

Status Quo Bias in Managers' Accounting Choices Under a Lack of Specific Regulation

Livia Maria Lopes Stanzani¹  Silvio Hiroshi Nakao² 

^{1,2}Universidade de São Paulo, Ribeirão Preto, São Paulo, Brasil.



¹lmlstanzani@usp.br

²shnakao@usp.br

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Abstract

Objective: The objective of this research is to understand managers behavior under an environment of lack of specific accounting regulation, analyzing if this scenario can stimulate the presence of status quo bias in managers accounting choices related to an asset with changing conditions.

Method: The present study was developed through a combination of case studies and semi-structured interviews with fiscal managers of Brazilian private and public companies that presented ICMS Accumulated Credit in their operations. Data were analyzed through discourse analysis and triangulated with the perceptions of an ex-auditor and a credit analyst regarding managers' behavior and accounting choices related to the tax asset.

Results: The findings indicate that managers' accounting decisions regarding ICMS Accumulated Credit are influenced by status quo bias, reflected in inconsistencies between discourse and actions, adherence to prior practices, and reliance on external justifications. The bias was more pronounced in private firms, while investor monitoring in public firms reduced inertia; however, auditors and credit analysts often reinforced rather than mitigated this bias.

Contributions: This paper contributes by showing that status quo bias can influence managers' decisions in contexts of low enforcement, suggesting that explanations for accounting choices should extend beyond Agency Theory to include insights from Behavioral Finance. The findings also indicate that the Conceptual Framework alone may be insufficient to ensure high-quality financial reporting in the absence of specific standards, highlighting the need to standardize the accounting treatment of value-added taxes to improve information reliability.

Keywords: Status quo bias. Behavioral biases. Accounting choices. Value-added taxes. Lack of specific regulation.

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Introduction

Mainstream literature on accounting choices, grounded in Agency Theory, assumes managers are rational and seek to maximize their interests under incomplete information (Jensen & Meckling, 1976; Healy, 1985; Simon, 1990; Barth et al., 2008; Kouki, 2018). Empirical studies show managers manipulate information to enhance performance and compensation (Watts & Zimmerman, 1978; Healy, 1985; Holthausen et al., 1995). Consequently, accounting standards and enforcement mechanisms have been developed to align managers' and principals' interests, especially in public companies (Holthausen et al., 1995; Watts & Zimmerman, 1986; García-Meca & Sánchez-Ballesta, 2009; Kouki, 2018; Harris et al., 2019).

On the other hand, Behavioral Finance and Prospect Theory show that individuals are not always rational, but often influenced by behavioral biases. As Andrikopoulos and Vagenas-Nanos (2017) note, assuming full rationality is unrealistic. Early critiques by Tversky and Kahneman (1971, 1991) highlighted physiological and psychological influences on choices, and subsequent studies confirm that cognitive and emotional biases significantly affect decision-making (Kahneman et al., 1991; Baker & Nofsinger, 2002; Kempf & Ruenzi, 2006; Messier et al., 2014; El Harbi & Toumia, 2020).

Although prior studies have suggested that cognitive and emotional factors influence decision-making, there has been little research examining their impact on accounting choices. This reveals a significant gap that must be filled. Explanations of accounting choices must go beyond rationality and opportunism to include the possibility of decisions driven by fear or emotional limitations. Among the behavioral biases identified in the literature, status quo bias seems particularly relevant, as individuals often prefer to maintain existing conditions when faced with a choice (Kahneman, et al., 1991; Pompian, 2006), and previous literature notes that there is persistence in accounting choices over time in several countries (Kvaal & Nobes, 2010; Haller & Wehrfritz, 2013; Silva & Martins, 2018). This inertial behavior, strongly linked to loss aversion, implies that managers require external enforcement to overcome inertia and adjust their accounting choices (Kahneman et al., 1991; Pompian, 2006).

In Brazil, the ICMS Accumulated Credit – a value-added tax not fully covered by IFRS – offers an opportunity to study managerial accounting choices in a context of low accounting enforcement. It is hypothesized that the exploration of accounting choices related to this asset, which demands a modification of its initial condition, will yield insights into the potential existence of evidence of status quo bias in managerial decision-making. This inquiry will be conducted by analyzing an extreme case of a lack of specific accounting

regulation, which suggests a reduced level of enforcement for companies and facilitates more flexible decisions.

The status quo bias was empirically demonstrated by Samuelson and Zeckhauser (1988), who highlighted individuals' propensity to maintain their previous choice or one closest to it, especially when there is a wide range of possible alternatives and little enforcement for change. In circumstances where regulatory bodies offer minimal or no guidance on accounting matters, the accounting for economic events and the selection of accounting choices appear to be more susceptible to the influence of an inertial structure. This is the context that defines the accounting treatment of Value-Added Taxation (specifically the ICMS Accumulated Credit), which – unlike Profit Taxation (CPC 32/IAS 12) – has no guidance from the IASB/CPC, with the exception of Conceptual Framework (CPC 00-R2, 2019).

By its intrinsic nature, the tax asset under consideration should undergo modifications in its accounting criteria over time (i.e., it is an asset with changing accounting conditions), whether due to its actual recoverability or write-off for non-recoverability; expected changes in the recovery period; or even due to changes in expectations regarding the use of the asset (e.g., sale at a discount). In order to ensure reliable representation, it is expected that the asset under study will undergo changes in its recognition and measurement process over time. In the absence of this occurrence, two potential explanations emerge: the implementation of earnings management or the presence of managerial inertia.

Therefore, this study expects to answer the following question: What are the effects of low accounting enforcement on the emergence of status quo bias in accounting decisions? There is little evidence in the literature about the influence of behavioral biases on managers' decision-making. So, the objective of this research is to understand managers' behavior when there is an environment of lack of specific accounting regulation, analyzing if and how this scenario can stimulate the presence of status quo bias in managers accounting choices related to an asset with changing conditions.

In order to achieve this goal, the study was developed by conducting semi-structured interviews with fiscal managers of private and public Brazilian companies, employing triangulation by gathering the perceptions of an ex-auditor and a credit analyst regarding managers' conduct. All managers interviewed, despite being part of the companies' tax departments, had accounting and regulatory knowledge. The processing of data was achieved through the utilization of discourse analysis.

This paper contributes to the existing literature in both theoretical and practical ways. From a theoretical perspective, the present study sheds light on the existence of status quo bias in accounting choices for under-regulated assets in conditions of low enforcement, suggesting that the integration of Agency Theory and Behavioral Finance offers a more nuanced understanding of managerial behavior. Consequently, we have broadened the prevailing understanding that oversight mechanisms, such as accounting standards, are only necessary to prevent managers from acting opportunistically (Jensen & Meckling, 1976; Watts & Zimmerman, 1978; Healy, 1985; Holthausen et al., 1995; Barth et al., 2008; Kouki, 2018). We have also demonstrated their importance in mitigating behavioral aspects, such as status quo bias, which affect the quality of managers' decisions, even if unintentionally.

Moreover, the study contributes to Behavioral Accounting literature by offering a behavioral explanation for differences between private and public firms in relation to financial reporting quality. The finding that status quo bias is more pronounced among managers of private companies suggests that greater inertia in accounting choices may reduce reporting quality in these firms. Although consistent with previous evidence (e.g., Ball & Shivakumar, 2005; Hope et al., 2013), this study expands the literature by identifying status quo bias as a cognitive mechanism underlying these differences, complementing traditional incentive-based explanations. The study also complements the findings of Haller and Wehrfritz (2013) and Kvaal and Nobes (2010), suggesting that the status quo bias may help to explain, at least partly, the persistence of accounting choices in companies.

From a practical perspective, stakeholders should understand the factors influencing the recognition, measurement, and disclosure of under-regulated assets, as these affect the quality of accounting information. Inertial accounting choices may compromise relevance and faithful representation, hindering users' risk assessment and decision-making. The findings suggest that clearer accounting guidance can mitigate status quo bias and indicate that the Conceptual Framework alone may be insufficient to ensure high-quality and comparable reporting under high managerial discretion. In this context, standardizing the accounting treatment of Value Added Tax appears relevant for regulators, reinforcing the role of accounting standards in improving information quality (Watts & Zimmerman, 1986; Holthausen et al., 1995; Harris et al., 2019).

2 Previous Literature

2.1 Theoretical foundation

The literature on accounting choices is grounded in Agency Theory and Firms' Contractual Theory, emphasizing

individual efficiency and rationality. Accounting choices are decisions aimed at influencing accounting outcomes, and research uses economic and contractual perspectives to explain managers' behavior regarding recognition, measurement, and disclosure options (Watts & Zimmerman, 1990; Fields et al., 2001; Murcia et al., 2013; Nobes & Perramon, 2013; Silva et al., 2016; Silva & Martins, 2018).

Traditional economic theory is based on the assumption that agents are utility maximizers who always make rational decisions, choosing the option that provides the greatest satisfaction with the least risk. In this environment, individuals exhibit bounded rationality and risk aversion. This suggests that organizational life and decision-making are fundamentally guided by managers' self-interest and opportunistic behavior (Jensen & Meckling, 1976).

Despite the assumption of rationality in managers' decision-making processes, it is important to emphasize that agents make decisions based on the concept of "bounded rationality." Simon (1990) affirms that this term designates rational choices that consider the cognitive limitations of decision makers, bringing economic theory closer to market reality. In this context, agents make an accounting decision based on a set of available, non-exhaustive alternatives while still considering the rationality of managers.

However, Behavioral Finance and Prospect Theory suggest that bounded rationality alone cannot fully explain accounting choices. Explanations of accounting decisions should also consider behavioral factors – such as fear, emotional limitations, and biases – although this perspective remains relatively underexplored in the accounting choice literature. Kahneman and Tversky (1979; 2013) criticized expected utility theory and proposed that psychological factors also influence decision-making, challenging the traditional view of managers as always rational and opportunistic.

Over time, the number of studies in Behavioral Finance has grown significantly. The literature presents evidence of managers' non-rationality in decision-making that is translated through emotional and cognitive behavioral biases. Most studies in this area seek to explain the behavior of investors and managers through the influence of biases on their decision-making processes (see, for example, Baker & Nofsinger, 2002; Goldfarb, et al., 2012; Martins et al., 2015; Bakar & Yi, 2016). These studies oppose the arguments of Traditional Finance Theory, which is still dominant in mainstream research.

Among the main biases studied, loss aversion – proposed by Kahneman and Tversky (1984) – is one of the earliest

and most examined, and suggests people prefer avoiding losses over acquiring gains (Pompian, 2006). Other biases include overconfidence, anchoring, representativeness, framing, conservatism, self-attribution, optimism, and status quo bias. In accounting, for example, loss aversion explains managers' reluctance to recognize impairment losses or measure assets at fair value to avoid acknowledging potential irreversible losses (Kahneman & Tversky, 2013; Pompian, 2006; Isidore & Christie, 2019).

Kahneman et al. (1991, p.197) affirm that "one implication of the loss aversion is that individuals have a strong tendency to remain in the status quo, because of the disadvantages of leaving it loom larger than advantages". It implies that, although the status quo bias has not been widely explored in literature, it may also be present in managers' decision-making processes, because it is intrinsically related to the need to make choices. The status quo bias suggests that managers may exhibit inertia in accounting policy choices, as the perceived risks and potential losses associated with changing established practices outweigh the expected benefits. Thus, even when alternative accounting treatments could improve informational quality or economic efficiency, managers may prefer to maintain existing policies, reflecting a behavioral constraint on accounting choice.

Status quo bias, as defined by Samuelson and Zeckhauser (1988), refers to the tendency of individuals to prefer maintaining the status quo, even in the presence of alternative options (Pompian, 2006). This phenomenon can be conceptualized as an emotional bias, wherein the prevailing choice is given preferential treatment, resembling inertia in its resistance to change. In such cases, the presence of external forces becomes essential for prompting alterations in this regard, as evidenced by the works of Samuelson and Zeckhauser (1988) and Pompian (2006).

In recent decades, several studies have examined the influence of the status quo bias in various contexts, broadening our understanding of decision-making processes, while earlier explanations were strongly based on the premise of individual rationality (see, for example, Masatlioglu & Ok, 2005; Kempf & Ruenzi, 2006; El Harbi & Toumia, 2020).

From a theoretical perspective, limitations on the assumption of individual rationality have become increasingly evident over the years. Masatlioglu and Ok (2005), for example, proposed a rational choice theory that allowed for the presence of a status quo bias. The authors were motivated to conduct the study by empirical findings showing the influence of one's current situation on her choices and the subsequent need to extend rational

choice theory to account for this behavior. Later, Dean et al. (2017) expanded economic models by demonstrating that attention and psychological constraints are important in explaining the influence of the status quo on individuals' choices. These studies attempted to incorporate status quo bias into rational decision-making models.

From a practical approach, studies have focused on demonstrating the impact of status quo bias on individuals' decision-making processes. Hunton et al. (2010), for example, analyzed the effects of monitoring on managerial behavior to explain why continuous monitoring drives risk aversion. The authors found that decisions made under continuous monitoring increase the perceived likelihood that managers' decisions will be detected and must be justified to their superiors. Thus, under continuous monitoring, managers preferred to keep the current level of investment instead of increasing or decreasing it, which is characteristic of a status quo decision.

Additionally, Messier et al. (2014) examined whether auditors exhibit status quo bias when interpreting accounting standards, even when the current scenario permits a different decision. They found that auditors were more likely to follow the prior year's treatment when judging a current year's scenario, regardless of the treatment's adequacy. This suggests that status quo bias influences auditors' decisions. However, the paper also suggested that accountability could decrease or mitigate the status quo bias in auditors' decisions. According to Messier et al. (2014, p. 74), "if they are under conditions of higher process accountability, auditors may not be affected by the way a similar accounting event was treated in the prior year".

At the organizational level, Kempf and Ruenzi (2006) found that status quo bias leads past growth to positively influence current growth in mutual funds, with a greater number of alternatives intensifying the bias. Similarly, El Harbi and Toumia (2020) showed that venture capital investments are influenced by past choices, indicating that Agency Theory alone cannot fully explain these decisions.

Although behavioral biases are increasingly studied in economic decision-making, accounting literature rarely considers them as determinants of managers' accounting choices. Yet, ignoring their influence is unrealistic (Andrikopoulos & Vagenas-Nanos, 2017). In accordance with the postulates of Samuelson and Zeckhauser (1988), under circumstances where accounting options are regarded as flexible and the enforcement environment is considered minimal, managers may elect to maintain a consistent accounting classification, even if it does not correspond with the anticipated recovery period of

the asset. In circumstances where there is uncertainty or insufficient enforcement to justify such action, the decision to modify measurement criteria may be foregone. Conversely, managers may be compelled to modify this passive behavior, changing assets' classification or performing an impairment test, if sufficient enforcement is in place.

In order for status quo bias not to affect managers' accounting choices, there must be incentives, pressure, and enforcement to stimulate managers to avoid expected inertial behavior. Otherwise, we assume that they will prefer to keep things as they are, even if it comes at a cost (Samuelson & Zeckhauser, 1988; Pompian, 2006). This necessary stimulus can come from different kinds of enforcement, such as accounting standards, stakeholder demand for information, or corporate governance.

Kvaal & Nobes (2010), for example, found evidence that previous national practices continue to be adopted when IFRS allows for alternatives. Thus, they demonstrate that "national standards" still exist within a formally harmonized set of standards, which has relevant implications for comparability and for the design of IFRS itself. In a similar vein, Haller and Wehrfritz (2013) demonstrated that companies often adhere to their previously adopted accounting policies even in the aftermath of regulatory changes, such as the adoption of IFRS. The prevailing interpretation of this phenomenon has been attributed to institutional factors, national traditions, or the costs associated with change. These results have also suggested a kind of inertia (status quo bias) on the part of managers when they are operating within a regulatory context. However, possible explanations for the perpetuation of accounting choices prior to IFRS adoption have not yet been widely explored in the literature.

In the absence of an accounting standard, the status quo bias is expected to become more evident, once there are more discretion and flexibility for accounting choices. In essence, the primary function of rules and principles is to prevent undesirable behaviors and to guide managerial actions. These rules and principles compel choices that may necessitate changes, such as an amount provisioning, an impairment loss, or even a change in classification.

Another way to avoid status quo behavior is to create a strong demand for information from stakeholders. In public companies, for example, investors play an important role in improving accounting standard quality. Thus, investors' demand for information can act as a mechanism for controlling the quality of information (Ball & Shivakumar, 2005; Hope et al., 2013), forcing managers to choose options according to market expectations – even in the absence of a specific accounting standard.

Otherwise, insufficient enforcement may lead to an increase in status quo bias among managers, affecting their accounting choices and decreasing the quality of accounting information. Therefore, to explain the determinants of accounting choices more broadly, Prospect Theory and Behavioral Finance assumptions may help explain managers' decision-making under uncertainty and complement the rationality assumption, which has been strongly supported by Agency Theory over the last few decades.

To understand the potential influence of status quo bias on managers' accounting choices, we analyzed an asset not covered by a specific accounting regulation: the ICMS Accumulated Credit. This choice is justified because in environments with low enforcement – such as in the absence of specific accounting standards issued by the IASB/CPC or in the absence of stakeholder demand for information, such as investors – it is more likely that the status quo bias will manifest itself in managers' accounting choices. Indeed, the primary factor that discourages individuals from adhering to their innate inertial tendency is the level of enforcement that is present within their environment and the number of possible alternatives that are available (Samuelson & Zeckhauser, 1988; Pompian, 2006; Kempf & Ruenzi, 2006). The subsequent section provides a more thorough exposition of the asset and its particular characteristics

2.2 ICMS Accumulated Credit

The ICMS Accumulated Credit is a recoverable tax asset that arises when a company's sales are either exempt from tax or taxed at a lower rate than its purchases, but the law ensures that the tax credits from previous periods are fully maintained by the company. In such circumstances, Brazilian legislation permits the recovery of credits without the corresponding future debts. However, the company's ability to recover the credit is contingent upon its compliance with government requirements (Law n. ° 87, 1996, art. 25, § 2°).

In practice, it is common for companies to be unable to recover at least part of this credit. The reason may be the difficulty in proving the source of the entire accumulated amount, or even the fact that the company has not filed a claim for a refund with the government (prescription), for example. The accumulated amount may also not be able to be compensated with ICMS debts that may arise from the company's normal operations. Conversely, if the government authorizes the credit recovery, there are numerous applications that the company can assign to the accumulated fiscal amount, including sale at a discount to another company, acquisition of fixed assets, and suppliers' payment.

It is imperative to note that the initial recognition of this asset is documented in the current period, separately from the cost of inventory, as directed by the CPC 16-R1/IAS 2. However, there is no specific accounting standard that provides adequate treatment for this fiscal asset, which means that managers must use the principles presented by the Conceptual Framework (CPC 00-R2, 2019) or make an analogy with other accounting standards (IFRS) in their next decisions regarding its classification, measurement, and derecognition. Given the uncertainty surrounding this asset after initial recognition, the recoverability of the recognized amount is also uncertain. Additionally, the challenge lies in identifying the appropriate events to perform impairment tests in the absence of objective evidence.

Therefore, we chose to use this asset to support our analysis, especially because of the wide range of possible choices, the higher uncertainty involving the accumulated amount, and the lower accounting enforcement (classification, measurement, derecognition), which allow managers more flexibility to make their choices and, consequently, greater exposure of the status quo bias (Samuelson & Zeckhauser, 1988). We believe that this particular case in the Brazilian context may help to highlight the status quo bias in accounting choices, making managers' non-rational behavior possibly more evident.

3 Research Design

To achieve the research objective, a qualitative approach was adopted. In order to examine managerial accounting choices, the focus was placed on an asset that lacks specific accounting guidance in Brazil: the ICMS Accumulated Credit, a value-added tax credit that is not fully addressed by current International Financial Reporting Standards (IFRS) standards. The absence of clear regulation regarding its recognition and measurement leads to a state of discretion and uncertainty, rendering it particularly suitable for the analysis of managerial behavior. The investigation of such decisions contributes to the existing body of literature on accounting choices and their intersection with behavioral finance. Given the complexity of the environment and the absence of explicit standards, field research was necessary, involving direct interaction with decision-makers. Such proximity is imperative to comprehend a phenomenon that remains under-explored and is influenced by both internal and external organizational factors.

3.1 Case studies

The methodology examines managers' motivations and outcomes in recognizing, measuring, and disclosing ICMS Accumulated Credit, comparing private and public firms, given differences in investor enforcement in these types of

institutions. In-depth interviews were prioritized to capture evidence of non-rational decision-making. Three firms – two private and one public – were selected for case studies, with interviewees in comparable positions to ensure informed responses and allow analysis across institutional contexts. The public firm served as a control to observe differences in enforcement and incentives between public and private firms. Agency Theory is expected to have a stronger influence on public companies due to higher investor enforcement, even where accounting regulation is minimal.

The study focused on semi-structured interviews with fiscal managers of companies that present different characteristics and incentives. Table 1 presents managers and firms' characteristics.

Table 1- Managers and firms' characteristics

Managers and firms' characteristics				
Firm	Sector	Gender	Function	Classification
1	Retail	Female	Fiscal Coordinator	Private firm
2	Industry	Male	Tax Manager	Private firm
3	Industry	Male	Accounting and Tax Manager	Public firm

The unit of analysis in this study corresponds to the accounting treatment for ICMS Accumulated Credit adopted by the companies. This treatment is understood as the set of practices for recognizing, measuring, disclosing, and assessing the recoverability of these credits. The unit of observation for this study was the discourse of the managers we have interviewed. Due to their functional position and involvement in decision-making processes, these managers constituted a qualified source for understanding the practices adopted. The interviewees' accounts serve as a means of empirical access to the accounting practices under analysis. Table 2 presents the research protocol.

Table 2 - Research protocol

Research Protocol	
Validation techniques	Triangulation, Content Analysis and Competing Cases Analysis
Cases	Intentional
Number of interviews	3 case studies- focus on depth and not on quantity of interviews
Qualitative analysis objective	Expand/develop concepts and find variables from research evidence
Research approaches	Deductive—analysis of the applicability of theories and concepts in a specific scenario—and Inductive—expands the explanation for the phenomenon based on the observation of the behavior/discourse presented by managers, the ex-auditor, and the credit analyst.
Generalization of results	Analytical
Data collection method	Semi-structured interviews
Data collection tool	Voice recording
Guiding questions	Appendix A

Interviews were recorded with participants' consent to ensure confidentiality. Guiding questions (Appendix A) were based on the fiscal asset's characteristics and IASB Framework requirements. Table 3 shows expected answers under Agency Theory versus Prospect Theory and Behavioral Finance.

Table 3 - Expected answers: Agency Theory and Behavioral Finance literature.

Criteria	Expected Answers with Agency Theory prediction: Public Company	Expected Answers with Behavioral Finance literature prediction (status quo bias): Private Companies
Classification	Manager tends to classify the accumulated credit in current assets to show better performance, but investor's enforcement avoids this behavior.	Manager says that it is classified in current assets because the initial recognition was in current assets and he believes there is no reason to change the classification.
Measurement	Manager tends not to do an impairment test in the accumulated credit, as this would reduce the asset and the profit, but the investor's enforcement forces him to do the test, even no loss would be recognized by company.	Manager avoids changing the amount of the asset by performing an impairment test in the accumulated tax credit, justifying that there are no specific accounting principles requiring and guiding the test.

3.2 Validation techniques

Validation techniques are very important to confirm the proposed constructs. According to Marques et al. (2015), a case study is usually non-replicable, then, its reliability will be primarily demonstrated by data triangulation, which is a result of using many data collection tools and evidence from different stakeholders, aiming to get more credibility to research findings. This technique allowed us to see the phenomenon from different perspectives (manager, analyst, and auditor), improving internal and external validity of this study. Table 4 is based on Marques et al. (2015).

Table 4 - Criteria for the analysis of methodological rigor in the case studies.

Categories	Criteria	Research application
The study object	Does the study seek to understand a phenomenon in its real-life context?	Yes, this research is fundamental to capture and understand managers' behavior in a scenario of lack of specific accounting regulation and low enforcement. Then, we cannot observe the phenomenon using another methodological strategy, but questioning managers about the object that we are interested in.
	Why do you choose this strategy?	The strategy was designed to explore the phenomenon as a prior analysis of the research problem and managers' behavior. Moreover, it will be very important to identify the new variables that can affect managers decision-making.
	Is there a connection between the phenomenon and the context at some research stage?	Yes, we need to understand managers behavior under an environment of lack of specific regulation and low enforcement, that is why we have chosen firms that present ICMS Accumulated Credit in their operation and different levels of enforcement (public and private companies).
	What is the type of question raised in the study?	What are the effects of low accounting enforcement on the emergence of status quo bias in accounting decisions?
The data collection	What is the case study type?	Explanatory case study.
	Is the case analyzed representative of the study objective?	We chose to develop multiple case studies because we want to capture the different realities of enforcement in these companies. This is the motivation for choosing public and private firms.
	Are there multiple sources of evidence?	Yes, in addition to evidence obtained through interviews with managers, we interviewed other stakeholders to provide triangulation and validate the findings in this stage: an auditor and a credit analyst.
	Is there an explanation for the data collection method, including the steps followed, when they occurred, where they occurred, with whom, and in what way?	The interviews occurred in the interviewee's workplace and were recorded by a voice recorder. In three cases, the interviewees chose to perform the interview by Skype or phone call.
The data analysis	Is there any report or disclosure regarding the research protocol?	The research protocol is presented in Table 2.
	Is there an explanation for the method of analysis?	The data was analyzed based on managers' answers and on the observation of their behavior and discourse during the interview. In addition, the triangulation was very useful to validate and bring more credibility to the findings.
	Was theory (single-case study) or replication (multiple-case study) used as a basis for the analysis when conducting a deductive study?	The data analysis was developed using the concepts of Behavioral Finance and Agency Theory as support. So, our analyses were supported by these theories.

Source: Adapted from Marques et al. (2015).

The interview with an ex-auditor was divided into two parts and explored managers' conduct in view of the lack of guidelines for ICMS Accumulated Credit, besides his perception about the audit process under unclear accounting parameters. Similarly, the interview with the credit analyst examined managers' behavior and his perception about the financial risk associated with this asset.

The perceptions of creditors and auditors were examined to verify how these actors interpret and evaluate the practices adopted by companies, aiming to validate managers' discourse. The comparison between the different views allowed us to identify convergences and possible interpretive asymmetries, strengthening the consistency of the findings and expanding the analytical robustness in understanding the investigated phenomenon.

The data were analyzed using both a deductive and an inductive approach, which allowed categories and patterns to emerge directly from the empirical material, without the prior imposition of a rigid theoretical structure, but based on the theories previously presented in the theoretical framework. To ensure methodological rigor and credibility of interpretations, a peer debriefing procedure was adopted. This procedure involved systematic discussion of categories and inferences with a researcher external to the analytical process. Furthermore, comparing evidence from different instruments and contexts (triangulation) strengthened the internal consistency of the results and reduced interpretative biases.

In the following section, Managers 1 and 2 represent private companies, while Manager 3 represents the public company.

4 Results and Discussion

4.1 Status quo evidence from managers' interviews

In this topic, we have presented evidence of the status quo behavior based on managers' answers. As outlined in Table 5, the text presents key points from interviews with a public company manager.

Table 5- Public company analysis.

CRITERIA	ASPECT	MANAGER'S ATTITUDE	MANAGER'S SPEECH AS EVIDENCE
Classification	Current classification	Manager 3 has classified the amount in non-current assets during 4 years before the credit being used by the firm.	"All (the amount) was classified on non-current assets, because I do not expect to recover the amount in the short term. There was no segregation [...]".
	Asset segregation	All the amount was classified on non-current assets, because the firm does not expect to use the amount in short term.	"All (the amount) was classified in non-current assets; there was no segregation".
	Recognition	The credit was recognized at the raw material purchase's moment in current assets and, then, it was transferred to non-current assets.	
Recognition and Derecognition	Derecognition of the non-recoverable amount	Manager did not claim for government certification, but kept the amount in non-current assets because firm has tried to change the operation to consume it in long-term and not to accumulate ICMS credits anymore.	SPEECH 1: "In this scenario I would make an analogy with a contingent asset ... it becomes an asset only when it is certain that I am entitled to receive this amount.... So, being conservative, I would not keep anything in the asset until a government position or I would keep only a little part of the amount in current assets". "I would be very conservative...keep the balance clean". SPEECH 2: "The moment we became able to monetize the credit it was a relief, because I could not take it any longer [...] I had no arguments anymore. [...] we had to justify the projections, even though we knew that, deep down, those projections were at risk of not being realized. [...] the credit's compensation was something unexpected". SPEECH 3: "I only do the write-off when the money was deposited in the account".

	Types of credit	A small part of the credit was recoverable by government certification. The remaining part stayed in firm's assets until it was recovered by ICMS debits, 4 years later.	"We asked only for R\$ 800,000, relative to a simple operation of diesel oil" (firm presented more than R\$ 20 million in balance sheet).
	Amounts	R\$ 800 thousand were required for government's certification; R\$ 20 million was not required and remained recognized on the balance sheet.	"Luckily, we were able to change the operation and use the asset's credit (R\$ 20 million) to compensate ICMS debits (after 4 years)".
Measurement	Impairment test frequency	Manager had performed an impairment test based on future sales projections, but no more parameters were used. However, no write-offs or impairment loss was recognized.	SPEECH 1: "We have to justify the credit in our balance sheet with projections, otherwise we have to do an impairment of the amount". SPEECH 2: "Luckily, we were able to change the operation and use the asset's credit (R\$ 20 million) to compensate ICMS debits (after 4 years)".
	Destination and credit's use	The few certified parts of the credit were sold by the firm to another firm. There was a revisable discount in this kind of sale operation, but	"We sold the credit and the consulting firm found another firm interested to buy our certified credit".
	Need for an accounting standard	Manager affirms that a specific accounting standard is not necessary. He believes that IFRS 9 is enough to get parameters about accounting treatment for this asset.	"We could make an analogy with IFRS 9, because it (the ICMS Accumulated Credit) is a financial asset in its essence. So, I can verify asset's recoverability through the parameters brought by the standard. I do not think that is necessary a standard about something so specific".

the ICMS Accumulated Credit based on projections of future debts, claiming a conservative stance that would recognize losses under any uncertainty. Yet, he later admitted doubts about recoverability, describing as "a relief" the success of the company's strategy four years after the projections. According to him, part of the credit was certified as recoverable, but there remained uncertainty over the rest; still, management maintained its recognition in non-current assets, and despite the recovery taking four years, no impairment or write-off was recorded during the period.

Additionally, Manager 3 noted that part of the ICMS Accumulated Credit was sold at a discount without adjusting asset's measurement. This behavior is aligned with Agency Theory, as managers avoid recognizing losses unless enforced, but also suggests loss aversion and status quo bias, favoring prior accounting treatment despite stakeholder monitoring. Regarding regulation, he argued that IFRS 9 already provides sufficient principles, dismissing the need for a specific standard on ICMS Accumulated Credit – an expected stance for a public firm manager, since additional standards would reduce discretion and limit decision-making.

Consequently, the manager articulated a rational justification for the accounting decisions that had been made. These choices regarding the recognition and measurement of accumulated ICMS credits were anticipated and stem from concerns about the company's image among its stakeholders. In light of managers' responsiveness to economic incentives (Jensen & Meckling, 1976; Healy, 1985; Simon, 1990), it was anticipated that the company would demonstrate exemplary conduct and provide a rationale for its decisions in accordance with established accounting principles. However, the absence of specific regulations to address the issue appeared to have generated a certain amount of uncertainty in the responses, resulting in some obvious contradictions between his discourse and attitudes (see Table 5).

This phenomenon can be partially attributed to the manager's reluctance to perform impairment tests, derecognize the asset, and measure it at fair value in the absence of clear parameters. If manager's attitude were purely rational, that is, if he was acting with the primary objective of earnings management, he would most likely not contradict himself when explaining his motivations.

Table 6 reports evidence we got through the interviews with two managers of private companies, which represents an environment with less investor enforcement.

In summary, Manager 3 justified classifying the ICMS Accumulated Credit as a non-current asset, citing long-term recovery expectations and the complexity of government certification. He also adjusted operations to offset the credit through future debits. From an initial perspective, manager's attitude can be easily explained by Agency Theory, once there is investors' enforcement that avoids the classification of ICMS Accumulated Credit in current assets, i.e., the investors' figure enforces him to change the initial classification to non-current assets, aligning the perspectives of managers and stakeholders – as suggested by literature (Holthausen et al., 1995; Watts & Zimmerman, 1986; García-Meca & Sánchez-Ballesta, 2009; Kouki, 2018; Harris et al., 2019).

On the other hand, Manager 3 initially justified not writing off

Table 6- Private companies' analysis.

CRITERIA	ASPECT	MANAGER'S ATTITUDE	MANAGER'S SPEECH AS EVIDENCE
Classification	Current classification	Managers 1 and 2 classify all the amount on current assets.	<p>Manager 1: "In raw material purchase's moment, I already have to recognize the credit separately in balance sheet (short-time)" "[...] So, I keep all the credit in balance sheet, regardless of the fiscal liberation or not, because I believe it is an asset to the firm"</p> <p>Manager 1: "It's very complex. For example, I am classifying the credit in current assets, but it has been unemployed for 3, 4 years. It should not be there; it should be in non-current asset". [...] Oh, but I expect to recover it in the short term, right?! Do I have evidence that I will recover in the short term? Not really! I have a request that can quit at any time".</p> <p>Manager 2: "[...] That is why the amount is in current assets and no impairment test was performed" (blaming the government).</p>
	Asset segregation	Managers 1 and 2 do not separate the amount in short and long-term.	<p>Manager 1: "At the time of purchase, it is already in current assets".</p> <p>Manager 2: "We treat the asset as it was a normal amount of ICMS credit balance (current asset), as if it was going to be used at some point. That is why the amount is in the current assets and no impairment test was performed".</p>
Recognition and Derecognition	Recognition	Managers 1 and 2 recognize the asset in raw material purchases' moment.	<p>Manager 1: "What happens is that, for example, I have requested 1 million for government, but, because a difference in IVA calculation, tax authorities released only R\$ 800 thousand for firm's use. Then, I have to do a write-off in this amount".</p> <p>Manager 2: "We did not do a write-off. All the amount is accumulated in the asset".</p>
	Derecognition of the non-recoverable amount	Manager 1 performed a write-off when government said that part of the amount was not possible to be certified. Manager 2 said that the credit was not approved by government, but firm did not do an impairment, because it can be used in long-term to compensate future ICMS debits, if the company would be able to change its operation.	<p>Manager 1: "The accumulation of credit is recurrent (about R \$ 40,000 / month). The company has R\$ 2,000,000 of accumulated credit currently recovering, of which R \$ 1,000,000 is still under government's analysis".</p> <p>Manager 2: "We have approximately R\$ 18 million of ICMS accumulated in São Paulo".</p>
	Types of credit	Manager 1 claimed for the government certification of all the amount available in the balance sheet. However, only a part of this credit was approved, the rest is still under analysis by the government. Manager 2 claimed for all the amount presented in firm's balance sheet, but the government has denied all the credit required. Moreover, Firm 2 has a significant amount already prescribed in the asset.	<p>Manager 2: "There are credits recognized in current assets that have already prescribed, there must be a change in our operation to consume this amount".</p>
	Amounts	Manager 1 got approved R\$ 800 thousand and has R\$ 1 million of credit under government analysis. Manager 2 told that there are almost R\$ 18 million of non-certified credit in firm's balance sheet.	<p>Manager 1: "So, I keep all the credit in balance sheet, regardless of the fiscal liberation or not, because I recognize that it is an asset to the firm".</p> <p>Manager 2: "[...] That is why the amount is in current assets, and no impairment test was performed"</p>
Measurement	Impairment test frequency	Managers 1 and 2 do not execute impairment tests.	<p>Manager 1: "Without the confirmation of the government, it is difficult to think about parameters to test the recoverability of the asset".</p> <p>Manager 1: "It's very complex. For example, I am classifying the credit in current assets, but it has been unutilized for 3, 4 years. It should not be there, it should be in the non-current asset. Oh, but I expect to catch up in the short term, right?! Do I have evidence that I will recover it in the short term? Not really! I have a request that can quit at any time".</p> <p>Manager 2: "I believe that if it got to the point of being certified by government, it would enter into that merit (criteria of recognition, measurement and disclosure)".</p>
	Asset recoverability parameters	Managers 1 and 2 do not have parameters to test asset's recoverability.	<p>Manager 1: "They offered a discount of 7% to buy our credit, but we are trying to get a lower one".</p>
	Destination and credit's use	There was a predictable discount in this kind of sale operation, but there was no change in asset measurement by Manager 1.	<p>Manager 1: "An accounting standard would help, but I think that is improbable".</p> <p>Manager 2: "Yes, if there was an accounting standard, clearer, it would help, for sure".</p>
	Need for an accounting standard	Manager 1 believes that an accounting standard may help, but it is improbable that it will be developed or solve the problem, because of the tax complexity in Brazil. Manager 2 affirms that a specific accounting standard is necessary.	

In relation to classification criteria, diverging from the public company reality, all the ICMS Accumulated Credit was classified as current asset, despite managers acknowledging long-term recoverability. This behavior cannot be explained by Agency Theory, since managers do not try to justify the classification presenting a rational explanation (i.e., short-term recoverability expectation), but the opposite: exhibiting evidence that would justify a classification of the amount in non-current assets.

Manager 1, for example, attributed this choice to the government's lack of clear parameters, suggesting the decision stemmed from inertia or status quo bias. While the outcome of keeping non-recoverable credits in the short term may appear opportunistic under traditional theory, managers' justifications reveal otherwise: both emphasized uncertainty and dependence on government action rather than short-term expectations. According to the speeches of Manager 1 and Manager 2, we realized that all the amount was classified in current assets because they could not find strong parameters to change the initial classification.

So, both managers presented rational arguments about the adequate accounting treatment for the asset (which differs from the accounting choice adopted by them), but emphasized the dependence on government feedback and the lack of accounting parameters. Although they identified inconsistencies in asset's recognition and divergent practices within the company, they kept the initial classification as current assets, which strongly evidences status quo bias through inertia in their accounting choices.

In relation to measurement, managers had difficulty explaining the parameters used to guide their decisions, which implies that their behavior and arguments were not totally rational and intentional. In a particular instance, Manager 1 wrote off an irrecoverable amount in accordance with the government's position. However, the manager adopted a largely passive stance, maintaining the asset's original classification and amount until the government's stance was clarified.

Although Agency Theory suggests a rational justification for not performing impairment tests, companies avoid these tests despite significant uncertainty about their recoverability. Manager 1 argued that the amount still represents a company asset and should remain on the balance sheet as an argument. This passive stance, sustained until governmental evidence required a write-off, cannot be explained solely by bounded rationality or Agency Theory. Instead, it reflects status quo bias, suggesting difficulty in changing the initial parameters and outsourcing responsibility for the accounting choice made (passive and inertial behavior).

With regard to the parameters for impairment testing, both managers exhibited inconsistencies and were unable to provide a satisfactory rationale for the difficulties in assessing asset's recoverability. Their reluctance to define usable parameters, coupled with uncertainty in selecting variables, also suggests inertial behavior. This absence of accounting guidance appears to serve as a reinforcement of prevailing managerial practices, thereby suggesting a persistence of the prevailing status quo in decision-making processes.

In discussing asset's measurement adjustments, Manager 1 noted the potential sale of part of the ICMS Accumulated Credit at a discount (e.g., 7%), but did not remeasure the asset at fair value despite a reliable discount parameter. This behavior can be interpreted through Agency Theory, as managers lack incentives or external enforcement to adjust assets based on fair value. Alternatively, it reflects loss aversion and status quo bias, with a preference for maintaining the original cost-based measurement to avoid potential losses.

With respect to the need for a particular accounting standard to deal with value-added taxes, they agreed that accounting standards could help identify and quantify assets, unlike the public firm manager discourse. This view conflicts with Agency Theory, as it restricts managerial discretion. Still, participants doubted the feasibility of such a standard in Brazil, given the high subjectivity of its fiscal context.

Therefore, managers of private companies did not attempt to persuade us that the accounting treatment provided was the most appropriate. This demonstrated a high degree of uncertainty about the accounting choices they made, which ultimately resulted in inertial behavior. This inertial behavior included the classification of tax assets in the short term, the failure to perform impairment tests, and the lack of measurement of fair value. This evidence aligns with the notion that individuals often exhibit inertial behavior in contexts characterized by a multitude of options and a pervasive environment of uncertainty, a phenomenon that is well-documented in the literature on status quo bias. This result increases our knowledge of how the status quo is shown in managers' behavior within a context of accounting choices (Samuelson & Zeckhauser, 1988; Kempf & Ruenzi, 2006; El Harbi & Toumia, 2020).

4.2 Triangulation techniques

Table 7 presents a summary of the answers obtained through the interview with a Big Four ex-auditor. The objective was to analyze the perception of the audit about managers' behavior in relation to the accounting treatment of the fiscal asset.

Table 7 - Auditor's opinion analysis.

CRITERIA	ASPECT	AUDITOR'S OPINION
Classification	Current classification	Managers tend to leave the credit classified in current assets, because of a liquidity issue or because it is an accounting practice already existing in the companies.
	Asset segregation	If the tax authorities (government) affirm that the process will be fast, then they use this as justification to keep the value in the current asset, even though they have other evidence that the recovery may not occur in the short term.
Recognition and Derecognition	Recognition	Managers use experience to recognize and measure the ICMS Accumulated Credit in this situation.
	Derecognition of the non-recoverable amount	The full recoverability of the credit is not always recurrent.
Measurement	Impairment tests	Managers justify the tests based on internal assumptions (company projections) and based on company's experience.
	Asset recoverability parameters	Managers sustain that assets' recoverability depends on how long the government will take to validate the credit, not depending on manager's expectation.
	Destination and credit's use	After the government's certification, there is no change in the measurement of the asset, even if they expect to sell the credit to another firm with a discount.
	Need for an accounting standard	Managers do not usually question the lack of a specific accounting standard for this asset, despite the little understanding and the subjectivity involved in this process.
CRITERIA	ASPECT	AUDITOR'S OPINION
Classification, Recognition and Measurement	Auditor's techniques to verify asset's classification	Auditors verify documents and projections presented by the companies. In addition, they analyze companies' history during the discussion about the future realization of the accumulated credit.
	Auditor's technical capacity to analyze the asset	Auditors often analyze the asset. However, the analysis also depends on subjective parameters, company's history and projections. There is also a lack of technical knowledge, which makes it very difficult for auditors to validate the amount with accuracy.
	Parameters of recoverability	There are no objective parameters. It is difficult for auditors to properly evaluate the asset, since there is a lack of specialized professionals in this area. Many inexperienced professionals are often allocated in this subject analysis, or even lawyers. Typically, the parameters are based on company's history, documents and other assumptions used by the companies in their projections.

According to the auditor's discourse, we have observed that firms tend to categorize ICMS Accumulated Credit as current assets for two primary reasons. Firstly, this practice is undertaken to enhance performance metrics.

Secondly, it can be attributed to a managerial habit. It has been demonstrated that managers rely on past experience, avoid defining parameters, and measure the asset at historical cost – even when discounted sales are considered – while attributing assessment responsibility to the government. These practices serve to reinforce the reliance on established classifications and the status quo bias.

Additionally, the absence of clear recoverability parameters weakens auditors' ability to validate data and enforce disclosure, largely due to the lack of an accounting standard. Audit procedures are based on sampling and often delegated to tax lawyers, who typically lack the accounting expertise to assess recognition, measurement, and disclosure criteria. Thus, the audit company (that was expected to question more rigorously this process of classification and measurement) seems not to be strong enough to require a change in managers' behavior and force managers to move away from the status quo predicted in their accounting choices. We can observe a lack of enforcement by audit's firm, and it does not contribute to provide a stimulus that would make managers leave their expected status quo behavior, considering a range of accounting choices available for this asset.

Table 8 presents a summary of the answers obtained through the interview with a credit analyst. Similarly, the objective was to capture the analyst's perception of managers' behavior.

Table 8 - Credit analyst's opinion analysis.

CRITERIA	ASPECT	ANALYST'S OPINION
Classification	Current classification and asset segregation	The justification for asset's classification depends on company's governance level and audit firm quality. Moreover, companies' size also interferes in the accounting treatment for this asset.
	Recognition and Derecognition	Companies do not usually do impairment, but the opposite may occur, i.e., the maintenance of assets that are not fully recoverable.
CRITERIA	ASPECT	ANALYST'S OPINION
Classificação, Reconhecimento e Mensuração	Auditor's firm reliability for analyst decision	According to the analyst, the audit firm is quite significant, because it increases assets' reliability.
	Value-added taxes assets' reliability for analyst decision	The analyst does not discredit this asset from the calculation of any indicator in his analysis. However, he may reclassify the asset if he realizes any evidence of manipulation or even when there is evidence of poor quality of accounting information.
	Need for an accounting standard for analyst's process of decision-making	He believes that an accounting standard would help and be great for him, because standardization is essential for an analyst's job. It would improve comparability between companies (it is better when firms use the same rules, such as provided by IFRS 16).

In relation to the adequacy of asset's classification criteria, according to his experience, he suggests that it depends on the audit firm quality and the company's governance level. In addition, he stated that size can also influence the credibility of the asset: "Bigger the company, better the justification for the asset's allocation, whether in current or non-current period".

According to him, the audit firm and the governance level play an important role in making accounting information more reliable, which favors his analysis. The analyst also believes that governance level can mitigate manipulation, especially in public companies. Based on his answers and discourse, we realized that creditors pay less attention to this asset when analyzing public companies, once the analyst assumes there is a higher level of credibility.

With regard to the established criteria for measurement, the analyst indicated that he had never observed companies voluntarily conduct an impairment test on this asset. In low-governance firms, overvalued tax assets were only corrected after audit intervention. He argued that impairment would occur only under strict enforcement, such as audit requirements or shareholder monitoring, since companies would not act on their own.

Therefore, we observed that analysts generally trust asset classifications in firms audited by Big Four with strong governance, requiring less scrutiny. In contrast, for non-Big Four audits, they demand more information to verify recoverability, relying on auditors to ensure data reliability. The analyst demands detailed information on ICMS Accumulated Credit recoverability mainly for companies audited by non-Big Four firms or with low governance and high current asset amounts. If doubts remain, he reclassifies the amount as long-term before calculating indicators. He applies the same approach to PIS/COFINS credits, suggesting the method extends to other value-added taxes.

However, it is worth mentioning that he seemed to outsource

part of the risk involved in his analysis to auditing firms and corporate governance structures, getting involved only when he felt that these aspects were weak or could allow for some manipulation. He also considers a specific accounting standard desirable, as clear parameters would support the inherently subjective judgment of value-added taxes.

4.2 Discussion

The results show that managers can be influenced by the status quo bias when making an accounting choice, as we noticed contradictions between managers' discourse and practice, persistence in prior choices, and reliance on external justifications. However, the bias seems to be more evident in private companies since investor monitoring in public companies reduces, to a certain extent, managerial inertia.

This evidence corroborates the fact that public companies are more inclined to disclose financial information due to greater share dispersion, a greater separation between ownership and management, and higher agency costs. They are also subject to regulations that restrict private communication. By contrast, investors and creditors in private companies have greater direct access to information, reducing their dependence on formal financial reports (Ball & Shivakumar, 2005; Hope et al., 2013). This evidence expands upon the findings of Hope et al. (2013) and Ball and Shivakumar (2005) regarding the differences in quality of financial reporting of public and private companies, including the greater susceptibility of private company managers to the influence of status quo bias - which also leads to a deterioration in information quality in the absence of guidance from an accounting standard.

At least three pieces of empirical evidence suggest that managers may exhibit status quo bias in their behavior when confronted with accounting choices involving the ICMS Accumulated Credit, as illustrated in Figure 1.

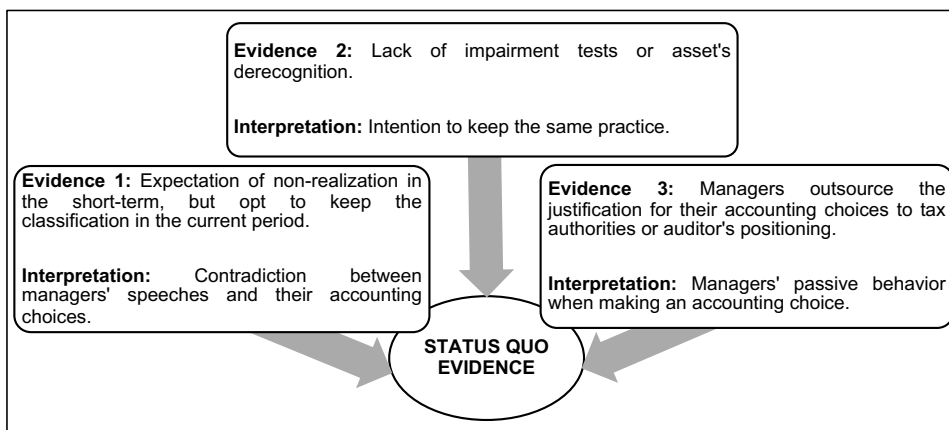


Figure 1- Evidence of status quo bias in managers' decisions.

We found evidence that questions the recoverability of the amount of ICMS Accumulated Credit presented in companies' assets, whether in short-term or long-term allocation, indicating the need to change the initial accounting choice of keeping the asset at cost and classified as current asset. However, it does not happen apparently. We also observed that managers of private companies do not try to explain their accounting choices rationally (contradicting themselves), and, since their remuneration is not normally tied to companies' economic performance (Hope et al., 2013), it implies that their decision to keep non-recoverable amounts recognized in firms' assets cannot be explained by a possible opportunistic decision-making, as Agency Theory proposes.

In this context, the first evidence we obtained from the interviews is the contradiction between managers' statements and their accounting choices: although private companies classify ICMS Accumulated Credit as current assets, managers acknowledge that its realization is likely long-term, highlighting inconsistency in their responses. Managers 1 and 2 did not provide rational justifications for classifying the tax asset as current, suggesting their choice is not aimed at earnings management, but reflects an inertial behavior. This aligns with status quo bias, as they maintain the initial short-term classification regardless of the asset's actual recoverability.

The second evidence from the interviews is managers' intention to maintain existing practices, likely to avoid potential losses, as reflected in the absence of write-offs or impairment tests despite probable non-recoverability.

This behavior reflects a passive stance and loss aversion, consistent with status quo bias, as described by Kahneman et al. (1991). This result was identified in both public and private companies, suggesting that, although the bias may be mitigated by investors in public traded companies, managers of these companies are not entirely immune to the influence of status quo bias – albeit, to a lesser extent.

Finally, the third evidence highlights managers' passive behavior in decision-making, relying on audit firms and tax authorities to justify their accounting choices. This suggests a need for external enforcement to prompt changes from their inertial state. Although unexpected, this reliance on others further reinforces the characterization of managers' passive behavior relative to stakeholders.

It is important to highlight that, Manager 3 (public company) showed more careful and rational justifications for his accounting choices, consistent with Agency Theory, likely due to investor oversight that enforces better managerial behavior and information disclosure. According to Pompian (2006) and Kahneman et al. (1991), there must be a stimulus for an individual to leave his expected inertial behavior. So, in public companies, investors' enforcement seems to force them to make a more appropriate accounting choice (at least in terms of classification), even under an environment with lack of accounting reporting enforcement.

Figure 2 presents a conceptual map that seeks to relate the observations to the extant literature on the status quo bias, summarizing the research findings.

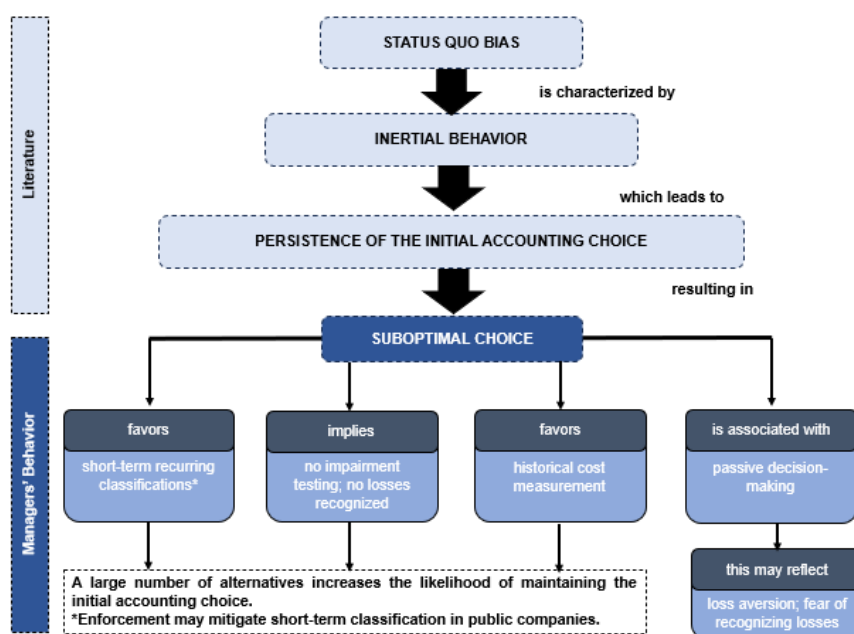


Figure 2- Conceptual map linking: managers' behavior versus Behavioral Finance literature

In addition, the triangulation contributed to validate the results obtained by managers' interviews and, consequently, consolidate the presence of status quo bias in managers' behavior. The perceptions of the ex-auditor and the credit analyst were essential for us to have greater confidence in our interpretations. By soliciting opinions from users outside the organizations, we were able to identify points of divergence and convergence with managers' discourse. The intention of this approach was to identify common ground among managers, auditor, and analyst discourses, thereby enhancing the robustness and credibility of the analysis.

The auditor discourse indicated that audit enforcement is often insufficient to prompt changes in managers' initial accounting choices related to this fiscal asset, particularly due to the lack of objective recoverability parameters, which limits strong challenges from audit firms and may reinforce managers' status quo behavior or even allow classification and measurement manipulation. This finding is consistent with Messier et al. (2014), who report that auditors tend to adhere to prior-year treatment methods when assessing current scenarios. Additionally, the auditor noted that managers – especially in public companies – may act defensively to avoid adverse market or governmental reactions, as illustrated by Manager 3's reluctance to seek government certification due to fear of fines, reflecting a behavior that may reinforce status quo bias. From another perspective, the analyst also emphasized the absence of objective recoverability criteria but expressed strong reliance on audit procedures and corporate governance, suggesting that creditors largely delegate risk assessment to auditors, trusting them to identify manipulation or low-quality information.

Comparing all the interviews, we can establish one important relation that links the perception about the reliability demonstrated by the auditor, the credit analyst and managers. We observed that the analyst trusts a lot in the opinion of the audit firm (if it is a Big Four), as he assumes that the supervision process was rigorously carried out by the audit company. On the other hand, the ex-auditor of a Big Four company emphasized the difficulty to analyze the recoverability of the ICMS Accumulated Credit, mainly due to the lack of clear accounting parameters of recoverability and the high subjectivity involving this asset (i.e., it depends a lot on tax authorities' positioning and analysis). This often leads auditors to rely on managers' projections to justify the classification or measurement of assets on the balance sheet. Managers similarly outsourced the justification for ICMS Accumulated Credit classification to the government, relying on vague expectations from tax authorities, even without strong

evidence of short-term recoverability or past experience suggesting otherwise. This creates a chain reaction, shifting responsibility to other stakeholders and potentially undermining the credibility of disclosed information.

The evidence presented by this research complements extant literature on accounting choices, proposing that not only rational aspects may influence managers' decision-making, as pointed by other papers (e.g., Watts & Zimmerman, 1986; 1990; Fields et al., 2001; Murcia et al., 2013; Nobes & Perramon, 2013), but also non-rational motivations can interfere in their choices. Furthermore, the present study makes a significant contribution to the extant literature on accounting choices by offering a behavioral explanation for the persistence of practices over time (Kvaal & Nobes, 2010; Haller & Wehrfritz, 2013; Silva & Martins, 2018).

While Kvaal and Nobes (2010) and Haller and Wehrfritz (2013) demonstrate that companies often perpetuate prior policies following the adoption of IFRS, their analysis prioritizes institutional factors and national traditions. The incorporation of status quo bias as a cognitive mechanism underlying this inertia serves to broaden the existing debate by complementing institutional explanations with the foundational principles of behavioral economics, as previously suggested by Samuelson and Zeckhauser (1988) and Kahneman et al. (1991).

Thus, the results of this study directly address contemporary debates conducted by organizations such as the IASB and FASB regarding the balance between principle-based standards, managerial discretion, and international comparability. By showing that regulatory flexibility can reinforce the persistence of previous practices – not only due to institutional factors, but also due to behavioral biases, such as the status quo – the article illustrates possible unintended consequences of overly open regulatory structures. The findings also suggest that the Conceptual Framework alone may not be sufficient to ensure proper accounting treatment, especially when regulatory discretion interacts with managers' behavioral biases – which results in poor-quality accounting information.

Enforcement by auditors and creditors also seems to have little effect on the decisions made by managers in a context of lack of regulation, complementing previous evidence that auditors may also be subject to status quo bias (Messier et al., 2014). As a result, companies tend to report overvalued assets and profits, undermining the risk assessment of creditors

and investors.

Finally, this study contributes to the behavioral accounting literature by providing field-based evidence of how status quo bias influences accounting decisions under regulatory ambiguity and low enforcement. While prior research has relied mainly on experimental or survey methods (Samuelson & Zeckhauser, 1988; Kahneman et al., 1991; Masatlioglu & Ok, 2005; Kempf & Ruenzi, 2006; Dean et al., 2017; El Harbi & Toumia, 2020), identifying behavioral biases often requires the joint observation of managers' discourse and attitudes, which demands closer proximity to the phenomenon under investigation. By examining the phenomenon in a field setting, the study captures how the bias manifests in real organizational contexts, where managers face institutional constraints and uncertainty. The findings show how this bias reinforces the persistence of previously adopted accounting practices and highlight the role of behavioral factors in managers' decisions.

5 Conclusions

The purpose of this study was to analyze if the low accounting enforcement can stimulate status quo bias in managers' behavior within a context of accounting choices, considering the existence of changes in assets' conditions. We analyzed the accounting choices related to ICMS Accumulated Credit: an asset that is not covered by a specific accounting standard. To achieve this objective, we interviewed fiscal managers of private and public companies, as well as an ex-auditor of a Big Four audit company and a credit analyst.

The content analysis of managers' discourses suggests evidence of status quo bias in accounting choices related to ICMS Accumulated Credit, reflected in contradictions between their statements and actual decisions, the intention to maintain existing practices to avoid potential losses, and passive behavior by relying on the opinions of stakeholders such as tax authorities and auditors rather than providing a rational justification. The bias was also more evident in private firms, suggesting that investor monitoring in public companies may reduce managerial inertia. These findings go beyond Agency Theory and contribute to the Behavioral Accounting literature by highlighting that managers' decisions may also reflect the influence of behavioral biases. Thus, we provided field-based evidence that status quo bias influences accounting decisions under regulatory ambiguity, reinforcing the persistence of previously adopted practices in real organizational contexts.

This study also offers practical implications for stakeholders, who must recognize variables that may affect their decision-

making. In the context of auditors, it is imperative to acknowledge the potential influence of status quo bias on managers' decisions concerning ICMS Accumulated Credit. This awareness enables auditors to undertake a more profound analysis of this asset, with the objective of enhancing the quality of information available to the market. It is essential for creditors and investors to take into account the uncertainty surrounding this asset when conducting a risk analysis of the company.

Finally, findings may also help regulators understand managers' behavior in the absence of specific accounting standards and evaluate the costs and benefits of standardization. In a scenario of a wide range of options involving an asset without specific regulation, the standardization seems to be important to try to mitigate not only managers' opportunistic behavior, but also their inertial behavior (status quo bias). Then, clearer accounting guidance for Value Added Tax may help mitigate status quo bias and improve the quality and comparability of financial reporting – especially in Brazilian context – once the Conceptual Framework alone seems to be insufficient to provide adequate accounting treatment under high managerial discretion and uncertainty.

This study has some limitations as well. The interpretive nature of the qualitative approach should be noted. The findings should be understood as contextualized analytical constructions that are not subject to statistical generalization but are relevant for deepening the understanding of the phenomenon under investigation. Despite that, the study opens opportunities for future research to use quantitative methods and test the influence of status quo bias on accounting choices in larger samples. Other behavioral biases may also affect managerial decision-making, suggesting opportunities for future studies to explore different biases, contexts, and methods – for instance, experiments to test the status quo hypothesis or related implications.

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APPENDIX A

Guiding questions- managers of private and public companies.

GUIDING QUESTIONS- MANAGERS OF PRIVATE AND PUBLIC COMPANIES	
Question 1	Which are the activities that generate "ICMS Accumulated Credit"?
Question 2	Is the accumulation of ICMS credit recurring? What is the average amount of credit generated monthly / annually by the company?
Question 3	Is the asset related to "ICMS Accumulated Credit" recognized? If so, when is it recognized in the balance sheet?
Question 4	Does the company demand the use of all the accumulated credit with the government? If so, how often? If you ask only for a part of the available credit, what does the company do with the rest?
Question 5	Can the company recover all the accumulated credits required? If not, what is the average accumulated portion of the credit that the company is able to recover?
Question 6	Where and how does the company use this accumulated credit? What is the destination given to this asset when it is approved?
Question 7	On average, how long does the company take to use this benefit, after the approval of the credit by the government?
Question 8	What is the biggest difficulty in getting the credit approved by the government?
Question 9	Which are the main points asked by the government when the company requests the use of the ICMS Accumulated Credit?
Question 10	When the company cannot recover the credit, or when it does not request the use of this credit, what does the company do with this fiscal asset?
Question 11	Currently, how is the "ICMS Accumulated Credit" classified: current assets or non-current assets?
Question 12	Does the company segregate the "ICMS Accumulated Credit" that will be used in the short-term and in the long-term in the balance sheet? What is the parameter used?
Question 13	Does the company frequently perform impairment tests on this tax asset? What is the parameter used?
Question 14	After homologation (it does not prescribe), does the company test the recoverability of the asset or not? What are the parameters used?
Question 15	Does the company have any legal proceedings involving the tax?
Question 16	Do you believe that the new LC 1.320 (tax rating) will facilitate obtaining approval of the accumulated credit for the company? Why?
Question 17	Do you miss a specific accounting standard for dealing with the "ICMS Accumulated Credit"? Currently, based on which accounting standard are you based to give accounting treatment to the asset?

Guiding questions- auditor.

GUIDING QUESTIONS- AUDITOR	
TOPIC 1- PERCEPTION ON MANAGERS' BEHAVIOR	
Question 1	Are companies concerned about giving this asset appropriate treatment? Is this asset generally representative in the composition of the company's assets?
Question 2	Do they segregate the asset in short and long-term? How do they justify the classification (parameters)?
Question 3	Do you realize any concern to perform recoverability tests? What are the criteria used by companies?
Question 4	Do the companies often achieve full recoverability of this asset?
Question 5	Do the companies usually segregate the ICMS Accumulated Credit and ICMS Recoverable? After homologation, is there any change in the measurement of this asset (in the case of sales discount, for example)?
Question 6	Do companies complain about the absence of specific regulations for this asset, or do they find it difficult to give accounting treatment based only on existing standards?
Question 7	Can I say that the value of this asset generally represents the reality of the amount that will be recovered by the companies?
Question 8	Do companies find it difficult to justify the deductibility of the expense related to the impairment of this asset, for income tax calculation purposes? (Cost x Expense)
TOPIC 2- PERCEPTION ON AUDITOR'S BEHAVIOR	
Question 9	What are the criteria used by the auditor to verify the reliability of the information presented by the company on this asset? Which audit tests are normally used to verify this asset?
Question 10	During the audit process, are there many problems related to this asset? Can the audit find objective parameters to verify the value by which the asset should be recognized and compare with the value presented in the company's balance sheet? Which ones?
Question 11	Does the audit consider this a medium / high risk asset, or do you have a greater concern with it because there is no specific accounting treatment, or because of the uncertainty that permeates this value measurement?
Question 12	What is the perception of the auditor regarding the accounting treatment that should be given to this asset? How should it be done based on current standards? Is there a need for a specific standard to treat this asset, in your opinion, or is the Conceptual Framework enough?
Question 13	Does the audit question the recoverability of this asset frequently? Does the audit make a detailed analysis of recoverability annually?
Question 14	Is there any other specific problem related to this asset?
Question 15	What is the biggest challenge faced during the audit process of this asset?
Question 16	In your perception, the asset value presented in balance sheet by the companies is reliable?

Guiding questions- credit analyst.

GUIDING QUESTIONS- CREDIT ANALYST

TOPIC 1- PERCEPTION ON MANAGERS' BEHAVIOR

Question 1 Is this asset generally representative in the composition of the company's assets?

Question 2 Do they segregate the asset in short and long-term? How do they justify the classification (parameters)?

Question 3 Is the full recoverability of this asset frequent by most companies? Can I say that the value of this asset generally represents the reality of the value that will be recovered by the companies?

Question 4 Do companies normally segregate the ICMS Accumulated Credit and the recoverable ICMS? After approval, is there any change in the measurement of this asset (i.e., in the case of sale-discount)?

TOPIC 2- PERCEPTION ON ANALYST'S BEHAVIOR

Question 5 Is the value of ICMS Accumulated Credit presented in the companies' balance sheet relevant to the credit analysis? Do you use any specific criteria to check the reliability of the information presented by the company about this asset?

Question 6 Is the audit opinion about the reliability of this asset taken into account during the company's credit analysis process?

Question 7 Is a specific accounting standard for this asset necessary to be developed, in your opinion, or would it be indifferent for the credit analysis process?

Question 8 In your perception, is the value of this asset presented by the companies in its balance sheet reliable?
