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paper text:

How the Mandatory IFRS Covergence and Conservatisms Determine the

30**Value Relevance of Accounting Information: Empirical Evidence from**

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21**Department of Accounting, Faculty of Economics and Business,** Diponegoro **University,** Indonesia c Faculty **of**

Business and Accountancy, University of Malaya, Malaysia Keywords IFRS, conditional conservatism, unconditional conservatism, value relevance. Jel Classification M41, M48. Abstract This paper analyzes the effects of conditional and unconditional conservatisms and

2**IFRS adoption on the value relevance of accounting information in** Indonesia. Using **the**

pooled-cross sectional analysis for 429 publicly listed industrial firms between 2003 and 2014, we found that the value relevance tends to increase following IFRS implementation. When we group the sample based on various accounting conservatism levels, we

39**found that IFRS** increases the **value relevance of earnings** while decreases **value relevance of book value**

for firms with medium level of conservatism. However, when we measure the conservatism as continuous variables, we found the negative (positive) relationship between conservatisms and value relevance of earnings (book value). Our three way interaction models indicate that

12**earnings and book value** numbers **of the** firms **that are** timelier **in** reflecting losses **are**

less relevant in the post IFRS adoption. Further analysis also hinted the presence of inverse U-shaped relationship between conditional conservatism and value relevance of earnings, and U- shaped

23**relationship between** conditional **conservatism and value relevance of** book value. 31 **1.**

Introduction

44**Value relevance of accounting information** remains **one of the most** important areas **in** the financial **accounting**

(Chalmers et al. 2010). Particularly, researches have concerned for the loss of

9**value relevance of accounting information** raising **the** speculation **that accounting**

information may not been optimally used for the investors' decision making. As a consequence, the relationship between accounting information and equity price tends to decline overtime. The results were ambiguous however. For example, while Collins et al. (2009), Alexander et al. (2012) and Francis et al. (2003) have provided some mixed proofs that value relevance is likely to increase overtime, other studies (Dontoh

2**et al.** 2004; **Balachandran and Mohanram, 2011;** Core **et al.**

2003) have provided robust findings that value relevance tends to decline over time in the long run. We believe however, there are two determinants that may lead to ambiguous trends of value relevance. First, IFRS is continuously claimed to entail higher quality rather than Generally Accepted Accounting Principles (GAAP). As markets may make favorable anticipation for the convergence towards IFRS, the reliance of accounting information will be greater for firms adopting IFRS rather than their local GAAP counterparts. Second, different levels of accounting conservatism may affect the extent of accounting value relevance (Watts 2003). Most of the empirical evidences however, were conducted on the developed market. In contrary with the developed countries, firms in the emerging market entails different situations and environmental condition that may increase the relevance of accounting information. The technology and information in those markets may not be as sophisticated as what in the developed market. As a result, the market participants may solely rely on the use of reliable sources of financial accounting information (Dontoh et al. 2004). Indonesia is a perfect research setting in order to test whether the IFRS plays an important role

5**on the** relationship **between accounting conservatism and value relevance.**

The convergence process since 2009 until full convergence in 2012 can be used to figure out the trend of value relevance. Indonesian PSAK

59**(Indonesian Statement of Financial Accounting Standards – Pernyataan Standar Akuntansi Keuangan)**

that has recently converged to International Financial Reporting Standards (IFRS) is continuously claimed to be more qualified, higher quality and as a consequence,

7**to be** more **useful for decision making** as compared **to the**

Generally Accounting Accepted Principles (GAAP). Empirical evidences however, were stand divided whether the IFRS or its domestic GAAP counterpart, that may actually induce the value relevance of accounting information. For example, Barth et al. (2012, 2008), Schiebel (2006), Bartov et al. (2005), Palea (2014) and Liu and Liu (2007) showed that

7**value relevance of book value and earnings** are **higher under IFRS** as opposed **to the**

GAAP. Interestingly, another extreme of the empirical findings

15**(Hung and Subramanyam, 2007 and** Daske **et al. 2007**

for instance) have provided some convincing evidence that capital market benefits are stronger in favor of local GAAP. There are indeed some rationale to explain these conflicting findings.

42**Ball (2006) and Daske et al. (2007)** maintained **that the** accounting numbers of **IFRS** adoption would be **more**

value relevant for countries that have weak enforcements of full disclosure to the their stakeholders rather than for countries that already have a strong foundation of governance systems, although Andréet al. (2015)

proved that accounting conservatism declined after the IFRS adoption. We do not however, make such comparison as some authors have questioned the comparability issue due to interdependence of accounting standards and the underlying country specific factors and different economic, political and environment factors (Daske et al. 2008, Wherfritz and Haller 2014, Suadiye 2012, Barth et al. 2012, Soderstrom and Sun, 2007) .Instead, in contrast with the suggestion of Gjerde et al. (2008), the research setting in Indonesia will provide a comprehensive view of the

13**value relevance of accounting information under** the old (Indonesian **GAAP) and the**

new regime (IFRS-based standards). This study test the hypothesis of incremental value relevance and its competing hypothesis of the superiority of one standard towards another (Dichev 2007, Ball 2006). Another stream of research that may explain differences in the value relevance is the accounting conservatism (Balachandran and Mohanram, 2011; Ali and Hwang 2000 Holthausen & Watts, 2001; Grambovas, Giner, & Christodoulou, 2006 Bushman & Piotroski, 2006). Although it may be appealingto speculate that accounting conservatism should be blamed for the cause of the decline in the value relevance, the empirical evidences wereagain, not conclusive and scarce. For instance, although Balachandran and Mohanram (2011) maintained that

9**value relevance of accounting information** tends **to be** higher **in the**

conservative as opposed to the non-conservative environment, they insisted that the decline of accounting conservatism was not affected by the conservatism per se. Interestingly, Watts (2003) found that increasing measurement errors in the conservative firms may always result in the decrease of reliability. Indeed, by recalling the trade-off between reliability vs relevance, we can speculate firmly that accounting conservatism increase value relevance of the firms. Ali and Hwang (2000) further stated that the increase of conservatism would lead to decrease of accounting conservatism, while Manganaris (2015) found the inverse relationship between conditional conservatism and value relevance after the IFRS adoption. Although without a robust multivariate quadratic regression analysis, Kousenidis et al. (2009) on the other hand, found the

1**non-linear relationship between** accounting **conservatism and value relevance.**

This research

49**contributes to the accounting literature in several** flourishing **ways. First,** although **the** value relevance of **accounting**

information has been widely researched for more than two decades, most researches failed to recognize the fact that accounting is multi- faceted science that should be looked in a much-broader picture. The accounting conservatism and accounting standard impacts cannot be looked at in a piecemeal manner (Balachandran & Mohanram, 2011, Hu et al. 2014). We provide a comprehensive analyses by examining whether both the conditional and unconditional conservatism and standard implementation increase the value relevance. Second, based on literature review on this area, most of the research provide a lot of speculations why the declining

10**value relevance of accounting information** exist (kindly see **the**

findings from Alali and Foote 2012, Jiang and Stark 2013, Palea 2014, Wehfritz and Haller 2014). This research provides conclusive evidencesin Indonesia that test whether IFRS convergence have the significant impacts to enhance the value relevance of accounting information. Lastly, there is no empirical evidences specifically conducted in Indonesia that assess whether accounting information is still relevant and how the roles of accounting standards convergence and accounting conservatism affect the value relevance. 2. BRIEF REVIEW OF IFRS CONVERGENCE PROCESS IN INDONESIA Indonesia is one of the largest archipelagos in the world that comprises of more than 17,000 islands and as of 2014, it is the home for more than 250 million people. With its exotic and rich resources, Indonesia was colonized for more than four decades where the Dutch was being the longest. It is not surprising therefore to find that during the early years after its independence, Indonesian laws, acts and regulations were heavily influenced by the Dutch systems, including its accounting systems. However, not until 1954, the history of accounting profession in Indonesia (namely Indonesian Institute of Accountant or IAI) started to develop that was evident by enactment of Accountant Designation Act. In 1957, the first professional, independent accounting regulatory body was formed. The political reforms in 1967 was regarded as a cornerstone to move the directions, from Dutch-based into US-based accounting systems. Soon afterwards, the first US-based codified accounting systems, namely Indonesian Accounting Principles, was launched in 1973 although with an 8 years lag relative to US GAAP (Kusuma 2005). Although the influence of US GAAP remained strong until 2008, the plantoharmonize national accounting standards with the International Accounting Standards (IAS) has emerged since 1994. During this time, IAI has formally supported “the harmonization program initiated by International Accounting Standard Committee” (Maradona and Chand, 2014, 24). Chand and

Patel (2011) argued that IFRS implementation can be distinguished into five typologies: a) full adoption, b) selective adoption, c) country-specific modified IFRS adoption, d) maintaining old,

28**national accounting standards but in line with IFRS, and**

e) totally maintaining national accounting standards. The convergence process in Indonesia falls in (b) and (c) in which the IFRS is gradually adapted into national accounting standards (Maradona and Chand 2014). The process however, could take years to fully complete. With this regard, the convergence process of IFRS to national accounting standards have been started since 2007, that most of the new standards were fully adopted from IFRS. Until 2011, there were 35 accounting standards and 20 interpretations of financial accounting standards were endorsed by Indonesian Financial Accounting Standard Board with various effective dates (Maradona and Chand 2014). For example, although 1 standard has an

28**effective date of 1 January 2009,** the **effective** dates **of**

16 and 18 standards were on 1 January 2011 and 1 January 2012, respectively. Interestingly, IAI allowed for the early adoptions for 10 standards issued between 2009 and 2010. However, the time frame is very limited that observing the dates between the early adoptions and effective dates are difficult. As of 2012, the convergence process results Indonesian accounting standards were equivalent to the IFRS of 2009. IAI has publicly proclaimed that 2012 was the final phase of the convergence process. 3. HYPOTHESES DEVELOPMENT AND LITERATURE REVIEW

9**Value relevance of accounting information can be** simply identified if **the accounting**

information is beneficial for investors' decision making.

8**In other words, accounting information** is said to **be relevant if it**

has a strong effect to

15**market values (Barth et al. 2001).** With **this** definition, **value relevance**

can be measured using several proxies. First, value relevance can be operationalized using the adjusted R2 of regressing the book value and earnings to the stock price (Palea 2014,Lin and Chen 2005, Francis and Schipper 1999, Srinivashan and Narasimhan, 2012, Turel 2009, Alali and Foote, 2012, among others) as what is known as the price model of Feltham and Ohlson (1995) (hereafter, F-O model). Value relevance can also be measured using the adjusted R2of regressing the returns with the earnings level and earnings change, as known as the return model of

1**Easton and Harris (1991)** (hereafter, E-H **model).** Francis **and**

Schipper (1999) on the other hand, provided some rationale for the value relevance in which the returns should have anticipated all available accounting information. All things considered, value relevance is the extent to which accounting information may be relevant for investment decision making and thus be impounded in stock prices. The value relevance of accounting information can be traced back since 1960s through

16**the seminal works of Ball and Brown (1968) and Beaver (1968).**

Since then, the topic received wider audience that tried to elaborate how the value relevance and information content may persist and under what condition it sustain. Researches on whether accounting information has lost its relevance however, have failed in providing consistent findings.

11**Collins et al. (2009), Francis et al. (2003)**

among others have shown

11**an increase in the value relevance of earnings over time,** but **Dontoh et al. (2004), Core et al. (2003)**

could not confirm such increase. Ebaid (2012) blamed for the higher reliance on

11**aggregate earnings for explaining market values**

rather than earnings components.Although it can be speculated that as one of the emerging market,

25**value relevance of accounting information** may **increase in**

Indonesia, empirical evidences were scarce. Therefore, we test the following null hypothesis: H01 :

29**The value relevance of accounting information** remains constant **over time**

Conservatism can be simply characterized as a careful recognition of unforeseen contingencies in the future and an assuring mechanism that all risks and uncertainties have been proportionally considered in the financial statements. International Accounting Standards have concurred that accounting conservatism can be achieved when firms

14**"make required predictions with uncertain factors and add certain degree of prudence in order not to raise assets or earnings nor to depress debt or expenses".**

Simply stated, firms are encouraged to state the worse financial results when multiple alternatives in accountings methods and policies are available. As a consequence, the net assets and earnings will be likely to be understated

10**(Kieso et al. 2004; Revsine et al. 2005).**

Beaver and Ryan (2000) identified the conservatism for any

23**downward bias in book values relative to market values or**

as what Penman and Zhang (2002) and Xu et al. (2012) said as the unfavorable bias towards the losses rather than gains. History of conservatism can be traced back before the implementation of accounting standards took place.

20**Basu (1997)** estimates **that the** philosophy **of conservatism** in **the accounting**

practice can be traced back for at least 500 years ago, while Hu et al. (2014) also insists that conservatism had become one of the most important principles of earnings measurement and recognition before the existence of any accounting standards in the whole world. Similarly, Watts (2003) also maintained that accounting conservatism came into being from the needs of accountability of the contracts between the principal and agents and their rational interest distributions (Xu et al. 2012). This study focused on two major classes of conservatism measures and relate them to the value relevance, which are the conditional and unconditional conservatism. Conditional conservatism, also sometimes known as the news dependent conservatism or asymmetric timeliness measure, is a measure of conservatism first pioneered by Basu (1997). He particularly maintained that

20**a higher degree of verification** is placed for **good news** in favor of **bad news. As** a result, **the**

bad news is recognized faster than the bad news. On the other hand, while Basu (1997) focused on how the internal mechanism of conservatism takes place, we also looked at the end result of conservatism, also known as the unconditional conservatism. Unconditional conservatism can be defined as the prudence accounting reporting that is not influenced by economic reality (Balachandran and Mohanram 2011). This includes immediate, direct expensing of advertising and R& D expenses that could lead to faster omission of economic assets from balance sheet. Givoly and Hayn (2000) used the accruals in order to figure out whether the conservatism took place. They predicted that when the firms accelerate the losses and delay the gains, the accruals will be negatively accumulated. Theoretically speaking, the

7**relationship between** the **price, book value and earnings** should decline in **the**

presence of high conservative accounting. Researches

22on the relationship between accounting conservatism and value relevance however,

have not yielded consistent findings. For example,

5Lev and Zarowin (1999) found that value relevance declines more for firms with the

highest increase of Research and Development expenses. In contrary,

5Francis and Schipper (1999) found that value relevance does not decrease more for firms in the high technology rather than firms in the low technology industries.

Although accounting conservatism studied were different between

41Lev and Zarowin (1999) and Francis and Schipper (1999) (while the earlier tested the level of

conservatism while the later examined the change in conservatism), results were comparable. Watts (2003) on the other hand insisted that higher conservatism strengthened the relationship between earnings and price. It is apparent that the inconclusive findings were due to the different methods, measures and firms' characteristics. Motivated by the inconclusive findings,

4Kousenidis et al. (2009) found the non-linear relationship between conservative reporting and value relevance.

It is interesting though to scrutinize the findings of Kousenidis (2009) in which the inconclusive findings were due to the non-linear nature of the relationship between accounting conservatism to the value relevance. We test their prediction in the sensitivity and robustness test in the next part of the study. Since the relationships are mixed and this area of research is still under detailed investigation, this study tested the following null hypothesis: H0.2: Accounting conservatisms do not

3affect the value relevance of accounting information. During the past decade, one of the

most important research domain in the financial accounting area are the market effects of IFRS adoption and comparison of accounting information qualities (Hail et al., 2010a, 2010b). However, fewer evidence was presence regarding the comparability of

2accounting information as a result of IFRS vis a

vis US GAAP. Studies in the financial accounting literature indicates that firms that applying the IFRS were likely to have more earnings quality rather than firms that adopting the domestic standards (Dimitropoulus

47et al. 2013, Barth et al. 2008, 2012). Leuz et al. (2003) and Ball et al.

(2000) found that properties of accounting information, including accounting quality would be altered when there are differences in enforcement, incentives and application of accounting standards. Interestingly, Leuz and Verecchia

58(2000) and Leuz et al. (2003) cannot find conclusive evidence that differences in

price volatility, trading volume and bid/ask spreads are influenced by the application of IFRS versus US GAAP in German. Bartov et al. (2005) found that US GAAP possess highest earnings response coefficients, while the IFRS and German Accounting Standards have the lower and lowest earnings response coefficient, respectively. In another settings, Iatridis and Rouvolis (2010) reported that IFRS adoption in Greece increase relationship between the aggregate earnings and equity price.

19Francis and Shipper (1999) observed that the value relevance of earnings tend to decrease before the IFRS adoption took place, although no clear evidence whether the pattern continued afterwards nor changed to increase. In comparing the accounting quality between IFRS and US GAAP on terms of the aggregate earnings, Hughes and Sander (2008) found that US GAAP was of higher quality compared to IFRS, although the earnings from both standards are comparable. Although some of the empirical evidences presented above are from developed market, but they can be used to speculate that use of either GAAP or IFRS will increase the

3**relevance of accounting information in** the **emerging markets** (Barlev **and** Haddad 2007). H03: **The**

53**value relevance of accounting information is not** higher after **the** firms adopt high **quality,** international **accounting**

standards (IFRS) The previous hypotheses deals with the queries of the

6**value relevance of accounting information** that **is** partially affected by **the accounting** conservatism **and**

IFRS. We however, also test whether

24**the effect of accounting conservatism on value relevance** may differ in **the**

pre vs post IFRS implementation.

35**Van der Meulen et al. (2007)** that **investigated the differences** in the **value relevance** before **and**

after IFRS adoption failed to provide some convincing evidences whether IFRS adoption outperformed the US GAAP on terms of the value relevance. On the other hand, decrease of value relevance after the IFRS implementation has also been observed by Khanaga (2011), although in certain cases, although he found strong evidence of incremental information content of cash flow during post IFRS adoption. As conservatism may also play some important roles

2**in the value relevance of accounting information, it is**

interesting to also figure out whether the effect of accounting conservatism to the value relevance will change after the adaptation of IFRS-based standards. The interaction product of accounting conservatism and IFRS implementation is intended to fill the missing gaps in the accounting literature about this area. Nevertheless, no research had been conducted to shed some light regarding the roles of IFRS implementation on accounting conservatism and value relevance relations, and thus this study estimates the following null hypothesis: H0.4: the

6**accounting conservatism does not** influence **the value relevance of accounting** information even after **the**

implementation of high quality accounting standards (IFRS) 4. RESEARCH METHODS 4.1. Sample Current study collected data from industrial firms in Indonesia during 2003 - 2014. Although some accounting standards permit the early adoption of IFRS-based PSAK, we simply differentiate the pre IFRS period as the years from 2003 – 2012 and post IFRS period as the years of 2013 and 2014. Data were collected from Bureau van Dijk, Osiris that initially consisted of 429 publicly listed industrial firms with a balanced sample of 5148 firm year observations. Furthermore, as the conditional conservative of Basu measures of the timely recognition of bad vs good news requires 5 yearly data for robust estimation, we remove some firms that did not publish their financial reports for 5 consecutive years. As a consequence, the final pooled, unbalanced cross-sectional sample includes 244 firms with 2166 firm year observations. We also removed the missing values observed in the data and thus yields different number of firm year observations for the uni-variate and/multivariate analyses.We also use local currency units (1 US $ = IDR 13,500 as per 1 July 2015) instead of standardized, US Dollar measures to maintain the comparability of the variables among the firms. Therefore, we able to control for the currency exchange deviations bias. 4.2. Measurements and Models 4.2.1. Conditional Conservatism Conditional conservatism can be simply characterized as a prudent recognition of unforeseen contingencies in the future and an assuring mechanism that all risks and uncertainties have been proportionally considered in the financial statements. In order to measure conditional conservatism, current study uses the measurement of Basu (1997) that could assess the asymmetrical

12**speed of bad news** compared **to the good news**

recognition. He modeled the conservatism as: , ,= + , + , + . , + , (1a) Where EPSi

1**,t is the earnings per share of firm i at year t;** DRi **,t is a dummy variable,** where 1 indicates **the** presence **of**

bad news that is simply proxied by negative

4**returns of firm i at year t, and 0 otherwise.;** Ri **,t** is **annual** raw return **of firm i at year t;** Pi **,t** is **the**

closing

4**price of firm i at year t;** and R.DRi **,t** is **the** interaction product **of**

dummy variable (DR) and

1**stock returns** (R) **of firm i at year t.** In this case **the**

interaction product

60**takes the value of** Rit **if** the **returns** are **negative and zero otherwise.**

As been clearly pointed out by Basu (1997), an asymmetric

1**recognition of bad** against **good news** will present **in**

the data if the interaction product of will be significantly positive.Moreover, while indicates how the firms recognize the good news + reflects earnings recognition of bad news. The intercept of may be used as a proxy of the firms' average cost of capital (Pope and Walker 1999). 4.2.2. Portfolio Designs of Conditional Conservatism We create three sets of conditional conservatism as suggested by Balachandran and Mohanram (2011), as also been used by Kousenidis (2009) using two steps. First, we ranked the value of , ascendingly ordered. Second, we grouped the sampled firms into high conservatism (HI-CON), medium conservatism (MED-CON) and low conservatism (LOW- CON). The high and low conservatism consisted of the highest and lowest 30% of , while the medium conservatism consisted of the remaining 40%. This grouping is the basis for most of the analyses pertaining to the conditional conservatism. We also use the raw value of as a robustness test regarding conditional conservatism 4.2.3. Unconditional Conservatism (Negative Accruals) Conservatism can also be measured using the news-independent or ex ante conservatism, that is also known as unconditional conservatism (Beaver and Ryan 2000). In contrast with conditional conservatism, the recognition of accounting expenses/news is conducted prior to the occurrence of economic news. Unconditional Conservatism in this study employs the negative accrual first pioneered by Givoly and Hayn (2000). The main lemma of the negative accrual (NEGACC) is that firms tend to utilize the flexibility in the accruals to postpone a recognition of gains and to expedite a recognition of losses (Yunos et al. 2012). Since they found that non-operating accruals are the main source of flexibility that cannot be nullified by any increase in the operating accruals, the Negative Accruals is operationalized as: NEGACC = {(NI – depreciation) – (ΔINV + Δ DEBTORS + Δ OCA – Δ CREDITORS – Δ OCL}*- 1(1b) Where NI represents the net income and depreciation is the net depreciation expenses, ΔINV is the change in the net inventory, Δ DEBTORS represents the change in the debtors fund, Δ OCA is the change in other current assets, Δ CREDITORS denotes for the change in creditors fund and Δ OCL represents the change in other current liabilities. We then multiplied NEGACC with -1 so that the higher value NEGACC indicates the higher unconditional conservatism. 4.2.4.

6**Value relevance of accounting information** Value relevance **can be defined as**

a condition in which earnings are relevance for the investor's decision making. The only way to figure out whether the accounting information (i.e. earnings) is value relevance if the strong relation can be observed between earnings and price.

45**There are** many **methods that can be used to measure the value**

relevance, however we only use two of most widely used ones, namely: the price

1model of Feltham and Ohlson (1995)

and the return

3model of Easton and Harris (1991). The price model of

F-O regressed

37stock price on earnings and book value:

,= + ,+ ,+ , (2) Where Pi

1,t is the share price of firm i at year t; BVPSi ,t is the per share book value of equity of firm i at year t and EPSi ,t is the earnings per share of firm i at year t

.

33On the other hand, the return model

of Easton and Harris (1991) can be expressed as: : , = + , + Δ , , , + , (3) Where RETi

43,t is the annual return of firm i a time t, ΔEPSi ,t is the difference of

EPS of firm i

1at the beginning and at the end of period t.

There are two sources of information in which the

6value relevance of information can be gathered: 1) the significance relations of

51earnings per share and book value per share for the price model

and earnings level and earnings change to returns for the return models (Barth 1994, Venkatachalam 1996, Hassan and Mohd-Saleh, 2010 among others), or 2) from the fit measure (Adjusted R2) (Balachandran and Mohanram 2011, Collins et al. 1997 among others). The earlier is usually

3used to test the value relevance of a particular accounting information

(i.e. EPS, BVPS, earnings level, earnings change) while the R2

46measures the value relevance for the set of accounting information in a particular equation (Filip and

Raffournier, 2010). A value of adjusted R2 was also commonly used to identify the trend of value relevance over time. We also address the possible issue of the econometrics regarding the functions in Eq. 2 and Eq. 3. As been highlighted by Klein and Marquardt (2006), information of negative earnings tends to be less relevance than positive earnings. This asymmetric timeliness in the value relevance function may lead to the under-estimated bias of goodness of fit. Therefore, we also control for the loss in the price and return functions of value relevance: ,= + ,+ ,+ ! ,+ "! ,∗ ,+ $! ,∗ , + , (2a) ,= + , , + , , + ! ,+ "! ,∗ , , + $! ,∗ , , , Δ Δ (3a) Where LOSS is a dummy variable that

34takes a value of 1 if a firm i has negative earnings in year t and 0

other wise. Other variables are as defined above. Furthermore, inter-industry heterogeneity may also lead to the value relevance, and thus should be controlled: ,= + , + , + ! , + " ! , ∗ , + $! , ∗ + %&' , + (&' , ∗ +)&' , ∗ , + , (2b) , = + + , , + ! , + " ! , ∗ , + $! , ∗ , + , Δ , , Δ , %&' , + (&' , ∗ , , +)&' , ∗ Δ , , + , (3b) Where in line with McIver (2014) IND is simply raw code of global industry classification standard (GICS) derived from eight digit level reflecting their industrial groups (excluding the financial). Other variables are as previously defined. The

50**value relevance is measured** using **the adjusted R2 of** all **the** models. **In**

order to test for the decline or increase of value relevance, we run the time-series regrssion, again, based on three models: a) base model (eq. 2 and 3), b) loss control model (eq. 2a and 3a), and c) loss and industry control model (eq. 2b and 3b). Furthermore, we also follow the suggestions from Brown et al. (1999) and Balachandran and Mohanram (2011) that as the change

10**in the value relevance** may be mechanically **driven by**

the change

5**in the coefficient of variation of price** and book value **per share, and**

thus it should be controlled. However, our results showed that these has a very small change in the value relevance, and hence unreported here. The trends of value relevance are tested as followings: VALRELp.2n = ά0 + ά1 YEARi,t + VALRELr.2n = ά0 + ά1 YEARi,t + (4a) (4b) VALRELp.2n

31**is the adjusted R2 of the value relevance**

measure for the price model in equation (2), (2a) or (2b), while VALRELr.2n

31**is the adjusted R2 of the value relevance**

measure for the return model in equation (3), (3a) or (3b). YEAR is a discrete variable, simply reflecting the year in which the value relevance is measured (results were displayed in the last three rows of table 2). If the ά1 in those equations are positive and significant, the increased value relevance can observed Another measure of conservatism that we employ in this case is the unconditional conservatism of negative accrual that is estimated in the value relevance equations. We test the following price regression models of F-O

2**to test the impact of** unconditional conservatism **on value relevance:**

, = + , + , + ' *+,, , + "' *+,, , ∗ , + $' *+,, , ∗ , + - (5a) , = + , + , + ' *+,, , + "' *+,, , ∗ , + $' *+,, , ∗ , + %&. , + (&. , ∗ ' *+,, , ∗ , +)&. , ∗ ' *+,, , ∗ , + - (5b) , = + , + , + ' *+,, , + "' *+,, , ∗ , + $' *+,, , ∗ , + %&. , + (&. , ∗ ' *+,, , ∗ , +)&. , ∗ ' *+,, , ∗ , + / ! , + ' *+,, , ∗ ! , ∗ ' *+,, , + , + - (5c) ! , ∗ ' *+,, , ∗ , + ! , ∗ While the return models of E-H are as follows: , = + , + ∆ , , , , + ' *+,, , + "' *+,, , ∗ , + $' *+,, , ∗ ∆ , , + -(6a) , = + , , , , + ∆ , + ' *+,, , + "' *+,, , ∗ , + $' *+,, , ∗ ∆ , , , + %&. , + (&. , ∗ ' *+,, , ∗ , +)&. , ∗ ' *+,, , ∗ , + - ∆ , (6b) , = + , + ∆ , , , + ' *+,, , + "' *+,, , ∗ , , + $' *+,, , ∗ ∆ , , , + %&. , + (&. , ∗ ' *+,, , ∗ , +)&. , ∗ ' *+,, ∗ ∆ , + / ! , + , ! , ∗ ' *+,, , + ! , ∗ ' *+,, , ∗ , + , ! , ∗ ' *+,, , ∗ ∆ , , + - (6c) Where NEGACC is the unconditional conservatism as defined from equation (1b), IFRS

62**is a dummy variable** of **1 for the** firms mandatory **adoption of IFRS-**

based standard since 2012, and 0 is otherwise. Other variables are previously defined. Equation 5a and 6a

2**test the impact of** unconditional conservatism **on the value relevance**

using the price and return model, respectively. Equations 5b and 6b, on the other hand examines whether

1**the effects of** unconditional **conservatism on value relevance** differs upon **the**

pre vs post IFRS adoption for the price and return models, respectively. While equations 5c and 6c scrutinizes the effect of loss vs profit making on the relationship between unconditional conservatism on value relevance for the price and return models, respectively. 5.

48**RESULTS Table 1 presents the** Pearson correlations and **descriptive statistics of the variables.** While most of **the**

important variables are statistically significant, our results indicate no serious multi-collinearity issues. The correlational statistics also hinted the

3**value relevance of earnings and book value.** More specifically, **the** strongest **value relevance**

appeared in the medium conservatism group for

33**both the price and return models.** -- INSERT **TABLE** 1 HERE -- Our **results**

of trends in the value relevance arevisualized in Figure 1 and table 2. As expected, using the similar methods of Collins et al. (1997), Balachandran and Mohanram (2011), Filip and Raffournier (2010), among others, we found the consistent findings of the accelerating

7**value relevance of accounting information in the** Indonesian **stock market.** However, **the**

two models that we used, namely the price

12**model of Feltham and Ohlson (1995),** and **the** return **model of** Easton **and**

Harris(1991), did not provide the conclusive findings. While the price model of F-O indicates the strong incremental value relevance, E-H did not, even after controlling for the variances of losses and industrial groups. It is likely that the presence of structural break in the pooled year of 2003 -2007 may be the reason for the rejection of incremental value relevance, as clearly

54**displayed in Figure 1 panel** B. -- INSERT **FIGURE 1** HERE -- **The** Adj R2 **of** the **price**

model in of 2003-2004 is 63.61%, 65.85%, and 67.77% for the base, loss control and loss and industry control models respectively (see table 2 panel A). For the panel model of 2003-2008, the Adj. R2 increased to 72.53%, 73.39%, and 76.3% and significantly increased again for the year of 2003 – 2014 yielding the Adj R2 of 81.99%, 82.32%, and 83.15% for the base, loss control and loss and industry controlled models respectively. When we regress the value relevance index of E-H (adj. R2) on the year (table 2, panel B), we cannot find any significant relationship. The estimated parameter for the base, loss and industrial controlled models are -0.326 (t-stat= -0.879), -0.594 (t-stat = - 0.982) and -0.097 (t-stat = -1.466), respectively. The variations of the value relevance that are explained by the yearly variance is very small, ranging from 7.9% to 10.3%. -- INSERT TABLE 2 HERE -- We also further scrutinize whether the incremental value relevance may be different depending upon the levels of accounting policy. As displayed in table 3, we found the statistically difference among the value relevance of the firms with the high, medium and low levels of conservatism (F-Stat = 49.957, p < 0.001). In this regards, the medium level of conservatism (MEAN = 94.79%) have the highest value relevance as compared to the low (MEAN = 79.80%) and high of conservatism groups (MEAN = 51.49%). Bonferroni tests of mean difference also indicate the statistically difference of value relevance among the groups of high vs medium, high vs low and medium vs low conservatisms (due to simplicity, results are not shown). -- INSERT TABLE 3 HERE -- Interestingly, after we made the groupings

10**for the** level **of conservatism, the** declining **value relevance is**

present among the firms with the medium accounting conservatism group. The yearly decline of value relevance is -0.4% (Table 3 panel B). While the value relevance in the 2003 -2004 is 98.44%, smooth declination can be observed in the subsequent periods (value relevance of 2003 – 2014 is 93.8%). This decline however, cannot be confirmed for the value relevance of the firms with the high (Table 3 panel A) or low accounting conservatism (Table 3 panel C). For example, although the accounting conservatism is quite high for the high conservatism group (mean = 51.4%) and low (mean = 79.8%), our results do not indicate the decline or incremental value relevance. The t-values from regressing value relevance on year are 0.236 and -0.102 for the high and low group of accounting conservatism, respectively.These results are in part concur with Balachandran and Mohanram (2011) maintaining that steady, moderate accounting conservatism tend to have a larger decline in accounting conservatism. We found that both EPS and BVPS are significantly value relevant for most of the analyzed models. However, while we documented the positive coefficient of EPS, the BVPS coefficient was negative. This phenomenon is commonly found in some researches (e.g. see Chalmers et al. 2010). While

27**it is important to** figure out **the value relevance of** EPS **and**

BVPS per se, this is not the focus of current study. As in hypothesis 2, this study deals with

2impact of IFRS implementation to the value relevance. From table 4 (panel A),

it can be found

32that the interaction product of IFRS* EPS is positively significant

(γ4A = 8.951; t = 27.4) but not for the BVPS measure (γ5A = 0.0709, t = 0.89). It indicates

2that the value relevance of earnings is higher post IFRS period while IFRS

does not change the

29value relevance of the book value. After we control for the effect of

negative earnings, we can also figure out that the value relevance of earnings is lower for loss making firms (γ7A = -9.212, t = -5.06), while

18the value relevance of book value is higher for loss making firms

(γ8A = 0.194; t = 3.15). We can also conclude that there is intra-industry difference of value relevance (γ10A = 0.18, t = 8.11 and γ11A = 0.020, t = 3.32; for the EPS and BVPS measures respectively). Furthermore, we also found thatthe

52higher value relevance of book value in the post IFRS

implementation is more apparent for firms with negative earnings (γ14A = 0.87; 3.594). -- INSERT TABLE 4 HERE -- When we split the samples into three portfolios based on various levels of conservatism, the results are somehow more interesting. More specifically, since IFRS is measured as a dummy variable, this study can figure out whether the value relevance is higher or lower

26in the post vis a vis prior IFRS convergence. In

the high conservatism group (Table 4 panel B),

26the value relevance of earnings is higher in the post IFRS period

(γ4B = 3.685, t = 6.091), but not for the value relevance of book value (γ5B = -0.117, -1.131). Both the value relevance of earnings (γ7B = -1.953, t = -0.999) and book value (γ8B = 0.0423, t = 1.101) however do not differ for loss vs profit making firms. The value relevance of earnings differences can be observed among diverse industrial groups (γ10B = -0.292, t = -7.985). The value relevance of loss making firms were constant

40during the pre and post IFRS implementation periods. Our results also found that among the

medium level of conservatism group in the

55post IFRS implementation, the value relevance of earnings (book value) is higher

(γ4/C = 11.157, t = 20.999), while the value relevance of book value is lower (γ5/C = -0.810, t = -5.233). Moreover,

30the value relevance of earnings is lower for loss making firms

(γ7/C = -14.595, t = -2.817), while

18the value relevance of book value is higher for loss making firms (γ8/C = 2.052, t = 4.759).

25**Although the value relevance of both earnings and book value** for **the**

loss making firms do not differ for the pre vs post IFRS (γ13.C = -16.059; t = -0.019 and γ14.C = 0.837; t = 0.938 for the earnings and book value measures respectively), different industry classifications affects the

9**earnings and book value** relevancies. For **the** low **level of conservatism**

groups (Table 4 panel D), it can be observed that both value relevance of earnings (γ4.D = 4.774; t = 7.036) and book value (γ5.D = 0.524; t = 3.720) are higher after IFRS implementation. However, the value relevance of earnings is lower among the loss making firms (γ7.D = -12.865; t = -4.100), but higher for the value relevance of book value (γ8D = 0.519, t = 1.873). Different value relevance is strongly apparent among diverse industries (γ10.D = 0.078; t = 1.751 and γ11.D = 0.098; t = 9.046 for the earnings and book value measures, respectively). The value relevance measures during pre vs post IFRS do not differ for the loss vs profit making firms. --- INSERT TABLE 5 HERE -- The similar pattern can be observed from the Easton and Harris (1991) model, in which IFRS implementation increased the value relevance particularly from the EPS/Pricet-1 measure (α4A = 1.096 t=4.245) in all sample. However, based on the results as depicted in table 5, we found that the relationship is not driven by the performing vs non performing firms. We also find the consistent findings even after controlling for the levels of conservatism. The EPS measure is more value-relevant

2**after the mandatory** implementation **of IFRS for the high**

conservative, medium conservative and low conservative firms. Nevertheless, the incremental

17**value relevance of** BVPS **is** stronger **after the** implementation **of IFRS**

for medium conservative firms, while no significant relationships were present for the high and low conservative firms. Furthermore, The negative earnings and industry do not drive the relationship to change. As previously mentioned, we also use the negative accrual of Givoly and Hayn (2000)to measure the unconditional conservatism. The results, depicted in table 6, showed the mixed findings whether unconditional conservatism affect the value relevance. More specifically, the

37**value relevance of earnings is higher**

(γ4 = -0.001; t = -3.103) upon the decrease in the accrual conservatism, but

8**the value relevance of book value** is higher upon **the** increase in **the**

accrual conservatism (γ4 = 6.8E-05; t = 2.297) Interestingly, when we add the interaction product,

24**the effect of** accrual **conservatism on value relevance of earnings**

(γ7 = 2.199; t = 8.547) and book value (γ7 = 0.311; t = 2.024) is stronger after the IFRS implementation. This pattern is present for the earnings and book value measures. This finding however, is still robust after we control for firms with negative earnings and different industrial groups. --- INSERT TABLE 6 HERE -- For the return model of Easton and Harris (1991), we found however, unconditional conservatism do not induce the value relevance of accounting information as shown by the non-significant interaction product of NEGACC* , and NEGACC* ∆ , . We also cannot provide any difference of , , IFRS convergence and loss vs profit making firms

6**on the effect of** unconditional **conservatism on** the **value relevance,** with both **earnings**

and earnings change variables. 5.1. SENSITIVITY AND ROBUSTNESS TESTS 5.1.1. Asymmetric timeliness to the value relevance We also run the sensitivity test

3**to further** scrutinize **the effect of** accounting conservatism to **the value relevance.**

In this case, we use the firm-specific continuous variable of , as in the Basu's asymmetric timeliness measure as appeared in eq. (1). As depicted in table 7, we found that conditional conservatism negatively affect the

61**value relevance of earnings, as** shown **by the** negative and significant **coefficient** for **the interaction**

product of *EPS. This finding is in line with the long- standing lemma that the trade-off between the accounting

5**relevance and reliability** exist where **conservatism "favoring reliability over relevance"** (Balachandran **and**

Mohanram 2011, p. 275). For example, Lev and Zarowin (1999) found that as one example of accounting conservatism, any increased in the non-recognition of important intangible assets decreases

56**the value relevance.** Furthermore, **the** relationships **between value relevance of** earnings (book **value) and**

conditional conservatism is stronger in the post (prior) IFRS adoption. However, the similar findings cannot be found for the return model as the value relevance of earnings and earning change did not differ in the post and prior IFRS implementation.

57**It is interesting to note that despite the fact that**

they are based on the same theoretical model (i.e. Ohlson's (1995) linear information model and Residual Income Valuation model), the price and return models sometimes yield different results (Ota, 2003) as beenfound in this study. It should be noted however, that

27**according to Kothari and Zimmerman (1995), price** model **is**

more superior and possess less bias than the return model. Chen et al. (2001) also maintained

22**that the use of** both book **value of** earnings and **equity** as **in the**

case of price model is better than return model which only use

10**earnings as a** determinant **of value relevance.**

--- INSERT TABLE 7 HERE --

5.1.2. Non linearity between unconditional and conditional

1**conservatism and value relevance** We also test **for the**

presence of

1**non-linear relationship between** accounting **conservatism and value relevance**

as been implied by Kousenidis et al (2009). In order to provide a more comprehensive view of the impacts of conservatism to the value relevance, we also divide the conservatism into the conditional and unconditional conservatism. Panel A of table 8 test the effect of non-monotonic relationship between asymmetric timeliness conservatism and value relevance while panel B tests the non-monotonic relationship between negative accrual and conservatism. We found an interesting finding in which the higher asymmetric timeliness (conditional conservatism) increased the value relevance of earnings, but after a certain peak level, the relationship turned to negative. In contrary, we found the U-shaped relationship between asymmetric timeliness and

38**value relevance of book value. The**

higher the conditional conservatism reduce the

38**relevance of book value** but **the** relationship turned **to** positive when theconditional conservatism goes beyond its peak level. -- ----- INSERT TABLE 8 HERE -- 6. DISCUSSION AND CONCLUSION This study provides a comprehensive view

3**of the value relevance of accounting** information, particularly the **earnings and book value** measures. We found **that**

in Indonesia, accounting value relevance, particularly among the firms with the medium level of conservatism tends to increase from the observation periods of 2003 to 2014.This finding is mainly in line with Collins (1999) that showed

19**that the value relevance of book value and earnings, when**

analyzed simultaneously tends to increase in the long run. We expect that markets may put heavier reliance on the accounting information and no alternative information is available, and thus the value relevance tends to increase. We also consistently found that value relevance is only present for the earnings, while the similar finding cannot be confirmed for the book value. We, however cannot further scrutinize whether the economic contractions may also contribute to the finding as Jenkins et al. (2009) hinted the higher value relevance in the expansion as opposed to the turbulent economics. Interestingly, when taking separately, value relevance is higher after the Indonesian Institute of Accounting decided to fully converge with the IFRS measures in 2012, although the value relevance of book value is higher prior to IFRS full convergence. The effect however, does not differ for loss making vs profit making firms. More specifically, in line with the results of Beisland and Knivslå (2015) our study strongly found that

17**value relevance of earnings** and book value **is higher after the adoption of IFRS-based**

Indonesian standard. More specifically, while the

32**higher value relevance of earnings** in **the post IFRS is**

much stronger for firms with higher conditional conservatism, the contrary result was found for the

36**value relevance of book value.** Interestingly, **the value relevance of book value** is higher among **the**

loss making firms, particularly among the firms with the medium and low level of conservatism and all the sampled firms. In line with the conditional conservatism, we also found that

4**value relevance of earnings is** stronger **when** the unconditional **conservatism is**

lower, although

4**value relevance of** book value **is** stronger **when** unconditional **conservatism is**

higher.Our result partially support Balachandran and Mohanram (2011) maintaining that unconditional conservatism is the main driver for the decline of value relevance only for the book value measure. Nevertheless, the prudence of accounting information that directly affect the increase on accounting earnings may

13**result in the relevance** loss **of accounting information.** For example, **the** omission **of**

intangible assets or immediate, accelerated depreciation of tangible fixed assets or goodwill could reduce the

13**value relevance of accounting information.** This finding **does not differ** for **the**

loss vs profit making firms as we found no significant three way interactions between loss making, negative accruals and earnings or book value measures. Nevertheless, our findings also indicate that both the conditional (asymmetric timeliness) and unconditional conservatisms (negative accruals) are higher during post IFRS adoption.

15**This finding is consistent with** Manganaris **et al.** (2015) **that**

IFRS adoption should increase the value relevance and decrease the accounting conservatism. We also found the partial support of the

4**non-linear relationship between** accounting **conservatism and value relevance.** Particularly, we found **that**

16**the effect of** conditional conservatism **on the value relevance of earnings and book value**

are inverse U-shaped and U-shaped, respectively. More specifically, our results indicate that there is a curse (blessings) in too few and too much conservatism for the

8**value relevance of earnings (book value). In other words,**

we

1**found that value relevance of earnings**

can be optimally achieved for the firms with medium level of conservatism, while the optimum value relevance of book value can be attained for firms with low and high level of conservatism. Although we have tried to minimize the potential bias inherently attached in the study, we still however discovered some weaknesses. First, missing data observed in the study lead the analysis to be conducted with unbalanced sample, although balanced panel will make more robust estimation. Second, as previously highlighted in section II, Indonesian Institute of Accountants allowed for early adoptions for some standards. Elias (2012) suggested to conduct a Heckman (1979) sample selection bias, may occur as the results among the mandatory and voluntary groups may differ. During data collection, we could not differentiate the sample into those groups since the time length between issue and effective dates were too short (Maradona and Chand, 2013) that any attempt to figure out the voluntary adoption was painful. As a consequence, we did not conduct any sample selection bias test to test whether the non-sampled firms also have the similar financial behavior. We believe that further study should also address this issue. Third, we only

8**test the value relevance of** accounting **information, and** although **non-** accounting **information**

may be fruitful, we leave this unexplored area to other researchers. REFERENCES Alali. F. A. & Foot. P. S. (2012). The Value Relevance of International FinancialReporting Standards: Empirical Evidence in an Emerging Market. The International Journal of Accouting. 47: 85 – 108 Alexander. D.R.. Falta. M.& Willett. R.J. (2012). Using forecasting criteria to identify value relevance in the relationship between accounting numbers and market value. ABACUS: A journal of Accounting, Finance and Business Studies 48: 316 – 347 Ali. A. & Hwang. L. (2000). Country-specific factors related to financial reporting and the value relevance of accounting data. Journal of Accounting Research 38: 1–21 André. P.. Filip. A.& Paugam. L. (2015) .The Effect of Mandatory IFRS Adoption on Conditional Conservatism in Europe.Journal of Business Finance & Accounting: 42: 482-514. Balachandran. S.V. & Mohanram. P.S. (2011). Is the decline in value relevance of accounting driven by conservatism?. Review of Accounting Studies 16: 272-301 Ball. R. (2006). International Financial Reporting Standards IFRS: pros and cons for investors. Accounting and Business Research 36: 5–27 Ball. R. & Brown. P. (1968). An empirical evaluation of accounting income numbers. Journal of Accounting Research 6:159-178. Ball. R.. Kothari. S.P. & Robin. A. (2000). The effect of international institutional factors on properties of accounting earnings. Journal of Accounting and Economics 29: 1–51 Barlev. B.& Haddad. J.R. (2007). Harmonization. comparability and fair value accounting Journal of Accounting. Auditing and Finance 22:493 – 509 Barth. M. E.. Beaver. W. H. & Landsman. W. (2001). The relevance of value relevance research for financial accounting standard setting: Another view. Journal of Accounting and Economics 31:77–104 Barth. M.E. (1994). Fair value accounting: Evidence from investment securities and the market valuation banks. The Accounting Review 69: 1-25 Barth. M.E.. Landsman. W.R. & Lang. M. (2008). International accounting standards and accounting quality. Journal of Accounting Research. 46: 467–498. Barth. M.E.. Landsman. W.R.. Lang. M.& Williams. C. (2012). Are IFRS-based and US GAAP-based accounting amounts comparable?. Journal of Accounting and Economics 54: 68 – 93 Bartov. E.. Goldberg. S. & Kim. M. (2005). Comparative value relevance among German. US and international accounting standards: a German stock market perspective. Journal of Accounting. Auditing and Finance 20: 95–119. Basu. S. (1997). The conservatism principle and the asymmetric timeliness of earnings. Journal of Accounting and Economics 24: 3 – 37. Beaver. W. & Ryan. S. (2000). Biases and lags in book value and their effects on the ability of the bookto-market ratio to predict book return on equity. Journal of

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Asian Review of Accounting 20: 34 - 57 Table 1: correlation matrix and descriptive statistics PANEL A: ALL SAMPLE (nmax =3012) price Bvps Eps return , , 0 ∆ , , 0 Negacc PRICE 1 BVPS 0.551** 1 EPS 0.904** 0.645** 1 RETURN 0.018 -0.002 0.024 1 , , 0 -0.007 -0.087** 0.103** 0.109** 1 ∆ , , 0 0.005 0.076** 0.056** 0.017 0.393 1 NEGACC 0.005 -0.009 -0.003 -0.004 -0.007 -0.007 1 -0.005 0.027 -0.005 -0.008 -0.001 -0.003 0.005 1 Mean 2264.231 1157.093 184.138 0.404 0.180 -0.015 -148.199 0.064 Std Dev. 9566.793 3752.671 652.908 1.513 0.757 1.583 3328.282 6.831 PANEL B: HIGH CONSERVATISM (nmax=900) PRICE 1 BVPS 0.253** 1 EPS 0.805** 0.337** 1 RETURN 0.050 -0.015 0.037 1 , , 0 -0.006 0.330** 0.335** 0.002 1 ∆ , , 0 0.006 0.237** 0.221** -0.005 0.660** 1 NEGACC -0.007 -0.027 -0.109** 0.018 0.011 0.000 1 -0.042 0.026 -0.026 -0.013 0.067 -0.006 0.009 1 Mean 984.397 815.708 92.378 0.328 0.163 0.007 -68.982 2.745 Std Dev. 3379.411 3730.677 329.844 0.993 0.800 1.191 1286.349 11.993 PANEL C: MEDIUM CONSERVATISM (nmax = 1212) PRICE 1 BVPS 0.736** 1 EPS 0.937** 0.901** 1 RETURN 0.019 0.00 0.012 1 , , 0 0.046 0.120** 0.103** 0.243** 1 ∆ , , 0 0.020 0.028 0.042 0.126** 0.579** 1 NEGACC 0.008 -0.015 0.009 0.018 0.043 0.019 1 0.006 -0.015 0.003 0.034 -0.044 -0.018 0.037 1 Mean 1916.141 852.594 135.709 0.420 0.077 0.0055 -77.335 0.007 Std Dev. 14668.951 3243.406 813.982 1.885 0.137 0.155 1089.444 0.041 PANEL D: LOW CONSERVATISM (n = 900) PRICE 1 BVPS 0.556** 1 EPS 0.878** 0.583** 1 RETURN 0.010 -0.002 0.047 1 ∆ , , 0 0.008 0.046 0.056 0.027 0.303** 1 , , 0 -0.033 -0.033 0.080* 0.236** 1 NEGACC 0.011 -0.005 0.002 -0.020 -0.008 -0.009 1 0.038 0.058 0.042 0.003 -0.037 -0.006 -0.006 1 Mean 2988.707 1100.238 227.152 0.421 0.264 -0.040 -374.575 -2.135 Std Dev. 12841.338 4084.394 762.349 1.216 1.017 2.260 5566.928 9.914 Note: ** and * shows the statistical significance levels at 1% and 5% respectively. PRICEi,t, is is the share price of firm i at year t; BVPSi,t is the per share book value of equity of firm i at year t and EPSi,t is the earnings per share of firm i at year t; RETi,t is the annual return of firm i a time t, ∆EPSi,t is the difference of EPS of firm i at the beginning and at the end of period t; NEGACC is the unconditional conservatism that is operationalized as NEGACC = {(NI – depreciation) – (∆INV + ∆ DEBTORS + ∆ OCA – ∆ CREDITORS – ∆ OCL}*-1, Where NI represents the net income and depreciation is the net depreciation expenses, ∆INV is the change in the net inventory, ∆ DEBTORS represents the change in the debtors fund, ∆ OCA is the change in other current assets, ∆ CREDITORS denotes for the change in creditors fund and ∆ OCL represents the change in other current liabilities. is the asymmetric timelines measure of conditional conservatism at firm level from Basu's (1997): , = , + , + , + . , + , 90 80 70 R2 base 60 50 40 R2 (loss control) 30 20 10 Industry and Loss control 0 03 – 04 03 – 05 03 – 06 03 – 07 03 – 08 03 – 09 03 – 10 03 – 11 03 – 12 03 – 13 03 – 14 PANEL B: RETURN MODEL PANEL A: Price Models Figure 1: Trends of value relevance - 3 2,5 R2 base 1,5 Industry and Loss control 2 R2 (loss control) 1 0,5 0 03 – 04 03 – 05 03 – 06 03 – 07 03 – 08 03 – 09 03 – 10 03 – 11 03 – 12 03 – 13 03 – 14 Note: The adjusted R2 is used to estimate the value relevance of the price and return models. We regressed the equations of 2, 2a, and 2b for the PANEL A, and equation 3, 3a, and 3b for the PANEL B. Table 2: incremental value relevance PANEL A: Adjusted R2using Price (F-O) Model Panel B: Adjusted R2 using Return (E-H) Model Year Base Model (eq. 2) Loss Control Model (eq. 2a) Loss and Industry Controls Model (eq. 2b) Base Model (eq. 3) Loss Control Model (eq. 3a) Loss and Industry Controls Model (eq. 3b) 03 – 04 63.61 65.85 67.77 0.598 1.501 1.61 03 – 05 72.09 74.69 75.94 1.35 1.753 2.17 03 –

06 77.61 79.72 80.56 1.3483 2.1804 2.55 03 – 07 75.98 77.4 78.32 0.2803 0.03 0.8 03 – 08 72.53 73.39 76.3 0.54 0.3594 0.29 03 – 09 75.52 76.29 77.22 0.6406 0.558 0.49 03 – 10 77.22 77.72 78.97 0.4903 0.5616 0.5 03 – 11 83.06 83.44 84.66 0.6466 0.6608 0.61 03 – 12 79.64 79.96 81.65 0.808 0.8248 0.85 03 – 13 82.46 82.87 84.69 0.977 1.055 1.15 03 – 14 81.999 82.32 83.15 1.184 1.283 1.35 B 1.440 1.202 1.187 -0.326 -0.594 -0.097 t-values 4.648** 3.756** 4.107** -0.879 -0.982 -1.466 Adj. R2 0.673 0.567 0.613 0.079 0.097 0.103 ** shows the significance at 1% level. Table 3: Value relevance of the varJioouusrnleavlelosfoAfccocnoduitniotninalgc,oFnisnearvnactiesmand Auditing Studies 3/3 (2017) 31-73 Feltham and Ohlson (1995) Model 2003- 2004 2003-2005 2003-2006 2003-2007 2003-2008 2003-2009 2003-2010 2003-2011 2003-2012 2003-2013 2003 – 2014 Mean Est (t-stat) 2003- 2004 2003-2005 2003-2006 2003-2007 2003-2008 2003-2009 2003-2010 2003-2011 2003-2012 2003-2013 2003 - 2014 Mean Est (t-stat) 2003- 2004 2003-2005 2003-2006 2003-2007 2003-2008 2003-2009 2003-2010 2003-2011 2003-2012 2003-2013 2003 - 2014 41.42 63.95 66.26 247.7 264.64 233.37 207.21 199.54 186.60 198.15 227.93 172.806 306.547 374.830 306.574 477.141 462.855 586.691 645.773 611.562 609.715 578.276 53.292 68.729 83.419 102.234 84.165 -62.762 -20.735 -132.955 -204.54 -397.516 -451.405 Sig 0.2856 0.0504 0.027 0.000 0.000 0.0147 0.0209 0.0148 0.014 0.0064 0.0016 0.373 0.595 0.518 3.023 3.140 6.308 6.47 7.246 7.993 8.33 8.326 0.057 0.003 0.004 0.006 0.000 0.000 0.000 0.000 0.000 0.000 0.000 14.152 16.692 23.573 22.837 22.631 22.033 22.355 27.404 27.049 26.517 26.205 0.671 0.543 0.345 0.269 0.336 0.618 0.866 0.299 0.281 0.052 0.039 6.914 8.230 8.437 9.638 8.895 11.567 11.158 11.905 12.540 14.206 14.190 sig .0514 .0023 0.01 0.319 0.000 Easton and Harris (1991)Model sig R2 N p p P r2 N PANEL A: High Conservatism 0.628 0.629 0.669 0.042 0.0002 -0.014 -0.014 -0.017 -0.02 -0.015 -0.01 0.000 0.000 0.000 0.001 0.980 0.502 0.495 0.382 0.234 0.440 0.349 0.6657 0.664 0.656 0.220 0.306 0.305 0.397 0.534 0.620 0.646 0.647 0.514 150 225 300 375 450 525 600 675 750 825 863 0.421 0.281 0.305 0.363 0.177 0.252 0.410 0.360 0.352 0.324 0.327 0.0005 0.0009 0.000 0.000 0.000 0.000 0.000 0000 0.000 0.000 0.000 -0.015 0.0051 0.0001 -0.001 0.024 0.01 -0.013 -0.009 -0.00.000069 0.01 0.82 0.93 0.99 0.98 0.66 0.71 0.85 0.89 0.99 0.88 0.86 -.007 -.016 -.014 -.009 -.022 -.013 -.002 -.001 -.005 -.007 -.008 0.71 0.81 0.85 0.84 0.87 0.002 0.67 0.002 0.001 0.000 0.55 0.001 0.69 0.001 0.95 0.000 0.96 0.000 0.9 0.000 0.000 0.000 0.0006 73 112 153 194 265 340 415 490 565 640 671 0.004 (0.236) -0.0001 (-4.296)** PANEL B: Medium Conservatism -0.0901 -0.867 -1.847 -1.630 -1.931 -1.792 22.355 -2.777 -2.669 -2.663 -2.573 0.012 0.013 0.022 0.020 0.010 0.017 0.039 0.050 0.146 0.142 0.208 0.529 0.984 202 0.141 0.000 0.95 303 0.364 0.000 0.972 404 0.313 0.000 0.968 505 0.213 0.000 0.937 606 0.198 0.000 0.930 707 0.162 0.000 0.912 808 0.134 0.000 0.947 909 0.135 0.000 0.945 1010 0.139 0.000 0.940 1111 0.129 0.000 0.938 1149 0.141 0.94 -0.004 (-2.309)* PANEL C: LOW CONSERVATISM 0.04 3.435 0.000 0.09 2.400 0.13 0.09 3.259 0.01 0.17 4.317 0.000 0.13 4.092 0.000 0.14 4.162 0.000 0.17 4.162 0.000 0.13 3.946 0.000 0.09 3.775 0.000 0.09 3.703 0.000 0.045 3.435 0.000 -0.250 0.58 0.057 134 -0.099 0.91 0.001 202 -0.184 0.83 0.011 271 -0.366 340 0.65 0.029 -0.253 0.71 0.0308 432 -0.230 0.7 0.06 532 -0.319 0.57 0.06 633 -0.248 0.62 0.06 734 -0.341 0.49 0.058 835 -0.318 0.5 0.058 936 -0.250 0.581 0.057 982 0.043 0.004 (2.440)* 0.57 0.725 150 0.810 0.558 0.797 225 0.544 0.284 0.824 300 0.514 0.335 0.837 375 0.610 0.631 0.824 450 0.374 0.595 0.799 525 0.436 0.254 0.811 600 0.457 0.173 0.858 675 0.410 0.009 0.754 750 0.373 0.018 0.771 825 0.340 0.000 0.773 863 0.339 0.000 0.135 0.02 -0.016 0.51 0.028 100 0.000 0.169 0.000 -0.023 0.28 0.054 149 0.000 0.171 0.000 -0.023 0.22 0.05 199 0.000 0.179 0.000 -0.019 0.41 0.030 249 0.000 0.209 0.000 -0.026 0.23 0.040 318 0.000 0.222 0.000 -0.024 0.24 0.041 390 0.000 0.217 0.000 -0.024 0.24 0.035 465 0.000 0.237 0.000 -0.024 0.21 0.044 540 0.000 0.246 0.000 -0.024 0.19 0.046 615 0.000 0.272 0.000 -0.026 0.16 0.049 690 0.000 0.294 0.000 -0.025 0.19 0.055 734 Mean 0.798 0.0429 Est; t-stat 0.00 (-0.102) 0.001 (0.202) F-stat 49.957 35.400 p 0.00 0.00 Note: ** and * denotes the significance levels at 1% and 5%, respectively. The analysis for the F-O is based on the base model: , = + , + , + , , while E-H is based on the base model: , = + , + ∆ , + , , , . Pi,t is the market price at the end of year t of firm i, BVPSi,t is the book value per share for firm i at year t while EPSi,t is the earnings per share for firm i at year t. R is the annualized raw return of firm i at year t, , is the EPSi,t deflated by the previous end of year market price, while the ∆ , , , is the EPS yearly change of firm i between year t and t-1 deflated by previous market price. , is the error terms. Number of observations (n) for high conservatism in PANEL A of F-O and E-H models are 852 and 671 respectively. n for medium conservatism in PANEL B of F-O and E-H models are 1149 and 982, respectively while n for low conservatism in PANEL C of F-O and E-H models are 863 and 734, respectively. Table 4: the impacts of IFRS to the value relevance of accounting information on levels of conservatism (Price model) Est. t-stat Estimate t-stat Est t-stat est t-stat est t-stat est t-stat est t-stat est t PANEL A: ALL SAMPLE PANEL B: HIGH CONS SAMPLE Cons 59.15 0.69 -16.075 -0.17 793.46* * 3.71 858.04* * 4.022 199.547** 2.576 207.422 ** 2.379 - 197.209 - 0.999 - 204.164 -1.028 EPS(γ1A/B) 11.09** 58.98 11.385** 57.39 5.40** 8.35 5.66** 8.739 7.246** 28.421 7.346** 27.450 12.385** 15.37 12.422* * 15.322 BVPS(γ2A/B) -7.3E-02** -2.60 -0.126** -3.89 -0.63** -3.93 -0.71** -4.441 -0.017 -0.920 -0.037 -1.403 -0.384 -1.42 -0.396 -1.448 IFRS(γ3A/B) -1001.37** -5.10 - 995.648* * -5.10 - 1048.4* * -5.58 - 1211.6* * -5.973 189.445 1.040 180.782 0.987 238.760 1.382 270.454 1.453 IFRS*EPS(γ4A/B) 8.951** 27.40 8.729** 26.60 8.14** 25.28 8.46** 25.617 3.685** 6.091 3.589** 5.886 2.002** 3.348 2.009** 3.318 IFRS*BVPS(γ5A/B) 0.0709 0.89 0.106 1.33 0.32** 3.96 0.24** 2.914 -0.117 -1.131 -0.097 -0.930 0.121 1.189 0.114 1.114 LOSS(γ6A/B) 470.573* 2.37 306.41 1.60 68.59 0.329 - 10.894* * -0.063 - 110.588 -0.680 -83.316 -0.477 LOSS*EPS(γ7A/B) -9.212** -5.06 -6.24** -3.54 -5.66** -3.219 -1.953 -0.999 -0.509 -0.275 -0.550 -0.296 LOSS*BVPS(γ8A/B) 0.194** 3.15 0.18** 3.06 0.12* 1.993 0.0423 1.101 0.004 0.127 0.003 0.096 IND(γ9A/B) - 26.92** -3.46 - 27.64** -3.571 21.846** 2.908 21.887* * 2.904 IND*EPS(γ10A/B) 0.18** 8.11 0.17** 7.453 -0.292** - 7.985 -0.294** -7.982 IND*BVPS(γ11A/B) 0.020** 3.32 0.02** 3.937 0.015 1.420 0.015 1.449 IFRS*LOSS(γ12A/B) 936.11 1.776 - 387.458 -0.653 IFRS*LOSS*EPS(γ13 A/B) -19.38 - 0.22136 866.855 0.250 IFRS*LOSS*BVPS(γ 14A/B) 0.87** 3.59489 0.343 0.498 Adj. R2 0.8903 0.8916 0.8999 0.9006 0.6716 0.67112 0.7082 0.7073 N 2864 2864 2864 2864 852 852 852 852 PANEL C: MIDLE LEVEL OF CONSERVATISM PANEL D: LOW LEVEL OF CONSERVATISM Est t-stat est t-stat est t-stat Est t-stat Est t-stat Est t-stat Est t-stat Est t-stat Cons 347.266** 4.355 320.85** 3.615 167.961 0.837 171.326 0.852 -132.95 -0.594 - -0.856 201.857 2653.49 ** 4.807 2691.48 ** 4.843 EPS(γ1.C/D) 15.093**

42.778 15.264** 43.45 0.567 0.446 0.629 0.494 11.905** 31.284 12.06** 31.746 7.241** 5.157 7.188** 5.106 Est. t-stat Estimate t-stat Est t-stat est t-stat est t-stat est t-stat est t-stat est t BVPS (γ2.C/D) -0.974** -14.483 -1.006** - 15.02 2 1.440** 5.443 1.435** 5.418 0.050 0.779 0.044 0.688 -2.335** - 8.497 -2.328** -8.452 IFRS(γ3/C/D) 83.538 0.4303 54.562 0.283 144.796 0.795 86.092 0.417 - 1467.208* * -2.857 - 1468.59 ** -2.881 - 1637.36 ** -3.50 - 1751.1* * -3.537 IFRS*EPS(γ4/C/D) 11.157** 20.999 11.118** 21.08 8 10.557* * 20.59 4 10.608* * 20.377 4.774** 7.036 4.890** 7.169 2.673** 4.081 2.670** 3.997 IFRS*BVPS(γ5/C/D) -0.810 -5.233 -0.821 - 5.347 - 0.891** -5.809 - 0.900** -5.747 0.524** 3.720 0.459** 3.220 1.091** 7.719 1.103** 7.561 LOSS(γ6/C/D) -263.572 - 1.383 - 237.921 -1.316 - 231.884 -1.167 554.05 0.885 -41.345 - 0.071 -244.19 -0.383 LOSS*EPS(γ7/C/D) -14.595** - 2.817 - 10.286* -2.101 -8.413 -1.628 - 12.865* * -4.100 -8.754** - 2.972 -8.921** -2.745 LOSS*BVPS(γ8.C/D) 2.052** 4.759 1.351** 3.280 1.048** 2.101 0.519 1.873 0.835** 3.193 0.910* 2.292 IND(γ9.C/D) 7.236 1.012 7.589 1.060 -98.16** - 5.052 - 98.769* * -5.067 IND*EPS(γ10.C/D) 0.545** 12.07 7 0.542** 11.975 0.078 1.751 0.079 1.783 IND*BVPS(γ11.C/D) - 0.092** -9.709 - 0.091** -9.657 0.098** 9.046 0.098** 8.995 IFRS*LOSS(γ12.C/D) 60.240 0.1233 1190.25 0.750 IFRS*LOSS*EPS (γ13.C/D) -16.059 -0.019 -15.907 -0.129 IFRS*LOSS*BVPS(γ 14.C/D) 0.837 0.938 -0.205 -0.390 Adj. R2 0.9750 0.9755 0.9782 0.9782 0.8120 0.8125 0.8444 0.8440 N 1149 1149 1149 1149 863 863 863 863 Notes: ** and * show the significance levels at 1% and 5%, respectively. Table 5: The impacts of IFRS to the value relevance of accounting information on levels of conservatism(Return model) Est. t-stat Est. t-stat Est. t-stat Est. t-stat t- t- Est. stat Est. stat Est. t- stat Est. t- stat PANEL A: ALL SAMPLE PANEL B: HIGH CONS SAMPLE CONS 0.408** 11.367 0.439** 11.261 0.367** 4.171 0.368** 4.162 0.360** 7.776 0.434** 8.334 0.338** 2.642 0.337** 2.622 , , (α1A/B) 0.182** 4.004 0.172** 3.704 0.230 1.529 0.230 1.525 -0.009 - 0.145 -0.029 - 0.477 0.300 0.540 0.233 0.419 ∆ , , (α2A/B) -0.030 -1.346 -0.030 -1.339 0.266** 2.415 0.268* 2.428 -0.001 - 0.043 0.003 0.082 -0.401 - 0.866 -0.331 - 0.712 IFRS (α3A/B) -0.286** -3.902 -0.289** -3.943 -0.309** -4.204 -0.315** -3.884 - 0.307** - 2.695 - 0.318** - 2.788 - 0.316** - 2.753 - 0.447** - 3.205 IFRS* , , (α4A/B) 1.096** 4.245 1.077** 4.164 1.355** 4.9724 1.372** 4.939 1.959** 2.548 1.793* 2.301 1.822* 2.326 3.164** 2.972 IFRS* ∆ , (α5A/B) , -0.153 -0.757 -0.146 -0.721 -0.242 -1.177 -0.256 -1.222 -0.738 - 1.146 -0.800 - 1.211 -0.819 - 1.238 -2.293 - 2.169 LOSS (α6A/B) -0.155 -1.919 -0.139 -1.725 -0.146 -1.591 - 0.311** - 3.129 - 0.299** - 2.970 - 0.331** - 2.986 LOSS* , (α7A/B) , 0.007 0.029 -0.028 -0.106 -0.013 -0.048 0.556 0.920 0.486 0.785 0.628 1.006 LOSS*∆ , (α8A/B) , 0.200 0.740 0.170 0.630 0.148 0.531 0.047 0.180 0.155 0.528 0.037 0.124 INDUDSTRY (α9A/B) 0.002 0.770 0.002 0.777 0.003 0.809 0.003 0.884 INDUSTRY* , (α10A/B) , -0.0004 -0.064 -0.001 -0.063 -0.011 - 0.592 -0.009 - 0.479 INDUSTRY*∆ , , (α11A/B) -0.013** -2.729 -0.013** -2.741 0.014 0.878 0.011 0.730 IFRS*LOSS (α12A/B) 0.040 0.205 0.251 0.917 IFRS*LOSS* , (α13A/B) , 6.076 0.153 336.781 1.163 IFRS*LOSS*∆ , (α14A/B) , 0.394 0.338 2.379 1.748 Adj. R2 0.0256 0.0264 0.0299 0.0287 0.0061 0.0174 0.0148 0.0175 n 2387 2387 2387 2387 671 671 671 671 Est. t-stat Est. t-stat Est. t-stat Est. t-stat Est. t- stat Est. t- stat Est. t- stat Est. t- stat CONS 0.189* 2.278 0.113 1.174 -0.124 -0.607 -0.147 -0.710 0.410** 7.844 0.445** 8.035 0.555** 4.458 0.550** 4.375 , , (α1C/D) 3.291** 5.618 3.652** 5.551 3.495* 2.081 3.660* 2.169 0.237** 5.245 0.232** 4.991 -0.078 - 0.591 -0.077 - 0.584 ∆ , , (α2C/D) -0.503 -1.058 -0.778 -1.062 2.083 1.074 2.033 1.044 -0.024 - 1.264 -0.025 - 1.281 0.409** 3.633 0.407** 3.614 IFRS (α3C/D) 0.009 0.051 0.003 0.018 0.005 0.032 0.147 0.664 - 0.338** - 3.239 - 0.339** - 3.255 - 0.354** - 3.404 - 0.349** - 3.112 IFRS* , , (α4C/D) -3.021 -1.458 -2.785 -1.335 -2.611 -1.245 -3.723 -1.585 0.809 3.623 0.790** 3.544 1.033** 4.148 1.026** 4.083 Est. t-stat Est. t-stat Est. t-stat Est. t-stat Est. t- stat Est. t-stat Est. t- stat Est. t- stat IFRS* ∆ , (α5C/D) - - - - , 4.184* 1.968 3.925 1.786 2.868 1.272 3.840 1.551 -0.199 1.179 -0.189 1.123 -0.323 1.891 -0.320 1.859 LOSS (α6C/D) 0.232 1.497 0.240 1.544 0.330 1.842 -0.213 - 1.626 -0.191 - 1.472 -0.182 - 1.218 LOSS* , (α7C/D) , -0.963 -0.346 -0.787 -0.282 -1.263 -0.447 -0.397 - 1.240 -0.451 - 1.417 -0.464 - 1.446 LOSS*∆ , (α8C/D) , 0.537 0.559 0.047 0.046 0.167 0.163 0.787 1.696 0.799 1.733 0.818 1.756 INDUDSTRY (α9C/D) 0.009 1.365 0.009 1.324 -0.005 - 1.174 -0.005 - 1.137 INDUSTRY* , (α10C/D) , 0.006 0.105 0.004 0.077 0.015** 2.750 0.015** 2.739 INDUSTRY*∆ , (α11C/D) , -0.120 -1.632 -0.120 -1.630 - 0.021** - 3.919 - 0.021** - 3.900 IFRS*LOSS (α12C/D) -0.435 -1.133 -0.101 - 0.281 IFRS*LOSS* , (α13C/D) , 44.876 0.393 2.002 0.070 IFRS*LOSS*∆ , (α14A/B) , -3.693 -0.520 -1.182 - 0.308 Adj. R2 0.05964 0.0589 0.06135 0.05974 0.0796 0.08407 0.10004 0.0964 n 982 982 982 982 734 734 734 734 Notes: ** and * show the significance levels at 1% and 5%, respectively. TABLE 6: the effects of IFRS and unconditional conservatism on value relevance (price and return models) PRICE MODEL RETURN MODEL Est (t- stat) Est (t-stat) Est (t- stat) Est (t- stat) Est (t- stat) Est (t- stat) C (γ0) -89.398 (-0.972) -221.132* (-2.241) -295.448* (-2.762) C (α0) 0.361** (10.248) 0.379** (9.477) 0.406** (9.403) EPS (γ1) 13.342** (73.843) 13.592** (73.751) 13.674** (73.974) , , (α1) 0.221** (4.569) 0.324** (5.657) 0.316** (5.504) BVPS (γ2) -0.081** (-2.866) -0.127** (-4.234) -0.134** (-4.478) ∆ , , (α2) -0.032 (-1.415) -0.022 (-0.914) -0.021 (-0.879) -NEGACC (γ3) 0.180* (2.351) 0.168* (-2.239) 0.170* (-2.276) NEGACC (α3) -2.05E-05 (-0.656) -1.45E-05 -0.462 -2.13E-05 (-0.428) -NEGACC*EPS (γ4) -0.001** (-3.103) -2.200** (-8.552) -2.242** (-8.739) NEGACC* , (α4) , 1.25E-04 (0.289) -0.127 (-0.950) -0.127 (-0.952) -NEGACC*BVPS (γ5) 6.8E-05* (2.297) -0.311* (-2.024) -0.387* (-2.503) ∆ , NEGACC* , (α5) -1.10E-04 (-0.189) 0.059 (0.453) 0.060 (0.463) IFRS (γ6) 878.206** (3.985) 891.315** (4.050) IFRS (α6) -0.140 (-1.705) -0.145 (-1.762) IFRS*-NEGACC*EPS (γ7) 2.199** (8.547) 2.241** (8.733) IFRS*-NEGACC* , (α7) , 0.127 (0.950) 0.127 (0.953) IFRS*-NEGACC*BVPS (γ8) 0.311* (2.024) 0.387* (2.503) ∆ , IFRS*-NEGACC* , (α8) -0.059 (-0.453) -0.061 (-0.464) LOSS (γ9) 495.726* (2.046) LOSS (α9) -0.160 (-1.678) LOSS*NEGACC (γ10) -187.227 (-0.258) LOSS*NEGACC (α10) 1.83E-05 (0.283) lOSS*NEGACC*EPS (γ11) 17.518 (1.600) LOSS*NEGACC* , (α11) , -1.396 (-0.525) LOSS*NEGACC*BVPS (γ12) 1.393 (0.691) LOSS*NEGACC* ∆ , , (α12) 0.002 (0.231) Adj. R2 0.7949 0.8033 0.8047 Adj. R2 0.0086 0.0159 0.0144 N 2166 2166 2166 N 1938 1938 1938 Table 7: the sensitivity tests-the effects of conditional conservatism and IFRS on value relevance (price and return models) PANEL A: PRICE MODEL PANEL B: RETURN MODEL Est (t- stat) Est (t- stat) Est (t-stat) Est (t- stat) Est (t-stat) Est (t- stat) C -292.471** (-3.004) -479.347** (-4.522) -599.936** (-5.206) C 0.350** (11.266) 0.395** (10.947) 0.428** (10.911) 16.263** 16.577** 16.671** , EPS 0.266** 0.251** 0.250** (82.982) (84.574) (84.872) , 0 (5.826) (5.447) (5.315) -0.208** -0.258** -0.269** , BVPS -0.027 -0.028 -0.027 (-5.063) (-6.312) (-6.563) , 0 (-1.154) (-1.185) (-1.154) ∆ 7.712 (0.686) 16.442 (1.418) 12.033 (1.022) 0.0007 (0.156) 0.001 (0.275) 0.001 (0.271) *EPS -0.295** (-2.992) -0.480** (-4.808) -0.438**

(-4.278) * , , -0.009 (-1.874) -0.008 (-1.838) -0.009 (-1.904) *BVPS 0.006 (1.633) 0.010** (2.743) 0.005 (1.008) * ∆ , , 0.0005 (0.156) 0.0008 (0.244) 0.0009 (0.282) IFRS 1040.371** (4.537) 1079.814** (4.719) IFRS? -0.163* (-2.371) -0.170* (-2.472) IFRS* *EPS 4.206** (8.975) 4.360** (9.130) IFRS?* * , , -0.044 (-0.590) -0.043 (-0.566) IFRS* *BVPS -0.409** (-5.720) -0.443** (-5.899) IFRS?* * ∆ , , -0.045 (-0.614) -0.045 (-0.575) LOSS 728.554** (2.960) LOSS? -0.172* (-2.176) LOSS* 80.487 (1.822) LOSS?* -0.020 (-0.425) lOSS* *EPS 11.162** (3.773) LOSS?* * , , 0.121 (0.702) LOSS* *BVPS 0.0111 (1.697) LOSS?* * ∆ , , -0.188 (-0.411) Adj. R2 0.8203 0.8260 0.8275 Adj. R2 0.0128 0.0146 0.0155 N 2864 2864 2864 N 2387 2387 2387 Note: ** and * show the statistical significance at 1% and 5%, respectively. Table 8: the non-linear relationships between conditional and unconditional conservatisms on value relevance (price and return models) Est Variables Est Est Variables Est C -201.191* (-2.066) C (-0.941) C -86.510 0.343** (10.990) C 0.361** (10.223) EPS 16.867** (80.741) EPS 13.36**8 (73.960) , , 0 0.325** (6.324) , , 0 0.218** (4.502) BVPS -0.356** (-7.744) BVPS -0.085* (-3.001) ∆ , 0 , -0.027 (-1.090) ∆ , 0 , -0.033 (-1.422) 4.339 (0.351) -NEGACC -0.068 (-0.266) -0.006 (-1.171) -NEGACC -6.38E-05 (-0.714) ^2 0.033 (0.189) -NEGACC^2 -7.81E-06 (-1.052) ^2 0.0001 (1.421) -NEGACC^2 -1.82E-09 (-0.510) *EPS 0.424** (3.310) -NEGACC*EPS -0.002** (-4.092) * , , -0.001 (-0.282) -NEGACC* , , 0.001 (1.027) ^2*EPS -0.052** (-8.619) -NEGACC^2*EPS -3.54E-08 (-1.048) ^2* , , -0.0006 (-1.853) -NEGACC^2* , , 2.02E-08 0.427) *BVPS -0.073** (-5.486) -NEGACC*BVPS 0.0002** (3.291) * ∆ , , 0.0003 (0.047) ∆ -NEGACC* , , 0.0003 (0.215) ^2*BVPS 0.005** (6.344) - NEGACC^2*BVP S 1.09E-08 (1.881) ∆ ^2* , , 1.72E-05 (0.045) -NEGACC^2* ∆ , , -6.01E-09 (-0.096) Adj. R2 0.8254 0.7953 Adj. R2 0.01755 0.00986 N 2864 2166 N 2387 1938 Dependent Variables Pit Pit RETi,t RETi,t ** and * show the statistical significance at 1% and 5%, respectivel Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 Journal of Accounting, Finance and Auditing Studies 3/3 (2017) 31-73 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73