THE VALUE RELEVANCE OF PROVISIONS AND CONTINGENT LIABILITIES IN BRAZILIAN COMPANIES

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ABSTRACT

This study investigates the value relevance of the recognition of provisions and the disclosure of possible contingent liabilities in Brazilian companies. The research examines whether distinct disclosure practices influence market prices. Data were primarily extracted from the Standardized Financial Statements of companies listed on the B3 Brazil 100 Index (IBrX 100) between 2010 and 2020, resulting in a sample of 927 observations. Panel data analysis was conducted using Ordinary Least Squares (OLS) and Generalized Least Squares (GLS) regressions, based on Ohlson's (1995) value relevance model, as adapted by Collins et al. (1997). The results indicate a significant negative association between provisions and market value, suggesting that recognizing one unit of provision decreases the stock price by approximately four units. This finding may reflect the low accounting conservatism of Brazilian companies, frequent reclassification of contingent obligations, and uncertainty surrounding future disbursements. These factors influence users' perceptions of potential undervaluation in provisions. In contrast, the coefficients for contingent liabilities were not statistically significant, indicating that users perceive provisions and contingent liabilities differently, potentially due to lower auditing standards for the latter.

Keywords: Provisions. Contingent liabilities. Value relevance. CPC 25.

VALUE RELEVANCE DAS PROVISÕES E PASSIVOS CONTINGENTES NAS COMPANHIAS BRASILEIRAS

RESUMO

A pesquisa analisou o *value relevance* do reconhecimento de provisões e divulgação de passivos contingentes de caráter possível nas companhias brasileiras, de modo a se verificar se a distinta forma de divulgação impactaria no

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preço de mercado da companhia. Os dados foram extraídos, principalmente, das Demonstrações Financeiras Padronizadas das companhias listadas no Índice Brasil 100 da B3 (IBrX 100), no período 2010 a 2020, o que resultou em um total de 927 observações. A análise dos dados em painel foi feita por meio de regressões *Ordinary Least Squares* (OLS) e *Generalized Least Squares* (GLS), baseando-se no modelo de relevância de Ohlson (1995) adaptado por Collins et al. (1997). Dentre os resultados, está a de que as provisões apresentam uma relação significativa – e negativa – com o valor de mercado das companhias de capital aberto brasileiras. Verificou-se que o reconhecimento de uma unidade de provisão tende a refletir negativamente no preço de mercado da ação, em um montante de aproximadamente quatro unidades. Este achado pode estar relacionado ao baixo conservadorismo das companhias brasileiras sob o ponto de vista contábil, à constante reclassificação das obrigações de caráter contingente e à incerteza quanto à magnitude do desembolso futuro, fatos que sensibilizam a percepção do usuário quanto à potencial subavaliação no reconhecimento das provisões. Já os coeficientes dos passivos contingentes não se apresentaram estatisticamente significantes, o que indica diferença de percepção entre provisões e passivos contingentes, pelos usuários, por conta destes últimos estarem submetidos a padrões menos elevados de auditoria.

Palavras-Chave: Provisões. Passivos contingentes. Relevância. CPC 25.

1 INTRODUCTION

Anyone familiar with the trade of used goods is aware of the inherent skepticism in this market. From concealed defects to the ownership history of an item, every detail must be meticulously assessed by the buyer to mitigate the risk of an unfavorable transaction.

The mistrust in the used goods market stems from a fundamental aspect of life: uncertainty. Only the owner of the item truly understands its actual condition, while the buyer must attempt to mitigate their lack of information about the asset's state to properly estimate its value.

Decades ago, Akerlof (1970) identified this phenomenon as adverse selection, wherein sellers leverage their informational advantage to introduce defective goods into the market, with the intention of obtaining a higher value than they are worth. In the other hand, cognizant of this risk, buyers reduce the prices they are willing to pay. Consequently, numerous high-quality goods are sold below their intrinsic value due to the difficulty in differentiating between high-quality and defective items in the context of asymmetric information among market participants.

A comparable dynamic can be observed in capital markets, where the shares of assorted companies are listed, and reliable information is of the essence for distinguishing those firms that are more robust from those that are less so. Similarly, the assets and liabilities documented in financial statements do not fully account for the potential occurrences that companies may encounter. These events can significantly impact equity if they are recognized at a future point in time (Campbell et al., 2003; Ferreira et al., 2014; Jesus & Souza, 2015; Carmo et al., 2018; Losekann et al., 2018).

Among these events is the classification of provisions and contingent liabilities based on the probability of future disbursement. Technical Pronouncement CPC 25 categorizes contingent obligations according to the probability of resource outflow from the entity, classifying them as probable, possible, or remote. These categories correspond, respectively, to a provision recognized as a liability on the balance sheet, a contingent liability not recognized as a liability but disclosed in the notes, and a contingent liability neither recognized nor disclosed (Gelbcke et al., 2018).

While contingent liabilities do not directly affect a company's equity position, provisions can significantly influence its financial and economic analysis indicators.

It is standard practice for entities to periodically reassess the likelihood of provisions and contingent liabilities in response to new developments or shifts in perception. Frequently, these adjustments are made without any accompanying public justification (Ferreira & Rover, 2019). In some instances, such changes are driven by subjective judgment or cultural influences (Baldoino & Borba, 2015). These factors can significantly impact external users' interpretations of a company's financial disclosures. Notably, any modification in the estimated probability of disbursement or settlement for a provision or contingent liability may lead to abrupt changes in the company's accounting equity position (Magalhães, 2012; Ferreira et al., 2014; Jesus & Souza, 2015; Carmo et al., 2018; Losekann et al., 2018).

When there is a subjective margin in classifying an obligation as remote, possible, or probable in terms of settlement likelihood (Baldoino & Borba, 2015; Lopes & Reis, 2019), and this classification leads to differing levels of disclosure for contingent obligations, it becomes important to investigate whether the inclusion or exclusion of certain information in financial statements influences the decision-making process of external users.

Considering this context, the present study seeks to address the following research question: ***What is the value relevance of provisions and contingent liabilities, considering their distinct nature, in relation to companies' market prices?*** The primary objective is to examine the extent to which recognizing provisions and disclosing possible contingent liabilities influence the market valuation of Brazilian companies. By analyzing the impact of varying disclosure practices on market prices, the study aims to contribute to a deeper understanding of how these accounting elements shape investor perceptions and decision-making.

Exploring this topic within the specific context of Brazilian companies is particularly significant, as cultural factors play a critical role in the interpretation and application of accounting standards such as CPC 25/IAS 37 (Gray, 1988; Doupnik & Riccio, 2006; Tsakumis, 2007; Baldoino & Borba, 2015). Moreover, the variability in interpreting verbal expressions of probability – such as 'remote,' 'possible,' and 'probable' – further underscores the need for localized analysis (Teixeira & Silva, 2009; Du & Stevens, 2011; Ribeiro et al., 2013; Hennes, 2014).

Additionally, this study facilitates meaningful comparisons with analogous research conducted in other countries, offering insights into how these differences manifest across diverse accounting environments (Wegener & Labelle, 2017;

Baboukardos, 2018; Lopes & Reis, 2019). Furthermore, IAS 37 – and consequently CPC 25 – has been the subject of criticism since its issuance regarding the subjects addressed in this study. These criticisms are elucidated in the Staff Paper, entitled "Possible Problems with IAS 37," published in 2015. The paper identifies issues pertaining to the recognition criteria for "probable outflows," measurement challenges, and even the semantics of the terms "provision" and "contingent liability", (as identified by Teixeira & Silva, 2009, and Du & Stevens, 2011).

A recent study by Carvalho et al. (2022) reports that the Center for Taxation Studies at Insper has initiated a project to develop a good practice manual targeted at corporate management. This manual aims to enhance the classification of transactions as remote, possible, or probable. The initiative addresses significant challenges faced by companies and legal advisors, stemming primarily from the inherent uncertainty of forecasts. Furthermore, the study highlights that explanatory notes often contain highly inconsistent information, underscoring the need for standardized practices to improve transparency and reliability in financial reporting.

Our study adds to the growing body of literature on the value relevance of recognizing provisions and disclosing contingent liabilities. It emphasizes the role of disbursement probability classifications in shaping perceptions of the fair value of Brazilian companies. The empirical contribution is twofold: it utilizes a representative sample of Brazilian companies spanning more than a decade and explores the cultural nuances of the Brazilian stock market. These findings provide valuable insights for both regulators and financial statement users, fostering critical reflections on the significance of accounting information derived from subjective evaluations. Such reflections are essential for assessing whether the outcomes align with the objectives of established accounting standards.

2 THEORETICAL FRAMEWORK

2.1 The Role of Accounting in the Classification of Provisions and Contingent Liabilities

According to the accounting standard, claims against the entity are recognized as liabilities if they meet the definition set forth by CPC 00, which defines a liability as a "present obligation of the entity to transfer an economic resource as a result of past events" (CPC, 2019, p. 19). For the obligation to be recognized in the balance sheet, the outflow of resources must be considered probable, and the amount to be settled must be reliably measurable. Gelbcke et al. (2018) emphasize that liabilities are typically well-defined and certain obligations, generally supported by documentation that leaves no uncertainty regarding the amount and the expected payment date.

Conversely, if the obligation does not meet any of the recognition criteria, it must be addressed under the guidelines of Technical Pronouncement CPC 25 – Provisions, Contingent Liabilities, and Contingent Assets, which aligns with the International Accounting Standards (IAS) 37 – Provisions, Contingent Liabilities and Contingent Assets, under the International Financial Reporting Standards (IFRS).

The framework of CPC 25 establishes a distinction between provisions and contingent liabilities. Provisions are a *sui generis* type of liability recognized on the balance sheet, differing from other liabilities due to the uncertainty in timing or measurement of the amounts required for settlement. They represent a type of liability that must cumulatively meet the criteria outlined in the accounting standard, namely: (a) the entity has a present legal or constructive obligation as a result of a past event; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) a reliable estimate of the obligation amount can be made (CPC, 2009).

Contingent liabilities, by contrast, are not recognized as liabilities on the balance sheet. This is because they either represent potential obligations that have not yet been confirmed as present obligations or lack a reliable basis for estimating the obligation amount (CPC, 2009).

In the context of accounting, CPC 25 classifies present obligations based on the probability of resource outflows from the entity. These obligations are categorized into three classifications: probable, possible, and remote. Provisions are recognized on the balance sheet for probable obligations, while possible contingent liabilities are disclosed in the notes, and remote contingent liabilities are neither recognized nor disclosed (Gelbcke et al., 2018). An exception arises when an obligation is considered probable but cannot be reliably quantified; in such cases, it is treated as a contingent liability.

The accounting treatment depends on the likelihood of the entity incurring an outflow (classified as probable, possible, or remote). The likelihood of the outflow, in turn, relies on the subjective assessment of the party responsible for the contingency, such as in legal cases where the opinion of a lawyer or expert plays a crucial role in risk classification (Gelbcke et al., 2018). This probability assessment is based on judgment, considering all available evidence, and is grounded in expert opinion.

From the perspective of faithfully representing the entity, the classification of obligations is significant. Recognizing a provision as a liability typically leads to the recognition of an expense in the same period in which the related revenue is recorded or when the present obligation is identified (CPC, 2009). In less common scenarios, the debit may be recorded under the fixed asset account that generated the obligation to be settled in the future, as stipulated in CPC 27 – Property, Plant, and Equipment (Gelbcke et al., 2018).

This implies that, regardless of the offsetting account for the provision, the company's financial position and performance are impacted by the recognition of the contingency. Such recognition can assist market participants in decision-making. Conversely, failing to recognize it quantitatively excludes uncertain obligations from the balance sheet, which could significantly affect the company's financial position and results.

The issuance of CPC 25 has brought numerous advances to the field of accounting. However, it has also been the subject of criticism, as noted by Ribeiro et al. (2013), who conducted research with lawyers, auditors, and legal experts regarding the application of this new accounting standard. Although it facilitates transparency by furnishing pertinent data on provisions and contingent liabilities,

participants identified subjectivity as a potential drawback, given the inherent uncertainties in assessing legal cases. These uncertainties emerge from several factors, including the assessment of probability, the slow pace of administrative and judicial processes, and human factors pertaining to personal influences such as professional experience and the environment in which an individual operates.

Given the diversity of accounting standards globally, Doupnik and Riccio (2006) applied Gray's (1988) theory of cultural influence to explore whether accountants in Brazil and the United States interpret probability expressions related to accounting classification (such as 'probable,' 'reasonable assurance,' 'reasonably certain,' 'not probable,' and 'remote') in different ways. Their study strongly supported the hypothesis that culture, through its impact on accounting practices, shapes the interpretation of verbal probability expressions used to determine when disclosures should be made. In essence, they argue that national cultural values influence how accountants interpret probability terms in IFRSs, and, as a result, cultural differences between countries may lead to variations in recognition and disclosure decisions based on these interpretations.

Within the scope of IAS 37, Teixeira and Silva (2009) conducted a survey with 35 auditors in Portugal, revealing that verbal probability expressions (such as remote, possible, probable, and virtually certain) are interpreted differently among respondents. Based on these findings, the authors suggest that it would be appropriate to revise the use of these expressions in accounting standards. They argue that inconsistent interpretation of these terms by professional accountants could jeopardize the proper application of accounting standards and pose a significant obstacle to the comparability and convergence of financial statements on a global scale.

Addressing these influences on disclosure practices, Baldoino and Borba (2015) observed that the assessment of obligations may vary depending on the cultural context of the evaluator or even their personal profile, whether more conservative or optimistic. That is, an optimistic accountant would tend to recognize and classify fewer contingent liabilities, while a more conservative one would recognize more. Along these lines, the authors observed greater disclosure of amounts by Brazilian companies – particularly related to tax contingencies – compared to Chinese and British companies listed on the New York Stock Exchange. This difference could be attributed either to greater cultural conservatism or to the fact that Brazilian companies operate in an environment of higher regulatory uncertainty.

There appears to be a solid foundation in the literature suggesting that verbal probability expressions are evaluated differently depending on the professional interpreting them, even among individuals accustomed to using such terms, as evidenced by Teixeira and Silva (2009), Ribeiro et al. (2013), and Baldoino and Borba (2015).

However, the literature also suggests that the evaluator's profile, along with several environmental factors, can influence the classification of an obligation's probability and, consequently, whether the contingency is disclosed. This observation is further supported by Gleason and Mills (2002), who analyzed 100 large industrial companies between 1987 and 1995 and found that these

companies chose not to disclose tax contingencies exceeding 5% of their revenue during the period.

In their analysis of the explanatory notes of 308 companies listed on the former BM&FBovespa in 2010, Fonteles et al. (2013) identified a correlation between compliance with CPC 25 in the disclosure of provisions and contingencies and several factors, which the authors refer to as determinants. These factors included industry sector, company size, liquidity, profitability, and governance level. The findings suggest that the entity's operating environment may influence the extent of contingency disclosure. This evidence supports the idea that disclosure practices are shaped by multiple factors, including industry sector, stock exchange listing segment, company size, profitability, and liquidity (Oliveira et al., 2011).

Thus, substantial evidence from prior studies suggests that the assessment of obligations under accounting standards can be influenced by factors beyond mere technical application. This hypothesis is supported by the findings of Ferreira et al. (2017), who, in analyzing changes in the probability of outflows reported by companies in the Non-Cyclical Consumption sector of B3 from 2010 to 2015, observed that approximately 55% of the modifications lacked justification for their occurrence. This may indicate either a lack of diligence or errors in the initial classification, or alternatively, a change in the individual responsible for the evaluation.

Precisely due to the subjectivity involved in assessing obligations, recent research, such as that of Broby et al. (2021), has proposed an estimation approach based on artificial intelligence to achieve a more reliable, accurate, and impartial perspective on expectations in legal proceedings. Consequently, this approach aims to provide a more faithful representation – complete, neutral, and free from error – of the financial phenomena (CPC, 2019).

The classification of obligations based on their probability is crucial, as recognizing an obligation as a provision typically results in an increase in liabilities. This, in turn, leads to the recognition of an expense in the period when the obligation arises. Such recognition has significant implications for the company's financial position and performance, as the reclassification of a contingent liability into a provision can provide valuable information to market participants, thereby aiding in decision-making.

Provisions and contingent liabilities differ in how the probability of future disbursements is assessed, and this probability can change over time. It is not uncommon for obligations to be reclassified as legal cases progress or as factors contributing to uncertainty evolve. Ferreira and Rover (2019) highlighted this in their logistic regression analysis of over 2,000 significant legal cases involving Brazilian companies from 2010 to 2016, identifying 228 changes in disbursement probabilities. Their study revealed that certain factors influencing these changes were linked either to the companies themselves or to the characteristics of the legal cases.

In a study conducted with Brazilian companies, Carmo et al. (2018) demonstrated, through hypothetical scenarios, the potential impact of reclassifying contingent liabilities on the financial performance of companies in the

electric power sector listed on the B3 between 2013 and 2015. In summary, they found that the value of contingent liabilities was, on average, 5.56 times the average value of provisions for the period, which, in a pessimistic scenario, could have a significantly negative impact on the company's results if they were reclassified and recognized. This is because the average share of recognized provisions in total liabilities was 6.5%, while contingent liabilities accounted for 25.4%. In this situation, not only would the results be considerably affected, but financial indicators such as leverage, and profitability would also be impacted. When provisions are recognized, there is a simultaneous increase in liabilities, alongside a reduction in profit and shareholders' equity.

It is notable that studies have highlighted the importance of contingent liabilities in relation to a company's equity and profits, assuming their reclassification as provisions. Nevertheless, the situation could, in theory, be even more critical, as the final amount paid at the conclusion of a legal process may sometimes exceed the initial figure reported by the company during the process. This is illustrated by the findings of Allen et al. (2020), who conducted a textual analysis of approximately 10,000 annual records and 1,000 legal cases. The findings indicate that while companies disclose information about ongoing legal proceedings, the reported loss amounts after the cases are closed are more than double those initially reported. The authors concluded that the incentives to disclose information often outweigh the reporting requirements, which results in fewer disclosures and less quantitative information on contingencies.

Considering this scenario, it is imperative to ascertain whether this differentiation facilitates external users' decision-making processes. Or, in other words, whether the recognition and disclosure of provisions and contingent liabilities would provide useful content for decision making by the external user (Barth & McClure, 2021).

2.2 Value Relevance of Provisions and Contingent Liabilities

Accounting, through the regulation of normative standards, plays a crucial role in reducing information asymmetries among market participants, thereby facilitating a more equitable distribution of knowledge about the firm (Scott, 2015). Consequently, the provision of new information is expected to prompt market participants to revise their forecasts as they compare their prior expectations with their interpretation of the newly available information. This process can influence both the trading volume and the market price of a company's stock. When a stock's price reacts to new accounting information, such information is said to exhibit value relevance (Scott, 2015).

According to Barth et al. (2001), value relevance is an empirical operationalization of the criteria of relevance and faithful representation embedded in accounting standards. For an accounting figure to exhibit value relevance – that is, to have predictive value for stock prices – it must reflect information that is relevant to investors' assessment of the company and be measured reliably enough to influence the company's stock price.

Ball and Brown (1968) and Beaver (1968) were trailblazers in value relevance research, establishing a connection between the disclosure of accounting

information and fluctuations in trading volume or stock prices. Ball and Brown (1968) demonstrated how stock prices adjusted as new information became available to market participants, analyzing a sample of 261 companies listed on the NYSE from 1957 to 1965. Meanwhile, Beaver (1968) focused on variations in trading volumes following corporate earnings announcements.

In studies on value relevance (Wegener & Labelle, 2017; Baboukardos, 2018; Lopes & Reis, 2019), one of the most widely recognized foundational models is Collins et al. (1997), an adaptation of Ohlson's (1995) model. This model's primary contribution lies in linking company valuation to information disclosed in financial statements, presenting the company's value as a linear function of equity and the present value of expected earnings. Barth et al. (2001) highlight several notable aspects of this model: (1) it expresses the company's value as a linear combination of equity, net income, dividends, and other accounting information, relying entirely on accounting constructs rather than economic valuation methods; (2) it assumes that stock market prices integrate the information provided by accounting disclosures; and (3) it simplifies assumptions, allowing for a symbolic representation of the complexities inherent in real-world scenarios. Along similar lines, Scott (2015) emphasizes that this theoretical framework, grounded in the fundamentals of the balance sheet and income statement, has proven effective in explaining and predicting companies' market values.

Bratten et al. (2013) investigated whether capital market participants treat items recognized in financial statements differently from those merely disclosed, specifically in the case of leasing transactions. According to the authors, there are at least three possible investor perceptions regarding recognition versus disclosure of information by an entity: (i) no difference in perception, whereby information is used in the same way by the investor regardless of whether it is recognized or disclosed; (ii) a perception of rational differences, where differences between the two types of disclosures are perceived, affecting the usefulness of the information for decision-making; (iii) a user-dependent perception, where cognitive factors influence how the information is used by the user. Ultimately, for leasing-specific cases, evidence was found that recognized and disclosed information is processed similarly by investors when the disclosure is consistent, reliable, and easily processable.

This differentiation can also affect provisions and contingent liabilities, as, despite the distinction in how they are disclosed, both represent obligations whose likelihood of occurrence is subject to change over time based on the evaluator's perception. Specifically concerning liabilities, Davis-Friday et al. (1999) sought to determine whether the market would value financial statement data differently if disclosed rather than recognized within the statement. To do this, they used a sample of 229 companies with obligations related to retiree benefits (SFAS 106), concluding that recognized liabilities have greater weight for investors compared to those merely disclosed.

In the context of contingencies, Campbell et al. (2003), studying the chemical industry, concluded that recognizing environmental liabilities through provisions, rather than simply disclosing them as contingent liabilities, plays a role in reducing investor uncertainty, which has a positive impact on firm valuation. From a different perspective, Moneva and Cuellar (2009) identified the value

relevance of environmental contingencies, which the market views as negative factors due to their potential risks. However, their research methodology did not distinguish between provisions and contingencies, combining them into a single category in the model. Similarly, Li and McConomy (1999) also reported accounting relevance in the recognition of environmental provisions.

Wegener and Labelle (2017) aimed to examine the value relevance of environmental provisions disclosed by companies in the oil and gas and mining sectors subject to Canadian GAAP and IAS 37 under IFRS. Using a sample of 202 companies, their findings revealed that environmental provisions are perceived by market participants as liabilities only for the largest and most visible companies in the oil and gas sector, which disclose commitments through independent Environmental, Social, and Corporate Governance (ESG) reports. In the mining sector, these reported liabilities appear to lack value relevance, as the coefficients are not statistically significant. Conversely, in the oil and gas sector, these liabilities are curiously positively associated with market value and are statistically significant.

Baboukardos (2018) suggested that the recognition of environmental provisions on the balance sheet enables investors to gain a clearer view of a company's robust financial performance while also reinforcing the credibility of its environmental performance, thereby playing a moderating role in building investor confidence. Analyzing a sample of 692 French companies over a ten-year period (2005–2014), the study concluded that accounting information related to environmental matters – such as the level of environmental performance and the magnitude of environmental provisions recognized on the balance sheet – enhances the market valuation of the company, aligning with the moderating role described by Campbell et al. (2003).

Lopes and Reis (2019) investigated whether investors differentiate in their pricing of provisions and contingent liabilities, comparing companies from Portugal and the United Kingdom. The study's principal findings are as follows: (i) differences in the magnitude of recognized provisions and disclosed contingent liabilities between Portugal and the United Kingdom; (ii) no clear trend favoring greater provision recognition in Portugal or a stronger inclination for enhanced disclosure in the United Kingdom; (iii) both provisions and contingent liabilities show a negative association with stock prices, although this association is not statistically significant for contingent liabilities; and (iv) provisions are found to be value relevant, with a less negative association observed for Portuguese companies compared to British ones. These results indicate the possibility of a discrepancy in investor perception between recognized provisions and disclosed contingent liabilities.

Pescador et al. (2021) examined the value relevance of provisions and contingent liabilities by analyzing legal cases disclosed in Reference Forms, categorized by the likelihood of payment as determined by the company (remote, possible, or probable). Their findings revealed that no value relevance was identified for the amounts of cases classified as probable – those that constitute provisions – nor for those classified as possible or remote, which are considered contingent liabilities. The authors suggest that this result may be due to

potential skepticism regarding the information disclosed in Reference Forms, as such data is not audited with the same rigor as that presented in balance sheets.

To address the research objective, the following hypotheses are formulated, focusing on the distinction between the disclosure of provisions and contingent liabilities, as highlighted in previous studies (Davis-Friday et al., 1999; Ahmed et al., 2006; Bratten et al., 2013):

H1: *Provisions have a significant relationship with the stock prices of publicly traded Brazilian companies.*

H2: *Contingent liabilities have a significant relationship with the stock prices of publicly traded Brazilian companies.*

3 METHODOLOGY

Considering the premises of the research, the sample consists of companies listed on the B3 Brazil 100 Index (IBrX 100) as of August 2021. This index aggregates the 100 most liquid and representative stocks in the Brazilian equity market. Companies facing exceptional circumstances, such as judicial or extrajudicial recovery, special administration, or regulatory intervention, were excluded from the sample. Additionally, for companies with multiple classes of shares listed on the index (e.g., Banco Inter, Bradesco, Eletrobrás, Lojas Americanas, and Petrobrás), only one class of shares was considered. Consequently, the final sample comprises 95 companies whose shares were part of the IBrX 100. Notably, since data collection, some companies in the sample have undergone name changes or mergers: CESP was renamed Auren Energia; Hering merged with Grupo Soma; Intermédica merged with Hapvida; Locamérica merged with Unidas; Lojas Americanas were incorporated by their holding company; and Br Distribuidora became Vibra Energia. As these changes occurred after data collection, they did not impact the research. Data collection covered financial statements disclosed from 2010 to 2020. The selection of this period is based on the rationale that 2010 marks the inaugural year following the implementation of CPC 25.

The research sample consists of companies that submitted financial statements for at least one year within the study period. As shown in Table 1, there is a potential of 942 observations for the study, corresponding to the number of financial statements made available by the companies.

Table 1
Availability of Financial Statements by Companies

Companies	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Alianscsonae	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Alpargatas	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Ambev S/A	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Americanas	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Assai	-	-	-	-	-	-	-	-	-	-	OK
Azul	-	-	-	-	-	-	-	OK	OK	OK	OK
B3	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Banco do Brasil	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Banco Inter	-	-	-	-	-	-	-	-	OK	OK	OK
Banco Pan	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
BB Seguridade	-	-	-	OK	OK	OK	OK	OK	OK	OK	OK
Br Malls Par	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Bradesco	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Bradespar	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Braskem	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
BRF SA	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
BTG P Banco	-	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Carrefour Br	-	-	-	-	-	-	-	OK	OK	OK	OK
CCR SA	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Cemig	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Cesp	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Cia Hering	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Cielo	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Cogna	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Copel	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Cosan	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
CPFL Energia	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
CVC Brasil	-	-	-	OK	OK	OK	OK	OK	OK	OK	OK
Cyrela Realt	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Dexco	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Ecorodovias	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Eletrobras	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Embraer	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Energias Br	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Energisa	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Eneva	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Engie Brasil	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Equatorial	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Eztec	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Fleury	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Gerdau	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Gerdau Met	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Gol	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Grupo Natura	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Grupo SBF	-	-	-	-	-	-	-	-	-	OK	OK
Hapvida	-	-	-	-	-	-	-	-	OK	OK	OK
Hypera	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Iguatemi	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Imc S/A	-	-	-	-	-	OK	OK	OK	OK	OK	OK
Intermedica	-	-	-	-	-	-	-	-	OK	OK	OK
IRB Bbrasil Re	-	-	-	-	-	-	-	OK	OK	OK	OK
Itausa	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Itauunibanco	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
JBS	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
JHSF Part	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Klabin S/A	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Light S/A	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Localiza	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Locamerica	-	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

Locaweb	-	-	-	-	-	-	-	-	-	-	OK
Lojas Americ	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Lojas Marisa	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Lojas Renner	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Magaz Luiza	-	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Marfrig	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Minerva	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Movida	-	-	-	-	-	-	OK	OK	OK	OK	OK
MRV	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Multiplan	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Neoenergia	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
P. Açúcar – CBD	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Petrobras	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Petrobras Br	-	-	-	-	-	-	-	OK	OK	OK	OK
Petrorio	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Porto Seguro	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Qualicorp	-	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Raiadrogasil	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Randon Part	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Rumo S.A.	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Sabesp	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Sanepar	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Santander Br	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Sid Nacional	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Sul America	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Suzano S.A.	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Taesa	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Telef Brasil	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Tim	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Totvs	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Ultrapar	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Usiminas	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Vale	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Via	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Weg	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Yduqs Part	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
Total	77	81	81	83	83	84	85	89	92	93	94

Legend: "OK" indicates the publication of the financial statement on B3 in the corresponding year; "-" indicates the non-availability of the financial statement on B3 in the corresponding year.
Source: Elaborated by the authors.

The reasons for the non-disclosure of financial statements by some companies stem from the lack of individualized listing on B3 in the corresponding year.

An intentional non-probabilistic sampling method was chosen because it constitutes a proportionally representative stratum of the stock exchange, in addition to encompassing the companies with the most traded shares in the market. From a liquidity perspective, considering that the prices of stocks with lower trading volumes may be more easily influenced and manipulated by single

market operations (Damodaran, 2012), it is pertinent to prioritize companies with higher trading volumes, as their prices are expected to more accurately reflect the economic and financial situation.

Based on the Ohlson (1995) model, adapted by Collins et al. (1997), Equation (1) is presented with the aim of verifying the influence of provisions and contingent liabilities on market value and testing the research hypotheses (H1 and H2). In this model, the independent control variables are adjusted equity (AE) (Wegener & Labelle, 2017; Baboukardos, 2018; Lopes & Reis, 2019) and net income for the period (NI) (Bratten et al., 2013; Wegener & Labelle, 2017).

$$\frac{MV_{it}}{NoS_{it}} = \alpha + \beta 1.\frac{AE_{it}}{NoS_{it}} + \beta 2.\frac{NI_{it}}{NoS_{it}} + \beta 3.\frac{PR_{it}}{NoS_{it}} + \beta 4.\frac{CL_{it}}{NoS_{it}} + \varepsilon_{it} \quad (1)$$

The key variables of the study, to test hypotheses H1 and H2, are PR and CL, which represent provisions and contingent liabilities of a possible nature, as disclosed in the financial statements, particularly the balance sheet and the explanatory notes, according to Lopes and Reis (2019).

The variables used in the models are detailed in Table 2, with descriptions regarding the periods, calculations, and primary data sources.

Table 2
Identification of Variables

Variable	Description	Primary Data Source	Expected Sign
MV/NoS	Market value of the company at the end of the period, divided by the number of shares listed in the balance sheet at the end of the period.	Economatica®	
AE/NoS	Equity of the company at the end of the period, adjusted to add the provisions recorded in the balance sheet and exclude the period's profit, divided by the number of shares listed in the balance sheet at the end of the period.	Calculated from explanatory notes and Economatica®	+
NI/NoS	Net income for the period, divided by the number of shares listed in the balance sheet at the end of the period.	Economatica®	+
PR/NoS	Sum of obligations classified as provisions in the explanatory notes at the end of the period, divided by the number of shares listed in the balance sheet at the end of the period.	Explanatory notes and Economatica®	-
CL/NoS	Sum of obligations classified as contingent liabilities of a possible nature in the explanatory notes at the end of the period, divided by the number of shares listed in the balance sheet at the end of the period	Explanatory notes and Economatica®	NS

Legend: "+" indicates the expected positive and significant coefficient sign; "-" indicates the expected negative and significant coefficient sign; "NS" indicates the expectation of a non-significant coefficient.
Source: Elaborated by the authors.

It is important to emphasize that remote contingent liabilities are excluded from the scope of this study, as they are not subject to mandatory disclosure (CPC,

2009). Consequently, to obtain a statistically representative sample, an analysis of the reference forms would be required, which could lead to inconsistencies in comparability with the data collected from the explanatory notes (Pescador et al., 2021).

To mitigate the potential scale bias of the variables, we decided to normalize the quantitative variables by dividing them by the number of shares of the company (NoS) (Wegener & Labelle, 2017; Baboukardos, 2018; Lopes & Reis, 2019). This approach is based on the premise that a relative analysis of obligations compared to the number of shares provides more relevant insights for investors than the absolute value of obligations, which is inherently linked to the size of the company (Moneva & Cuellar, 2009). In addition, this normalization strategy helps to address potential issues of heteroskedasticity (Baboukardos, 2018).

Several statistical tests were employed throughout the study and will be later discussed in more detail. A summary of these tests is presented below: Hadi's method to detect outliers; the Shapiro-Wilk test to assess the normality of the variables; the Chow, Breusch-Pagan, and Hausman F-tests to determine the most appropriate regression model for panel data; the Variance Inflation Factor (VIF) test to detect multicollinearity; the modified Wald and White tests to examine potential heteroskedasticity; and the Wooldridge test for panel data to detect autocorrelation.

4 ANALISYS AND DISCUSSION OF RESULTS

Table 3 presents the descriptive statistics of the variables included in the proposed research model, with a total of 927 observations spanning the years 2010 to 2020. This includes the mean, standard deviation, minimum, and maximum values for each variable.

Table 3
Descriptive Statistics of the Variables per Year

Variable	Mean	Standard Deviaton	Minimum	Maximum
MV/NoS	26,61	58,18	0,14	1590
AE/NoS	13,33	32,34	-22,58	713,22
NI/NoS	1,01	3,40	-51,92	18,38
PR/NoS	0,98	1,70	0,00	13,36
CL/NoS	3,89	6,73	00	52,93

Source: Elaborated by the authors.

Based on the data analysis, we observed that the average market value per share (MV/NoS) across the entire sample was 26.61 reais. The adjusted equity per share (AE/NoS) had an average of 13.32 reais, while the net income per share (NI/NoS) stood at 1.01 reais. It is postulated that the composition of these amounts aligns with the expected future profitability, which is reflected in the price.

The mean value of provisions was found to be less than one real per share, significantly lower than the mean value of contingent liabilities, which amounted to 3.89 reais per share. This suggests a growing tendency to categorize obligations as contingent liabilities rather than provisions. This trend is consistent across all years

and is further supported by the observation that the maximum value of provisions consistently remains lower than that of contingent liabilities.

Ultimately, given that the sample exceeds the 10% threshold for outliers according to Hadi's method, and considering that these outliers are not the result of measurement or execution errors, but rather the inherent variability within the population, it is deemed appropriate to retain them in the models. This approach aligns with the research objective, which is to thoroughly analyze the behavior of the companies in the sample (Fávero & Belfiore, 2017). Consequently, excluding or altering any cases could introduce a significant bias, potentially contradicting one of the primary objectives of the research.

As a preliminary step before the correlation matrix, the Shapiro-Wilk test was performed to assess the normality of the data distribution for the variables under investigation. The results revealed that all variables exhibited non-normal characteristics in both models ($p < 0.00000$), suggesting the need for a non-parametric approach.

Given the non-normality of the distribution, Table 4 presents the Spearman Correlation Matrix, displaying the correlation coefficients between the variables in Equation (1).

Table 4
Spearman Correlation Matrix for Equation (1)

	(1)	(2)	(3)	(4)
(1) MV/NoS	1,0000	--	--	--
(2) AE/NoS	0,4128	1,0000	--	--
(3) NI/NoS	0,6215	0,3520	1,0000	--
(4) PR/NoS	0,3200	0,4722	0,2782	1,0000
(5) CL/NoS	0,2959	0,4206	0,2033	0,7042

Source: Elaborated by the authors.

The dependent variable, market value (MV/NoS), demonstrates a robust positive correlation with the explanatory variables net income (NI/NoS) and adjusted equity (AE/NoS), showing moderate positive correlations (0.6215 and 0.4128), as previously noted by Lopes and Reis (2019). In contrast, the correlation between the dependent variable, market value (MV/NoS), and the explanatory variables provisions and contingent liabilities is predominantly weak and positive.

A notable finding is the strong positive correlation (0.7042) between the explanatory variables of provisions (PR/NoS) and contingent liabilities (CL/NoS). This result is considered intuitive, as companies with more uncertain obligations tend to classify them within both the probable and possible or remote disbursement categories.

This analysis did not reveal any a priori evidence of multicollinearity that would warrant adjustments to the equations developed in this study. Therefore, the proposed models were retained (Fávero & Belfiore, 2017).

Panel regressions were conducted based on research data to ascertain the impact of provisions and contingent liabilities on the market price of companies.

Among the available panel models – pooled data, fixed effects (FE), and random effects (RE) – it is necessary to perform the Chow test (2.94, Prob. 0.00), the Breusch-Pagan test (87.99, Prob. 0.00), and the Hausman test (26.05, Prob. 0.00) to determine the most appropriate model for panel data analysis with fixed effects. Additionally, multicollinearity among the variables was assessed using the Variance Inflation Factor (VIF), with no variable presenting a statistic above 2, and the overall average for Equation (1) being 1.42.

A modified Wald test was then conducted for the fixed effects regression model, indicating the presence of heteroscedasticity, as evidenced by the rejection of the null hypothesis (Prob. > chi² = 0.0000). Furthermore, the White test confirmed the presence of heteroscedasticity, yielding a statistic of 907.2418 for Equation (1) and a p-value below 1%. Subsequently, the Wooldridge test for panel data was conducted, revealing autocorrelation among the variables (Prob. = 0.0000).

Given the identified heteroscedasticity and autocorrelation, the models were re-estimated with standard errors adjusted for clustering by individuals, ensuring the robustness of the errors in the ordinary least squares (OLS) regression (Fávero & Belfiore, 2017; Campbell et al., 2003).

Additionally, as is typical for sensitivity analysis, presenting an alternative model is an effective method for mitigating the risk of omitted variable bias (Campbell et al., 2003; Lopes & Reis, 2019). To address this risk, the variables were also subjected to regression using generalized least squares (GLS) (Lopes & Reis, 2019). The GLS method allows for estimation with first-order autoregressive effects and heteroscedastic error terms, which is appropriate for a robust regression as a potential solution when the variance of the error terms depends on the explanatory variable (Fávero & Belfiore, 2017).

Table 5 presents the coefficients and significance found for Equation (1), comparing the OLS and GLS regression models.

Table 5
OLS and GLS Regression Results for Equation (1)

Variables	OLS			GLS		
	Coeff.	Confidence Interval (95%)		Coeff.	Confidence Interval (95%)	
AE/NoS	1,7604**	1,5822	1,9387	1,5647**	1,4810	1,6484
NI/NoS	3,2251**	0,9885	5,4616	1,8543**	1,0550	2,6536
PR/NoS	-3,2933*	-5,9465	-0,6401	-4,1727**	-5,7166	-2,6288
CL/NoS	-0,0271	-0,7519	0,6975	0,0114	-0,3637	0,3866
constant	3,2289*			7,9341**		
R^2 *overall*	0,6424	-	-	-	-	-
No. of obs.	927	-	-	927	-	-

Legend: ** *p-value* < 0,01; * *p-value* < 0,05.
Source: Elaborated by the authors.

The R^2 value of 64.24% in the OLS regression indicates that the explanatory variables collectively explain a substantial portion of the variance in the dependent variable. This result aligns closely with the 64.33% reported by Wegener

and Labelle (2017), where market value, net income, and environmental provisions, among other factors, were considered under IFRS standards. Moreover, it is consistent with findings from other studies, such as Baboukardos (2018), who reported an adjusted R^2 of 64.60%, Schneider et al. (2017), who observed a 72% R^2, and Lopes and Reis (2019), who found an R^2 of 82.4%.

As suggested by previous literature (Wegener & Labelle, 2017; Schneider et al., 2017; Baboukardos, 2018; Lopes & Reis, 2019), the key explanatory variables in the Ohlson (1995) model – adjusted equity (AE/NoS) and net income (NI/NoS) – demonstrated significant coefficients, with statistics at the 1% significance level in both OLS and GLS regressions. For adjusted equity (AE/NoS), the coefficients were 1.76 (OLS), with a 95% confidence interval ranging from 1.58 to 1.93, and 1.56 (GLS), with a confidence interval from 1.48 to 1.65. These coefficient values are consistent with those found in comparable models tested in other countries, including the UK, Portugal, Canada, and the United States. Specifically, they compare with findings such as 1.33 (Wegener & Labelle, 2017), 0.16 (Lopes & Reis, 2019), 0.57 (Baboukardos, 2018), and 1.40 (Schneider et al., 2017).

The coefficients obtained indicate that for each unit of adjusted equity per share, there is an approximate increase of 1.76 in the market value of the share. In practice, this signifies that for each unit of equity apportioned by investors, it is anticipated that the company will generate a proportionately greater expectation of value creation (Damodaran, 2012). In the case of net income (NI/NoS), the coefficients were 3.23 (OLS), with a confidence interval ranging from 0.99 to 5.46, and 1.85 (GLS), with a confidence interval from 1.06 to 2.65. While the coefficients exhibited slight discrepancies between the OLS and GLS regressions, they both retained a shared confidence interval between 1 and 2.65.

In this context, for each unit of net income per share, it is expected that this value creation will indicate the company's potential for future results, implying that the higher the profit, the greater the value generated and the greater the expectation of future value generation. For the companies in the sample, the coefficient suggests that for every unit of net income generated per share in the period, the market value increases by a range of 1 to 2.65, with the trend of growth or decline directly influencing this valuation (Damodaran, 2012).

The results of both regressions indicate that the coefficients for provisions were statistically significant, whereas those for contingent liabilities were not. In the case of the OLS regression, the coefficient for provisions (PROV/QA) was found to be significant at the 5% level, with a confidence interval from -5.95 to -0.64. In the GLS regression, the coefficient was -4.17, with a 1% level of significance and a confidence interval from -5.72 to -2.63. The results are consistent across these estimates.

For the companies in the sample, the recognition of one unit of provision tends to reflect negatively on the share price by approximately four units. Initially, this one-to-four ratio might appear counterintuitive, as the impact on the share price should ideally reflect the provision itself. In the worst-case scenario, the provision would affect the company, and in the best case, it would be reversed, not impacting the company.

However, the Brazilian context may justify an amplification of the effect of recognizing provisions. Brazil is considered a less conservative country, as evidenced by a sample of 34 countries, where Li (2015) showed that Brazil ranked among the least conservative in terms of accounting practices. This could lead to a perception of underestimation of liabilities, including provisions, for Brazilian companies. This is corroborated by the fact that the average provisions per share in the sample is 0.98, while contingent liabilities average 3.89, in a nearly one-to-four ratio, which might suggest a neglect in recognizing uncertain obligations. It is argued that, for Brazilian companies, contingent liabilities, which are proportionally higher than recognized provisions, might contribute to the elevated coefficient attributed to provisions.

Furthermore, the reclassification of obligations is a common practice, often done without justification, which undermines the credibility of accounting recognition criteria (Ferreira et al., 2017; Ferreira & Rover, 2019). Additionally, the magnitude of future disbursements is uncertain, and the amount recognized is often insufficient to meet obligations. This is evidenced by Allen et al. (2020), who found that the disclosed losses after the closure of lawsuits were more than twice as high as those reported during legal proceedings. Considering that this study was conducted in the United States, a more conservative country than Brazil (Li, 2015), the effect of underestimation is likely to be amplified for Brazilian companies. Hennes (2014) further supports this notion, highlighting that financial statements are limited in providing quantitative information regarding the economic impact of potential losses.

Thus, the lower conservatism observed in Brazilian companies, coupled with the reclassification of uncertain obligations and the underestimation of disbursements, is likely to amplify and intensify the negative effect of each provision recognized on the market value of the share. In other words, investors perceive that for every unit of provision recognized, there are other units that were not recognized but will affect the company in the future, warranting a reduction in its market value.

In particular, the results, when compared with the existing literature, confirm that culture likely justifies how investors assess provisions and contingent liabilities (Gray, 1988; Doupnik & Riccio, 2006; Tsakumis, 2007; Baldoino & Borba, 2015). For Brazilian companies, the coefficients for provisions were found to be negative and of a substantial magnitude, with statistical significance.

Regarding contingent liabilities, the lack of value relevance for off-balance-sheet information, including contingent liabilities, was similarly observed by Pescador et al. (2021) in their analysis of legal and administrative process disclosures in companies' reference forms. This discrepancy in perception between provisions and contingent liabilities reflects a differentiated view by investors between information recognized in the balance sheet and that disclosed only in the notes to the financial statements, a finding supported by previous studies (Davis-Friday et al., 1999; Ahmed et al., 2006; Lopes & Reis, 2019; Pescador et al., 2021). The rationale behind this is that estimates of contingent liabilities disclosed in the notes are often perceived as less reliable or harder to utilize compared to those recognized in the balance sheet (Bratten et al., 2013). This distinction in

reliability may stem from the stricter standards imposed by auditors on the recognition of provisions.

In conclusion, the analysis of the results suggests that Hypothesis 1 (H1) cannot be rejected, as provisions exhibited a statistically significant negative relationship with the value relevance of Brazilian publicly traded companies at the 5% significance level. On the other hand, Hypothesis 2 (H2) was rejected, as the coefficients for contingent liabilities were not found to be statistically significant.

5 CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

This study analyzed, from the value relevance standpoint, the relationship between the market value of Brazilian companies and the recognition of provisions and the disclosure of contingent liabilities.

Using data extracted from the Economatica® software database, explanatory notes, and balance sheets submitted in the annual Standardized Financial Statements from 2010 to 2020 for 95 Brazilian companies listed on the B3's IBrX 100, the analysis employed panel data regression, applying Ordinary Least Squares (OLS) with clustering by individual and Generalized Least Squares (GLS) to enhance the robustness of the statistical analysis.

Regarding the modeling for the association with the market value of companies, the adaptation proposed by Collins et al. (1997), which reinterprets the Ohlson (1995) model, was adopted. The control variables used were adjusted equity (AE) and net income for the period (NI) (Bratten et al., 2013; Wegener & Labelle, 2017; Baboukardos, 2018; Lopes & Reis, 2019), with the research results confirming the adequacy of the model, as evidenced by high R^2 values and significant coefficients in both the OLS and GLS regressions.

Initially, we examined whether the relevance of provisions (H1) and contingent liabilities (H2) in their total amounts was associated with the market value of Brazilian companies. It was found that H1 could not be rejected, as provisions exhibited a statistically significant negative relationship with the market value of Brazilian publicly traded companies, with statistical significance in both the OLS and GLS regressions, as observed by Lopes and Reis (2019).

In this regard, we found that the recognition of one unit of provision tends to negatively affect a company's stock price, with an approximate reduction of four units for each recognized provision. For example, if a company recognizes a provision of R$100,000, this would lead to a reduction in the company's market value equivalent to four times that amount. This finding may be related to the low conservatism of Brazilian companies from an accounting perspective (Li, 2015), the constant reclassification of contingent obligations (Ferreira et al., 2017; Ferreira & Rover, 2019), and the uncertainty regarding the magnitude of future outflows (Hennes, 2014; Allen et al., 2020), factors that influence users' perception of potential underestimation in the recognition of provisions and amplify the effect on the market value of those recognized.

On the other hand, H2 was rejected, as the coefficients for contingent liabilities were not statistically significant. This finding aligns with the literature identifying a difference in perception between provisions and contingent liabilities

by users, as the latter are subject to lower audit standards (Davis-Friday et al., 1999; Bratten et al., 2013; Ahmed et al., 2006; Lopes & Reis, 2019; Pescador et al., 2021).

Based on the research results, this study contributes, from a theoretical perspective, to the enhancement of literature and discussions about the value relevance of provision recognition and contingent liability disclosure, providing evidence that the classification of the likelihood of an outflow may influence stakeholders' perception of the fair value of listed companies in Brazil (Davis-Friday et al., 1999; Bratten et al., 2013; Ahmed et al., 2006; Lopes & Reis, 2019; Pescador et al., 2021).

We believe that our research provides both technical and empirical support for the need to refine and objectify judgments regarding the probability of outflows and settlement of specific provisions and contingent liabilities. This entails establishing more granular recognition and disclosure criteria aimed at mitigating the inherent subjectivity to a practicable extent (Gleason & Mills, 2002; Tsakumis, 2007; Oliveira et al., 2011; Fonteles et al., 2013; Baldoino & Borba, 2015). The detailed specification of these criteria and examples could be promoted through the publication of a technical manual (such as the one proposed by Carvalho et al., 2022), or through the issuance of interpretations or technical guidance (ICPC or OCPC) from the Accounting Pronouncements Committee (CPC). The goal would be to standardize obligations by nature, improve the classification of future outflow probabilities (remote, possible, and probable), address reclassification events, and establish financial criteria for measuring and estimating obligations, thereby reducing discrepancies between disclosed amounts and actual expenditures.

The findings underscore that the classification and recognition of provisions and contingent liabilities significantly influence perceptions of corporate fair value. By implementing more objective and standardized criteria, it is possible to increase the accuracy of financial information, benefiting both internal decision-making and external assessment, thus fostering a more transparent environment for all stakeholders involved.

The classification of obligations for data collection was based on the standardized classification adopted by most companies, without a critical examination of the suitability of the breakdown or the individualized classification of obligations by the companies themselves. Similarly, the exclusion of contingent liabilities with a remote nature from the scope of the research, due to their non-disclosure by the companies, represents a factor that could, in theory, influence the results.

A further avenue for investigation could be to examine how accounting practices and perceptions of provisions and contingent liabilities differ across economic sectors and geographical contexts. A comparative study could analyze financial reports and conduct interviews to identify variations in accounting practices and disclosure levels, influenced by economic, regulatory, and cultural factors. Another potential area for future research on provisions and contingencies would be to explore the impact of past decisions regarding the recognition or disclosure of these amounts on future company performance. This could be achieved through dynamic models that incorporate lagged variables to control for endogeneity.

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