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Original Research Article

Accounting Conservatism and Information Asymmetry

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Abstract

Value relevance literature provides a framework for linking accounting information to investment decision making. The relevance of any accounting information, therefore, lies in the fact that it assists in analysing firm's current performance and value, as well as in predicting future financial performance. Management is saddled with the responsibility of preparing and presenting financial statements; and as such can withhold or distorts information to suit their objectives. This is the so-called information asymmetry. Conservatism in accounting is intended to provide guidance in the face of uncertainty and need for estimation. Therefore, it makes losses to be recognised more quickly than gains. However, the conceptual frameworks of IASB and FASB elevate the objective of neutrality above prudence and argue that conservatism can introduce bias into accounting numbers thereby increasing asymmetry among users. This paper is motivated largely by these concerns and addresses the information consequences of conservatism, whether it reduces information asymmetries between firm's insiders and outside equity investors, and its usefulness to equity holders. Using library research approach, the weight of evidence obtained from a review of conceptual and empirical studies suggest that conservatism contributes to reducing information asymmetries and improves the information environment of the firm

Keywords: Accounting conservatism. Information asymmetry
JEL Classification: G51, G12, G13

1.0   INTRODUCTION

Accounting conservatism is now an issue of concern in financial reporting. The investigation into whether accounting information is value relevant or not has necessitated beaming a searchlight into the financial reporting process. Factors affecting the financial reporting processes are now issues of serious concern. This is against the backdrop of the requirement that accounting information should help users to make predictions about the outcomes of the past, present, and future, confirms and or correct expectations, and capable of making a difference in decisions (Kordlouie, Mohammadi, Naghshineh & Tozandejani, 2014).

Conservatism in accounting is intended to provide guidance in the face of uncertainty and need for estimation. It specifies a high degree of verification before making a legal claim to profit and recognising all probable losses as they are discovered. Until revenue is verified, it is deferred. To record a transaction, all information must be realisable. Revenue is not recognised if transactions do not lead to claims to an asset or exchange of cash. Conservatism is applied to inventory valuation, account receivable and casualty losses. A litigation claim that a company expects to win cannot be reported as gain until all revenue recognition principles are met. Where however the claim is expected to be lost, contingent liabilities are to be disclosed. Because conservatism prevents information to depict an entity's financial situation erroneously, the risk is substantially reduced due to the cautious approach (Givoly, Hayn & Natarajan, 2007). Arguably, the application of conservatism will result in reported figures for revenue and assets potentially understated, and those for expenses and liabilities overstated. This will lead to reporting lower net income and future benefits. There is also the issue of revenue shifting. For instance, transactions that do not meet reporting requirements in a current period will be reported in the period following. Thus, future periods will be overstated and current period understated, making internal tracking of business operations pretty difficult for the firm. Accountants conventionally expressed conservatism to mean "anticipate no profits but anticipate all losses" (Basu,1997, p.7). This means that there is the propensity for a higher degree of verification of good news before it is recognised as gains than bad news as losses by accountants. Therefore, there is timely recognition of losses than gains.

However, the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) have in recent time opposed conservatism by placing neutrality higher than prudence. The arguments put forward are that it can bias accounting numbers, and hence increase asymmetry among users of financial statements, distorts resource allocation, and could diminish firm value. Accordingly, conservatism is no longer considered a desirable qualitative characteristic of accounting in the IASB and FASB joint conceptual framework (FASB, 2010; IASB, 2010; Sen, 2005) Contrary to this view, academic researchers have provided evidence on the economic role of conservatism in debt contacting (Gormley, Kim & Martin, 2012; Zhang, 2008). It is expected to enhance firm value either through improving the capacity to borrow on better terms or reducing opportunistic behaviour of managers. Furthermore, Ball, Bushman and Vasvari (2008) show efficient debt contracting results through transparency provided by conservatism which also lowers

interest expense. Firms will be able to undertake more marginal investment projects as the wedge between internal and external costs of funds is tightened. Felix and Umanhonien (2015) added that conservative accounting policy could make accounting numbers more reliable and also relevant (usefulness for decision making) since it favours less estimation and subjective measures. Therefore, the empirical question is whether conservatism and value relevance behave as complements and substitutes .

In the light of the apparent disagreement between standard-setting bodies and academics on the consequences of conservatism on accounting information, the following questions are raised: what are the information consequences of conservatism? Does conservatism reduce information asymmetry between insiders and outsiders of a firm? Is conservative accounting useful to equity holders as a distinct group of debt holders? Therefore the paper contributes to this discourse by investigating the following: the information consequences of conservatism, whether conservatism reduces information asymmetry between a firm's internal and external stakeholders, and its usefulness to equity holders as a distinct group from debt holders. The rest of the paper is arranged as follows: the next section covers literature on conceptual clarification of accounting conservation and information asymmetry while the theoretical framework is covered in section three. Empirical evidence on the relationship between accounting conservatism and asymmetric information is presented in section four. Section five concludes the paper.

2. REVIEW OF LITERATURE

2.1 Conceptual clarification of accounting conservatism
In accounting, conservatism refers to the prudent recognition of expenses and liability, notwithstanding the uncertainty about their outcome; while income and assets are recognised only when there is full certainty of receiving them. Watts (2003) sees it as "the differential verifiability required for the recognition of economic gains versus losses" (p.208).The principle states that uncertainty about incurring a loss should be provided for in the books of the account while uncertainty about earning a gain should not. Therefore, the traditional maxim can be stated as "anticipate no profit, but anticipate all losses" (Vishnani & Misra, 2016, p.1002). In the practice of accounting, some instances of conservatism include valuing closing inventory at the lower of cost and net realisable value, creating provisions for debts that are doubtful and writing off intangible assets like goodwill and patent.

In financial reporting, conservatism emanates largely for economic reasons. Watts (2003) states such reasons to include: relationship between reported income and income taxes, increase in litigation cost, as managers and auditors are likely to be sued for overstatement of earnings and net assets than for understatements, and to efficiently handle compensation of management and debt contract. Felix and Umanhonien (2015) attribute conservatism to reporting standards that requires conservative reporting, and the accounting procedures selected by management to make financial reports available. Therefore, conservatism is sometimes perceived as an advantage to compensate for some of management optimism that leads to exaggeration in financial statements. The

pervasive influence of conservatism has also been examined by Basu (1997) from the background of asymmetric information. The study observed that managers possess vital private information about their entities. And where future profit is uncertain, and given that their compensation is tied to reported earnings, they could withhold any information perceived detrimental to their interests.

2.2 Measuring Conservatism
In the opinion of Felix and Umanhonien (2015), all measures of conservatism rely on the effect of asymmetric recognition of gains and losses on reported accounting numbers particularly in net assets, earnings, and accruals. Three types of measures to assess conservatism that are commonly discussed are: net asset measures, earnings and accrual measures, and earnings-stock returns relation measures. Each of these is explained as follows.

2.2.1. Net Asset Measures
In this measure, we ascertain if net assets are stated below their market values. Applying conservatism, increases in asset values that have not been verified are not recorded; but decreases are. This results in net assets being understated. Estimates of such understatement can be obtained by the ratio of book value of net assets to equity value or share valuation. Within this framework, market-to-book (M-B) value is used to proxy accounting conservatism (Roychowdhury & Watts, 2007; Yassin, Ali & Hamdallah, 2015) or its inverse book-to-market ratio (Beaver & Ryan, 2000). The market-to-book ratio, also called, price to equity ratio, is obtained as the market value of the company divided by its book value where market value is simply the product of the share price and the total number of shares outstanding. The book value is the net asset value of the company and it is equal to the total tangible assets less depreciation and liabilities. Normally, lower net assets and lower M-B ratio is reported by firms that apply conservative accounting.

2.2.2. Earnings and Accrual Measures
Conservatism suggests that gains are more persistent than losses in that gains are not recognized at the time they occur but over future periods as the cash flows generating those increases are realized.Therefore, there is asymmetrical treatment of gains and losses which also leads to asymmetry in accruals. Whereas losses tend to be fully accrued, gains do not. As a result, accruals will exhibit a tendency to be negative. In the same fashion, cumulated accruals will tend to be understated. Implicitly, negative cumulative and periodic net accruals measure conservatism (Givolyn & Hayn, 2000) .

2.2.3. Earnings-Stock Returns Relation Measures
Stock market prices capture the changes in asset values at the time of occurrence irrespective of whether such changes convey gains or losses. Therefore, stock return tends to be timely. Conservatism anticipates that accounting losses are recorded on a timely basis than gains. Consequently, accounting losses and stock returns are predicted to be contemporaries (Basu, 1997).

2.3 Information Asymmetry

The Companies Act lays the responsibility of preparation and presentation of financial statements on management which has the opportunity to control the information to be displayed. Depending on the objective, they can withhold or distort information and this is capable of making the financial statement not to reflect the real entity's situation. This phenomenon is referred to as information asymmetry and it occurs when one party has privileged or private information about an organization's value which others do not have (Yassin et al., 2015). In the financial market, informed parties tend to take advantage of such information to the detriment of other uninformed parties. Jensen and Meckling (1976) argued that such behaviour increases the agency cost. Agency cost is the conflict between shareholders and their company's managers. Shareholders want managers to take decisions which will increase their share values. Managers on their part might prefer 'empire building' and increase in their compensations; an action that may not increase share value.

There are two alternative forms of agency cost namely: the cost incurred if the agent uses the company's resources for his benefit, or the cost of the techniques employed by the principal to prevent the agent from prioritising his interest over and above the interest of shareholders. Agency cost matters because of its effect on share price especially when huge debt is involved. Bondholders and shareholders do have a conflict of interest; however, the administrative powers possessed by shareholders enable them to pursue chauvinistic strategies resulting in costs that lower firm's market value.

The pioneer work on information asymmetry is credited to Akerlof (1970) and extended by Leland and Pyle (1977). They posit that market actors have different levels of qualitative and quantitative information. Asymmetric information in markets has been used to explain why some investors invest in indexes and mutual funds which help diversify their funds across several investments. Others may as well invest in hedge funds managed by those with access to that asymmetric information. In any case, a large number of analysts concur that asymmetric information is harder to come by in developed markets because of technology that has facilitated timely information dissemination. Yassin et al. (2015) stated that information asymmetry will reduce a firm's stock price. This could either be through the higher agency costs which depress the present value of cash inflows or higher investment risk that pushes up the required rate of return. As the market impounds this information by lower stock prices, conservatism is increased by management to gain credibility.

2.3.1 Determinants of Information Asymmetry

The literature is not mute on the determinants of information asymmetry. Boujelbene and Besbes (2012) identified the trading volume, insider trading, stock return measures, share price, the trading probability of informed traders, analysts forecast measures, firm size, and return autocorrelation. Information asymmetry is closely linked with management incentives to misrepresent (Watts, 2003).Demand and supply interact to determine securities prices. As securities are traded for cash, that is, delivery and payment are synchronised, Chae (2005) reasoned that trading volume has a close link with the different asymmetric information measures and that the announcement of earnings could

decrease volume. Blackwell, Marr and Spivey (1990) submitted that stock return volatility mirror uncertainty about a company and can, therefore, increase the asymmetric problem. Kyle (1985) attributed information asymmetry to insider trading probability and states that managers adopt trading strategies that help conceal information from investors. This is capable of reducing the informational efficiency of the market.

According to Kirshnaswami and Subramaniam (1999), analyst forecast error is an essential factor of information asymmetry. Since the forecast error of EPS is costly for managers; they seek ways to reducing it hence they engage in earnings management. Firm size can also explain asymmetric information. Chae (2005) states that large firms have lower information asymmetry than small firms because they have low amounts of internal information and low bid-ask spreads due to a high number of insiders.

2.3.2.   Measures of Asymmetric Information
Yu (2012) highlighted proxies for asymmetric information to include the spread between the bid and ask price of the shares, stock return volatility, and analysts' forecast dispersion. The study, however, noted that each of the measures is criticised on the ground that they potentially measure more than the disconnect between insiders' and outsiders' information about a firm's financial condition. For instance, spreads may be a function of market structure; investment bank affiliation may bias analysts forecasts, firm-specific and macro news could influence stock return volatility. Lin, You, and Huang (2012) used the bid-ask spread as a proxy for information asymmetry and found it negatively related to trading volume and number of transactions. Also, the excess stock return was negatively related to individual firm's liquidity and market liquidity.

The bid-ask-spread calculated as (ask price – bid price)/[(ask price + bid price)/2] is a measure of market liquidity. A liquid market enables the immediate execution of standard orders, exhibit prices that are resilient to large orders, have enough participants trading, sufficient volume to ensure low transaction cost, and there is always bid and ask prices for the investor who wants to buy or sell small amount of stock immediately (Ajina, Sougne & Lakhal, 2015). Adverse selection is included in the bid-ask spread while investing in asymmetric information companies. When the bid-ask-spread intensifies, liquidity decreases (Ascioglu, Hegde, McDermott & Krishnan, 2007).

Against the backdrop of observed shortcomings in measures of asymmetric information, Lee and Masulis (2009) in Yu (2012) suggest the use of accrual quality. Their arguments stem from the fact that financial statements are a primary source of information about a firm's performance. The quality of the financial statement affects outsiders' ability to infer a firm's wellbeing. On the contrary, insiders rely less on the reported financials since they have access to the determinants of the report. Implicitly, a decrease in the quality of financial statements is likely to widen the asymmetry in information about a firm's financial position between insiders and outsiders. Accrual quality is now a common measure of financial statement quality. The study by Dechow and Dichev (2002) argued that both managerial discretion and uncertainty over

firm's operating fundamentals influence accrual quality. Managers have some discretion on when to recognise cash flows as earnings. However, if uncertain future cash flow is recognised as current earnings, and subsequently the cash flow is different from the prior recorded amount of earnings, an adjustment must be made upon realisation. However, the estimation error in accruals and the subsequent correction reduce the quality of accruals. That is, they reduce the information the outside investor can obtain from financial statements.

Another alternative suggestion to information asymmetry measure is the probability of informed trading put forward by Abad and Rubia (2005) in Martins and Paulo (2014). According to them, this measure is based on market microstructure and estimated from the trading data of each share applying the sequential bargaining model of Easley, Kiefer, O'Hara and Paperman (1996).The imbalance between purchases and sales over a particular time frame is regarded as a sign of the existence of informed trading. Variables identified as potentially related to the probability of informed trading are return, risk, liquidity, volatility, dividend policy, corporate governance, earnings management, P/E ratio, market-to-book ratio, size, cost of capital, and capital structure. Martins and Paulo (2014) used the probability of insider trading to measure information asymmetry in the Brazilian stock market and found it to be positively related to risk, return, market liquidity, and size; but has a negative connection with abnormal return. Asymmetric information can be a source of market failure. To prevent this, Bonson and Flores (2011) proposed corporate dialogue in corporate communication so that users collaborate to organise content.

3.0. THEORETICAL FRAMEWORK

The theoretical underpinning for this paper is the value relevance theory and sequential information arrival hypothesis. A financial statement is value relevant if it leads to a change in investors' assessment of the probability distribution of future returns. This means that a sufficiently large change should exist to induce a decision maker's behaviour (Kordlouie et al., 2014). The nexus between financial statement information and capital market rests on the premise that if the information is useful, the investor will adjust their behaviour and the market will respond to changes in stock prices. How do we explain this pattern of response? This is where the theory of stock market behaviour becomes handy.

The sequential information arrival hypothesis is credited to Copeland (1976) and expounded by Jennings, Starks and Fellingham (1981). The model attempts to conceptualise the intricate link between volume and volatility to private information. The examination of volume and volatility provides information about the structure of financial markets, useful for event studies, and facilitates analysis of the distribution of speculative prices in the futures market (Celik, 2013).

The model assumes that new information is received sequentially by all traders. Therefore, individual traders receive a signal and trades on it ahead of the market. This will result in changes in volume and price making both to move concurrently in the same direction. Implicitly, market participants will only

change their position when new information arrives the market. Interestingly, all traders do not receive the new information simultaneously. Some would receive the information earlier than others. Consequently, the response pattern establishes partial equilibrium which is incomplete. By the time all investors receive and respond to the new information, the final equilibrium is established. The model is of the view that a lead-lag relation exists between volume and price volatility. The series of intermediate equilibrium en-route to final equilibrium suggests that lagged volatility can be used to forecast current volume and vice versa (Osundina, Jayeoba & Olayinka, 2016).

4.0 ACCOUNTING CONSERVATISM AND ASYMMETRIC INFORMATION

Lafond and Watts (2008) reported a positive link between conservatism and the existence of information asymmetry. They reasoned that conservatism constrains management ability to manipulate accounting numbers. The study shows that a rise in information asymmetry should also lead to a rise in conservatism and hence information asymmetry causes accounting conservatism (Chi & Wang, 2008) and "conservatism appears as a natural reaction to the existence of information asymmetry" (Khan & Watts, 2009, p.140). Ajina et al. (2015) examined the effect of corporate disclosure on information asymmetry using 196 French listed firms and corroborated the findings of Leuz and Verrecchia (2000). Both studies agreed that accounting disclosure has a negative link with market liquidity (bid-ask spread) and hence accounting disclosure can reduce asymmetry. Furthermore, conservative accounting policy contributes to transparency and quality disclosure. This is expected to reduce asymmetry and results in good earnings quality.

Mohammadi, Heyrani and Golestani (2013) examined conservatism, accounting information quality, and shareholders' decision making. A sample of 300 firms listed on the Tehran Stock Exchange, Iran and data covering 2005 to 2011 was used. Three qualitative characteristics of relevance, reliability and timeliness were examined to ascertain how conservatism imparts on them. These qualitative characteristics were used as dependent variables and conservatism as the independent variable. Measures of conservatism adopted included net asset measure, earnings to accrual ratio, and earnings to stock return. The paper found a significant positive relationship between conservatism and the three variables. Specifically, conservatism enhances the quality of the provided information, it increases the reliability of the information provided, and it leads to providing timely financial information. In a related study, Kordlouie et al. (2014) examined conservatism's role in the quality of financial statements of 102 entities quoted in Tehran Stock Exchange between 2006 and 2010. The paper captured reporting quality as the ability of financial reports to transmit a firm's operational information and to predict cash flows. Using ordinary least square estimation framework, the paper reports a positive and statistically significant correlation of 0.405 at the 1% level between the quality of financial reporting and conservatism. Hereby, companies that are more conservative have a higher reporting quality.

GarciaLara, GarciaOsma and Penalva (2014) evaluated the informational properties of accounting conservatism. Essentially, the question is: would conservatism reduce information asymmetries between insiders and outside equity holders? Using 63,579 firm-year observations of U.S firms, the proxy for conservatism was based on Khan and Watts (2009) who also built on the framework of Basu (1997). Conservatism was defined as, "the beginning of the period incremental timeliness of earnings to bad news concerning the timeliness in recognition of good news" (p.178). Consequently, the effect of conservatism on bid-ask spread and returns volatility, and the performance of financial analysts were examined. The following results were obtained: a current increase in conservatism leads to a reduction in (i) future information asymmetry (bid-ask spread and returns volatility), (ii) analysts' forecast errors and analysts' forecast dispersion, and (iii) a positive association between conservatism and analyst following a particular firm. Therefore, conservatism improves the information environment of the firm. These results are consistent with those of Lafond and Watts (2008) and Khan and Watts (2009) .

Yassin et al. (2015) examined information asymmetry and stock return with conservatism as a control variable using 26 listed companies in Amman Stock Exchange covering 2006-2012. Applying pooled data regression, the result shows that information asymmetry has significant, as well as, positive effect on stock return. Implicitly, an increase in information asymmetry between investors will lead to an increase in stock return. Thus, investors with private information can earn an outstanding return. When accounting conservatism was added as a control variable, information asymmetry becomes statistically insignificant signifying that conservatism affects information asymmetry. Therefore, in the presence of conservatism, information asymmetry is reduced, and stock return also reduces. Vishnani and Misra(2016) investigate the existence or otherwise of accounting conservatism in Indian corporations in reaction to accounting standard setters' view of conservatism being at odds with neutral financial reporting as an aspect of faithful representation. Using 5,803 firm-year observation for the period 2000 to 2015 and employing Basu (1997) and Khan and Watts (2009) framework, the study confirmed the existence of asymmetric timeliness (conservatism). In other words, firms respond more quickly to bad news than good news. The study also confirms the association of certain firm-specific variables like age and M-B value with conservatism. In the same vein, Aminu and Hassan (2016) explored the relationship between accounting conservatism and investment efficiency as a proxy for information environment. Using data from eight conglomerate firms quoted on the Nigerian Stock Exchange for 2005-2014, and applying OLS framework, the study found conservatism to be positively and significantly related to investment efficiency. This implies that conservatism helps investors to assess the prospect of firms as asymmetry is reduced. The submission by GarciaLara et al. (2014) that conservatism shrinks information asymmetry can happen either by limiting earnings management or through increased investment efficiency. This opinion is explained as follows.

4.1. Conservatism and Earnings Management

More often than not, there is an incentive on the part of managers to bias report upwards. This can complicate the information conveyed by the earnings signals. However, conservatism makes it costly for this to occur because it decreases the expected benefits of manipulation. (Chen, Memmer & Zhang, 2007; Gao, 2013; Watts, 2003). Watts and Zuo (2011) support this when they found that improvement in borrowing capacity, enhancing firm value, and reducing underinvestment is consistent with conservatism. Earnings management arises "when managers use the discretion inherent to accrual calculation with the intent to mislead stakeholders about the underlying economic performance of the firm" (Dechow & Skinner, 2000 p.236). Evidence of earnings management associating positively with information asymmetry has been found by Dye (1988) and Richardson (2000). Earnings management not only conceals the actual performance of a firm but also disguises trends underlying earnings and revenue growth which are relevant in building expectations of growth. The enforcement of conservatism makes market actors have timely information as good news, and bad news is disclosed on a timely basis, albeit, through different channels. While income statement is used to recognise bad news, notes to the account are used for good news (Lafond & Watts, 2008).This is predicted to facilitate information gathering by outsiders and help close the information gap between insiders and outsiders (GarciaLara et al., 2014).

4.2. Conservatism and Information Environment

Self-serving motives such as increased compensation and reputation could make managers deviate from optimal investment policies. Negative consequences of inefficient investment decisions are easier to delay in the absence of conservatism. Under this scenario, investors are likely to assess a firm's prospects based on incorrect assumptions about its investment portfolios. Francis and Martin (2010), Ahmed and Duellman (2011), and Louis, Sun and Urcan (2012) are unanimous on conservatism reducing investment inefficiencies. Because conservatism does not allow losses to be deferred into the future, it on the onset screens out negative NPV projects. For poor performing projects, it also helps in their early abandonment before they accumulate into huge losses. Consequently, conservatism reduces incentives by management for 'empire building' projects. This indirectly reduces information asymmetries created when managers withhold information about inefficient investments.

Summary of some empirical studies on accounting conservatism and information asymmetry

Authors	Country of study	Sample (and the period covered)	Variables	Definition &Measurement	Findings
Dependent Variables					
Ajina et al. (2015)	France	196 listed firms (2004 – 2007)	Bid-Ask spread	Information asymmetry proxy defined as asking price less bid price divided by (the sum of ask and bid price divided by two).	Negative, conservatism reduces bid-ask spread.
Yassin et al. (2015)	Jordan	26 firms listed on Amman Stock Exchange (2006 -2012)	Bid-Ask spread	Asymmetric information proxy measured by dividing the price spread by average daily stock price.	Positive concerning M-B ratio and hence conservatism can reduce information asymmetry.
GarciaLara et al., (2014)	USA	63,579 firm-year, (1997 - 2007)	Bid-Ask spread	A market-based proxy for information asymmetry defined as the natural log of one plus the average daily bid-ask spread over the fiscal year scaled by the mid-point of the spread as a percentage .	Negative, changes in current conservatism reduce bid-ask spread.
			Returns Volatility	A market-based proxy for information asymmetry defined as the natural log of one plus the	Negative, changes in conservatism reduce future return volatility.

				standard deviation of one year of daily stock return as a percentage.	
			Forecast error	A measure of the performance of financial analysts as a proxy for information asymmetry defined as "the absolute value of the difference between the mean forecast of annual EPS scaled by actual EPS".	Negative, increases in conservatism reduce forecast error.
			Forecast dispersion	A measure of the performance of financial analysts as a proxy for information asymmetry defined as the "standard deviation of the earnings forecast restricted to a minimum of three forecasts per year".	Negative, increases in conservatism reduce forecast dispersion.
			Analyst following	A measure of the performance of financial analysts as a proxy for information asymmetry defined as the number of analyst following the firm.	Positive, increases in conservatism increase analyst following.
Mohammadi et al. (2013)	Iran	300 firms listed in Tehran Stock Exchange (2006	Relevancy Reliability	A measure of the extent to which accounting	Positive, conservatism has a

		– 2011)	Timeliness	information might reflect real and expected performance (qualitative characteristics).	positive impact on relevancy, reliability and timeliness thus reducing information asymmetry.
Kordlouie et al. (2014)	Iran	102 firms listed in Tehran Stock Exchange (2006 – 2010)	Cash resulting from investment, and fluctuations in debt	A measure of the quality of financial statement used to proxy information asymmetry.	Positive, conservatism improves quality of financial statement thereby reducing information asymmetry.
Aminu and Hassan (2016)	Nigeria	Eight conglomerate firms listed in NSE (2005-2014)	Investment efficiency	A proxy for information asymmetry defined as cash paid for acquisition of non-current assets divided by total assets at the beginning of the period.	Positive, conservatism significantly relates to investment efficiency and improves the information environment of the firm.
Independent Variables					
Mohammadi et al. (2013)	Iran	300 firms listed in Tehran Stock Exchange (2006 – 2011)	Non-operating or discretionary accruals	A proxy for conservatism defined as the difference between total accruals and operating accruals	Positive; conservatism has a positive impact on the quality of accounting information and hence reduces information

					asymmetry.
Kordlouie et al. (2014)	Iran	102 firms listed in Tehran Stock Exchange (2006 – 2010)	Discretionary accruals	A measure of conservatism	Positive; conservatism influences the quality of financial reports thus decreasing information asymmetry.
GarciaLara et al, (2014)	USA	63,579 firm-year (1997 – 2007)	KW	A conservatism measure expressed at the beginning of the period incremental timeliness of earnings to bad news concerning timeliness in recognition of good news	Negative; changes in current conservatism accentuates a reduction in future information asymmetry.
Ajina et al. (2015)	France	196 listed firms (2004 – 2007)	Disclosure index	Based on Eng and Mak (2003) checklist, it is the total points from the index published for each company	Negative, disclosure improves market liquidity measured by the bid-ask spread and reduces information asymmetry.
Vishnani and Misra (2016)	India	500 firms listed in S&P BSE 500 Index (2000-2015)	C- Score	A measure of conservatism based on Basu (1997) and Khan and Watts (2009), defined as asymmetric earnings timeliness coefficient specified as a linear function of firm-specific	The negative association of C-score with size, age, M/B value and confirms that conservative firms have less information

				variables like Size. Lev, M-B value.	asymmetry.
Control Variables					
GarciaLara et al., (2014)	USA	63,579 firm-year (1997 – 2007)	LEV	The ratio of interest-bearing debt to total assets	Positive (for the bid-ask spread, return volatility forecast error, forecast dispersion and analysts following)
GarciaLara et al., (2014)	USA	63,579 firm-year (1997 – 2007)	SIZE	"The log of the market value of equity."	Negative (for the bid-ask spread and return volatility) Positive (for forecast error, forecast dispersion and analysts following)
GarciaLara et al., (2014)	USA	63,579 firm-year (1997 – 2007)	MTB	"The ratio of market value of equity to book value of equity."	Positive (for the bid-ask spread and return volatility), Negative (for forecast error, forecast dispersion and analysts following)
GarciaLara et al., (2014)	USA	63,579 firm-year (1997 – 2007)	β	"The slope coefficient from the regression of a firm's monthly excess returns on the monthly	Negative (for the bid-ask spread and return volatility), Positive(for

				value-weighted market excess return."	analysts performance)
Vishnani and Misra (2016)	India	500 firms listed in S&P BSE 500 Index (2000-2015)	Age	The number of years of existence of the firm	The negative association with C-Score

5. 0. CONCLUSION

This paper examines the relationship between accounting conservatism and information asymmetry. Investment decisions are facilitated when the relevant information is available to the decision makers. The information could be firm-specific or macroeconomic information. Concerning accounting information, the value relevance literature is concerned with investigating the nexus between a particular accounting number and stock values to provide an assessment of those numbers' use. Conservatism in accounting has the intention to guide management in preparing financial reports in the face of uncertainty as a cautious reaction to the adequate consideration of uncertainty and risk inherent in business situations. How conservative impacts on information asymmetry has in recent times attracted intellectual discourse. This paper contributes to this blossoming line of research by examining the arguments in the literature on conservatism, quality of financial statements and information asymmetry. On the one hand, some have argued that conservatism results in reporting lower net income and future benefit thus leading to revenue shifting; as current period will be understated and future periods overstated. Therefore, firms could have difficulty tracking business operations internally and as such accentuate information asymmetry. Others see conservatism as a tendency to require a higher degree of verification to recognise good news as gains than to recognise bad news as losses. This will reduce opportunistic behaviour by managers and decrease the agency cost of the firm. Accordingly, information asymmetry is reduced as earnings management is curtailed and the information environment is improved. This paper found a preponderance of evidence in support of this later view.

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