discretionary accruals (DA). That makes the first hypothesis: H1: The higher firm-level in the corporate governance index (CGI) adopted by the firm, less is its level of discretionary accruals (DA).

If this hypothesis is not confirmed, it may be suggested that the seal of "NM" level (or L1 or L2) is a rhetorical issue (only representing a good image to the market). Or companies that do not affirm the adoption (do not better to be part of the seal because the cost), they adopt governance practices very similar and recognized by the market, alike the ones that chose the seal.

Keeping on with the issue, the higher CGI, the lower the uncertainty about information announced, because divergent incentives of executives about the minority shareholders will be lower. So, the higher will be the shares credibility, the higher will be liquidity (LIQ). Investors will surely have a great interest to negotiate them. Higher CGI, lower DA, and if CGI is higher, liquidity will be so, which makes a lower DA. From this proposition came out a second hypothesis: H2: The higher liquidity (LIQ) of companies' shares, lower will be the level of discretionary accruals.

6. Empirical analysis

Discretionary accruals were investigated, in this study, according to Jones' original model (1991)[10]

[10] Total Accruals (TA) are calculated as follow: $TA_{i,t}/AT_{t-1} = (\Delta CA_{i,t} - \Delta Cash_{i,t} - \Delta CL_{i,t} - \Delta STD_{i,t} - DEP_{i,t})/AT_{t-1}$. Where: $TA_{i,t}$= *Total accruals*; $\Delta CA_{i,t}$ = change in current assets; $\Delta Cash_{i,t}$= change in cash and cash equivalents; $\Delta CL_{i,t}$= change in current liabilities; $\Delta STD_{i,t}$= change in debt included in current liabilities ; $DEP_{i,t}$= depreciation, amortization and exhaustion expense; AT_{t-1}= Total Assets at t-1. The Jones model (1991) is: $TA_{i,t} = \alpha_1 (1/AT_{t-1}) + \alpha_2 (\Delta REV) + \alpha_3 (PPE) + \varepsilon_{i,t}$. Where: $TA_{i,t}$ = Total Accruals;

Categorical variables (CGI) assumes: NM for companies certified with Bovespa's "New Market"; L2 for the ones of "Level 2"; L1 for "Level 1"; e 0 for companies that are not certified in any of de CGI level studied, in this case (NCG).

Continuous variable (LIQ) was taken from Economatica Database for each company/year in respect to the most exchanged share (ex. ON – Common Stock or PN – Preferential Stock). The sample was stratified in quintiles of liquidity, becoming a Categorical variable: 1 for companies with lower liquidity of shares (quintile 1); 2 for the ones of quintile 2; 3 for companies of quintile 3; 4 for the ones of quintile 4; e 5 for companies with higher liquidity of shares (quintile 5).

ΔREV = Change in Revenues; PPE = Gross Property Plant and Equipment in year t. Therefore, discretionary accruals are obtained: $AD = ACT - [\alpha_1 (1/AT_{t-1}) + \alpha_2 (\Delta REV) + \alpha_3 (PPE)]$ all variables scaled by total assets at t-1.

The sample consists in 1,791 observations over 1997-2004 periods. Discretionary accruals were treated by absolute values to avoid mean and median tending to zero. A descriptive analysis of the results shows relevant values of dispersion of the DAs by the results presented in Jones' model (1991).

Once the discretionary accruals were calculated by Jones' model (1991), the Mann-Whitney non-parametric test was used to compare if the level of DAs are different between companies, considering the publicity of CG practice, and the liquidity of shares at Bovespa. The Mann-Whitney test is suggested to this study because observations do not follow to the normal distribution, and have different number of observations.

The descriptive statistic of the sample is show in table 1:

Table 1. Descriptive Statistic of DAs Distribution from Jones' model (1991) of Brazilian Companies listed at **Bovespa**

Description	Observation	Mean	Median	Standard-Dev.
NCG 0, L1, L2 e NM*	1791	0.096	0.054	0.171
L1, L2 e NM*	96	0.086	0.042	0.115
"Novo Mercado"*	10	0.067	0.040	0.084
Quintile 1 (-Liq)*	497	0.098	0.060	0.119
Quintile 1&2 (-Liq)*	716	0.097	0.059	0.126
Quintile 4&5 (+Liq)*	717	0.100	0.052	0.226
Quintile 5 (+Liq)*	359	0.109	0.050	0.109

* NCG in 0 corresponds to companies that are not in any other level of corporate governance of BOVESPA; CGI in L1, L2, and NM corresponds, respectively, to level 1, 2 and New Market, certified by Bovespa; Quintile 1 and 2 hold low liquidity of shares; and quintiles 4 and 5, high liquidity.

Indeed, regressions do not show problems of multicollinearity. They hold VIF's (variance inflaction factors) to 1.8, which is an acceptable factor until 5. There are great problems of multicollinearity when VIF's are upper 10.

The following sections present and discuss the results for the corporate governance announced, and also for the liquidity of the most exchanged share type.

6.1 Empirical results of corporate governance level in discretionary accruals

Initially, we analyze the results of Mann-Whitney test for corporate governance level, as shown in table 2:

Table 2. Results from Mann-Whitney non-parametric test of DA per CGI

H1 test specification	Mann-Whitney	P-value	Result: H_0
$H_0$1-1: DA NCG0 > DA L1,L2 e NM	75,730,000	0.253	Not rejected
$H_0$1-2: DA NCG0 > DA NM	6,878,500	0.304	Not rejected

For hypothesis H1, sample was segregated into companies' groups that do not announce Corporate Governance practices adoption, and the ones that do announce it, according with Bovespa's classification, i.e., Level 1 (CGI=L1), Level 2 (CGI=L2), "New Market" (CGI=NM), and none of them (NCG=0). Groups were separated by two requirements: First ($H_0$1-1): no CGI level, and some CGI level (L1, L2, and NM). To Mann-Whitney test to have a effect, the hypothesis – the higher level of governance (CGI) followed by the company, the lower is the DA intensity between its accounting choices – was tested by difference between discretionary accruals of groups composed by companies that announce their practices of corporate governance, and also composed by companies that do not announce it.

In Jones' model (1991), groups of companies that do not announce that adopt corporate governance practice (NCG=0), but do announce they adopt any corporate governance practice at CG levels (L1, L2, and NM), do not show any significant difference. The confidence level have p-value higher than alpha=0.05. Thus, H1 cannot be accepted.

That way, we cannot assure the adherence to any CGI level in the Brazilian capital market (as Bovespa's certification of corporate governance best practices) is an incentive (or counter-incentive) to the choice of accounting practices (tested by this paper as "discretionary accruals").

6.2 Empirical results of liquidity of shares in discretionary accruals

This section shows Mann-Whitney test's results to the Liquidity of stocks, as shown in table 3:

Table 3. Results from Mann-Whitney non-parametric test– DA;LIQ

H2 test specification	Mann-Whitney	P-value	Result: H_0
$H_0$2-1: DA LIQ1 > DA LIQ5	86,006,500	0.369	Not rejected
$H_0$2-1: DA LIQ 1&2 > DA LIQ 4&5	250,805,500	0.453	Not rejected

Discretionary accruals were separated after being taken from Jones' model (1991) by samples with low liquidity and high liquidity groups (of shares); according to quintiles. Groups were divided by two requirements. First ($H_0$2-1): low liquidity = quintile 1 (LIQ1), and high liquidity = quintile 5 (LIQ5). Second ($H_0$2-2): low liquidity = quintile 1 and 2 (LIQ1&2), and high liquidity = quintile 4 and 5 (LIQ4&5).

Afterward, we did the Mann-Whitney non-parametric test. The assumption in the second hypothesis - the higher level of governance (CGI) announced by the company, the higher is its shares liquidity (LIQ) and consequently less discretionary accruals (DA) - was tested by statistic difference between discretionary accruals of groups composed by companies which have shares listed at Bovespa with low liquidity, and high liquidity for H2.

Discretionary accruals are not significantly different between groups of companies with low liquidity (quintile 1 and quintile 1 and 2), and high liquidity (quintile 5 and quintiles 4 and 5), after all, confidence level had a p-value higher than alpha = 0.05. Thus, H2 cannot be accepted.

Results indicate that we cannot assure liquidity of exchanged shares at Bovespa is an incentive (or counter-incentive) to accounting choices (tested by this paper as "discretionary accruals").

7. Results discussion

Empirical evidences suggest two issues. Firstly: Do investor recognizes earnings management, and is not sensible to it or he really does not recognize it? Secondly, does the seal "New Market" (or Bovespa's levels 1 and 2 of corporate governance) add information about corporate governance to the investor?

The "New Market", known as a private institution (BROUSSEAU, 2002) would act on reducing the investor uncertainty as long as it certifies the adherent company by considering it is meeting a couple of requirements, and restricting acts with potential value of expropriation from investors.

In this sense, the seal would have content information. It would distinguish companies that are "notarized" from the ones that are not. Considering the company that announces information about its governance level has less credibility than when information is certified by an agent in the market recognized as impartial (as like Bovespa). This information from an individual agent or independent one would be more efficient (FELTOVICH, HARBAUGH, and TO, 2002; RESE, 2003; BROUSSEAU, 2002).

The less specialized is the investor, more information costs he would incur to access information about the company's governance, if there was no certifier agent. This information value would be related with the use of a non-specialized agent, because the specialized one has more expertise and a set of information before by observing governance practices for a long period of time, announced by the company, even before it finally adheres to the seal.

The results from our research show that discretionary accruals generated by firm decisions are not sensible to the seal information (level of corporate governance announced). However, would we to consider when a firm signaling to the market that adopted corporate governance practices as a rhetorical issue?

Would non-relationship between CGI level and DA be justified by the fact that agents are not sensible to level of DA and level of governance announced by the seal or because they do not identify DAs? If a relationship between DA and liquidity was not also identified, another issue remains unanswered: liquidity affects DA or DA affects liquidity?

8. Conclusions and Implications

This paper have investigated and evidenced: i) there is no significant difference in the level of discretionary accruals between companies which corporate governance level is certified by Bovespa and the ones that are not, and ii) there is no significant difference in the level of discretionary accruals between companies which shares have a high liquidity level at Bovespa and the ones with a low liquidity level. It can be inferred other possible incentives to the management of accounting information as regulation, taxation, maximization of executives' functions or analysts' forecasts.

Before making generalizations about evidences, it is important to observe that results are based on listed companies at Bovespa. Financial and insurance institutions are not included in the sample because the specific legislation and regulation.

There is a point that should be tested: effects of concentration in CGI. If information asymmetry between executives and outsiders is not plenty solved, because only a part of private information is disclosed, any other effects from CGI addition would appear. Thus, agents would not be into accepting that it is only rhetoric.

This means that the adhesion in one CGI level, independently of a total solution of information asymmetry, gives the market a perception of reducing uncertainties about the shares and the future cash flows. On the contrary, shares with more concentration will be more sensible by a reduction of uncertainties. It happens not because a question of having evidences, but the lining up of incentives (same rights) between controllers and non-controllers.

Future researches can test with different models to estimate discretionary accruals and extend the period of analysis. Another issue is to verify if there is an impact of corporate governance level practiced effectively by companies with respective discretionary accruals. This may contribute to the knowledge about the phenomenon (accounting choices and earnings management) because it will not analyze signaling (Bovespa's corporate governance certification), but practices effectively adopted.

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