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Accounting Conservatism and Long-Run Stock Return: Some Evidence of Initial Offering in Tehran Stock Exchange

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Abstract :*The main objective of the present study is to evaluate the effect of accounting conservatism on long-term stock return after initial offering in the Tehran Stock Exchange. The present study is Analytical study in terms of the type of study. The statistical population includes the listed companies on Tehran Stock Exchange during 2003-2013 and a total number of 69 companies with initial public offering was assessed for this purpose. For the purpose of this study, four hypotheses were formulated using the ordinary least squares regression method and were analyzed using SPSS and Eviews statistical software. The results of the study indicate a positive relationship between conservatism in the year before public offering and A long-term stock return after initial public offering. However, the results show that there is no significant relationship between conservatism in the year of initial public offering and The long-term return of stock after initial public offering. Other results also suggest that in the information asymmetry setting there is a positive relationship between conservatism in the year before initial public offering and long-term return of stock after the initial public offering. In addition, in the information setting there is also a positive relationship between conservatism in the year of initial public offering and long-term stock return after the initial public offering. This study is one of the few that have examined the effect of accounting conservatism on long-term stock return after initial offering. The findings lend credence to the belief that the more the conservatism, the higher is the long-tern stock return, so we expect these findings can contribute to the efficiency of the capital market.*

Keywords: *conservatism, long-term stock return, information asymmetry, initial stock supply, buy-and-hold abnormal return.*

1. Introduction

The interests of investors and what is related to the competitive market are among the significant issues in the literature of initial public offering (IPO). However, few studies are conducted in this field to be related to the feelings of stock exporters in the initial offering, to the point that managers are fully confident of their success in the initial offering and the consequences of such an approach are taken for granted in the literature of IPO. In contrast, the literature focused on the interests of investors and the market in the IPO. However, this issue is also not appreciated by the suppliers in the outlook of their companies.

The two leading functions of a financial system are sharing risk among investors and supplying the required capital of firms. The process of initial offering enables the firm owners to share the firm risk with more investors by transferring a proportion of the capital (Pritsker, 2006). In the world's major stock exchanges, several companies embark on public offering of share annually for the first time that in some cases this number reaches 300-400 firms during a year. However, one of the issues the potential and actual investors are faced with in some cases is the anomalies related to IPO that due to its significance is the topic of several studies. The major public anomalies in the first public offering are mostly the drop in price in the long run not the pricing (Agathee et al., 2012). In the long-run, the performance of initial public offering, compared with similar firms listed previously on the Stock Exchange is extremely weak. Business firms have some problems and uncertainties when they attempt to enter the Stock Exchange which cause the process of initial public offering to be considered as a risky procedure.

The long-term negative return of initial public offering is not approved in all capital markets and different reasons are reported for such a phenomenon (Agathee et al., 2012). Several reasons are provided to explain the long-run performance drop phenomenon. Jensen (1986) argues that managers, due to the conflict of interests between managers and shareholders, are more likely to direct the capital obtained from IPO for investing on projects with a negative net present value even with at the expense of losing the wealth of shareholders. This

would lead to the decline of the market price and long-term performance drop. Yong (2007) declares that earnings management can be another definition for long-term performance drop. This hypothesis basically states that companies with higher IPO, compared with the average level of the industry they belong, gain more interest from their performance within a year before initial public offering of data. This aggressive earnings management makes the investors more optimistic about future investors of the firm, but when initial earnings are not consistent, these disappointed investors assess the firm value once more and this would lead to a long-term performance drop. Agarwal (2007) states that managers of business firms express strong confidence to attract more investors. However, in the long-run, they perceive that their responses have been just an insensible earnings forecast, so they revise their evaluations about the firm and this may lead to the decline of performance price of long-term initial offering.

The previous studies on conservatism provide some evidence concerning the divergent interests of the stock market, including the decrease of equity and failure risk and the possibility of experiencing the drop in stock price in future, and improving the investment return and the information setting for external investors. When the information asymmetry is more intense, it is much easier for managers to manipulate the accounting figures and increase the demand for conservatism to lower the agency costs (LaFond and Watts, 2008; Kim, 2014; Garcia Lara et al., 2016). Conservatism, by quicker detection of malignant economic news than the auspicious ones would lead to the increase of the level of disclosure quality of accounting information. The disclosure quality by changing the exchange behavior of incognizant investors and based on the theory of investor's realization would lower the uncertainty about the firm value (Brown et al., 2009). More specifically, there would be more demands for conservatism from the suppliers of IPO in that managers are more motivated to report more positive financial reports about the IPO. In addition, due to the presence of high information asymmetry recognizing the earnings management through IPO firms is not easy for the external users of an organization.

Conservative reporting policy can take into consideration the concerns of investors about the managerial opportunistic behavior by providing more trustful accounting information, especially where a severer information asymmetry exists (Guay and Verrechia, 2006; LaFond and Watts, 2008; Dechow et al., 2010). While the disclosure of auspicious news will help the managers continue their career and increase the wealth of firm value, malignant news incur some extra cost to the firm because it can lead to the quick termination and wealth decrease. Therefore, managers are less motivated to disclose bad news, rather they want to pronounce the good news, quickly (Kothari et al., 2009). Such a managerial opportunistic behavior can be intensified for the suppliers of IPO due to high information asymmetry in the IPO setting. However, if a more conservative reporting policy provides higher quality financial statements that decrease the information asymmetry between managers and investors, those suppliers who adopted a more conservativeness will experience a lower level of IPO pricing and outperform in the stock market after stock publication.

Since no study is conducted in Iran concerning the relationship between accounting conservatism and long-term stock return after IPO, the present paper can play a significant role in advancing the economic objectives of the country, so the main topic of the study is to answer the question whether there is a significant relationship between conservatism and long-term stock return of IPO or not, and whether or not the relationship between conservatism and long-term stock return of IPO is adjusted in the information asymmetry setting. The answer to the proposed questions can be of a great importance for the stock suppliers, investment banks, and potential investors and we expect these result can contribute to the efficiency of the capital market.

2. Literature review and hypothesis development

The existing studies show that the IPO firms experience a remarkable negative stock return in the long-run (Ibbotson, 1975; Ritter, 191; Levis, 1993; Loughran and Ritter, 1995; Wang et al., 2018). Ibbotson (1975) declares that the performance of the secondary market has been positive in the 1st year, negative in the next three years, and once more positive in the fifth year. Ritter (1991) suggests that the stock return of IPO firms is considerably lower than non-IPO firms during a three-year period after initial offering by -29.13%. Levis (1993) shows that a three-year long-term return is -22.96%. Loughran and Ritter (1995) indicate that the negative long-term stock return is -17% in the US market.

There is a plethora of literature concerning the relationship between earnings management and long-term stock return. Teoh et al. (1998a) illustrate that the suppliers whose level of discretionary accruals in the year of initial offering is abnormally high will experience a weak stock return for the next three years after the initial offering. Several studies are conducted on the impact of earnings management on firm performance after the initial

offering and the results of adjustment. The most significant argument of these studies was that the IPO firms manipulate the earnings before stock issuance and this will cause the considerable decline of long-term stock return. Moreover, these studies show that the IPO companies during initial public offering of discretionary accrual manage themselves at a high level and after the initial offering they will have a weaker performance than similar non-IPO firms (Jackson et al., 2000; Roosenboom et al., 2003; DuCharme et al., 2004; Cormier and Martinez, 2006; Cohen and Zarowin, 2010; Shen et al., 2014; Gao et al., 2015; Massel et al., 2017). Ball and Shivakumar (2005) depreciate the reliability of discretionary accruals estimations of the IPO firms and claim that the high growth of such firms could intrinsically increase the discretionary accruals. Shu et al. (2012) also analyzed the earnings management and the optimal marginal impact on the evaluation of initial public offering and found no significant relationship between discretionary accruals and long-term return of stocks of IPO firms. Ghalke et al. (2018) discovered a negative relationship between earnings management and stock performance of small and medium-sized firms after the initial public offering.

There is no consensus about the relationship between conservatism and long-term stock return. Teoh et al. (1998b) analyzed the relationship between earnings management and long-term performance of the IPO firms. They select two years after initial offering as a criterion for long-term performance of firms and found that firms with no conservative approach have a worse performance than those with conservativeness. Penman and Zhang (2002) indicate that a long-recorded commercial strategy in high-quality accounting stock (more conservative) and short-recorded low-quality stock (less conservative) would lead to an abnormal positive return. Pae et al. (2005) declare that there is a negative relationship between accounting conservatism and firm performance. Kousenidis et al. (2009) indicate that with the movement of low-conservatism companies, the earning value will increase toward companies with high conservatism. Using these findings, Kim and Pevzner (2010) also state that while more conservative companies will experience a stronger stock market response for their good earnings news, the stock market shows fewer responses for their bad news. Watts and Zou (2011) also provide some evidence suggesting that conservatism increases the borrowing capacity and limits the managerial opportunity, so they present more conservative financial reports, the negative stock return of which would be lower along the financial crises. They claim, however, that the effects of conservatism are less tangible in ordinary occasions because in case of financial crisis borrowing is extremely difficult for the firm and demand for verifiable accounting figures will increase. Balachandran and Mohanram (2011) maintain that conditional conservatism is a controlling mechanism that is useful for both creditors and investors and increases the firm value. Moreover, their results demonstrate a significant association between conditional conservatism and stock return. Ferris et al. (2013) analyzed the effect of conservatism on underpricing and declare that accounting conservatism has a negative association with long-term return. Kim (2014) posits that there is a negative relationship between accounting conservatism a year before initial offering and long-term stock return for (one year, two years, and three years) after initial public offering, but such a relationship does not exist for four years and five years. They also state that there is no relationship between conservatism in the year of initial offering and long-term stock return after initial public offering for (one year or two years), but it is positive for four years and five years.

Lack of a study on the relationship between accounting conservatism (a year before initial offering and in the year of initial offering) and long-term stock return in IPO firms is evident in Iran, so we attempt to take the issue into consideration in this paper.

Given that, in order to carry out the study, four hypotheses are formulated as follows:

H1: there is a significant relationship between conservatism a year before initial stock offering and stock return after initial stock offering.

H2: there is a significant relationship between conservatism in the year of the initial stock offering and stock return after initial stock offering.

H3: there is a significant relationship between conservatism a year before the initial stock offering and stock return after initial stock offering in an intense information asymmetry setting.

H4: there is a significant relationship between conservatism in the year of initial stock offering and stock return after initial stock offering in an intense information asymmetry setting.

3. Research methodology

3.1. Type of study

In terms of objective, this study is practical and in terms of nature the study is descriptive-correlational.

3.2. Statistical population and sample of the study

The statistical population of the present study includes all listed companies on Tehran Stock Exchange during 2003-2011 that after applying the following limitations the sample companies were selected:

1. Companies should not be affiliated with financial intermediaries, holding, and banks,

2. Their financial yearend should be ended on March 20,

3. Should not change their activities or should not change their fiscal year,

4. Their stocks should not be transacted during the course of study and should not have a considerable lag in their activity, and;

5. Their data and information should be available from 2002 to 2013.

It is worth mentioning that the sample under study is the listed companies on Tehran Stock Exchange during 2003-2011, but given the research models, we require the information a year before and five years after the period of the study. After imposing the limitations, a total number of 69 companies with initial offering and 43 companies with secondary stock offering was selected.

3.3. Data collection and method of hypothesis analysis

In this paper, library method and internet searching for the articles of various websites were used for collecting data related to theoretical principles and literature review and for collecting information required for analyzing the research hypotheses, the information of listed companies on Tehran Stock Exchange was used using the Rah Avaran Novin and Tadbir Pardaz Software, Codal website, and the website of Tehran Stock Exchange. Research variables were described using the descriptive statistics, mean, median, standard deviation, minimum, and maximum of data. Moreover, Ordinary Least Squares (OLS) regression method was used in order to analyze the research hypotheses and Eviews 9 and SPSS 22 statistical software was employed for the statistical calculations on variables.

3.4. Models and research variables

Two models are used for the examination of research hypotheses. Model (1) is for examining hypothesis 1 and 2 and model (2) is for testing hypothesis 3 and 4. Research models and the manner of calculation each component are as follows:

Model (1)

$$ABHAR_{it} = a + \beta_1 ACCT_{it} + \beta_2 \mathrm{AGE}_{it} + \beta_3 UNDERPRICING_{it} + \beta_4 \Delta ASSET_{it} + \beta_5 RD_IPO + \beta_6 CASH_IPO_{it} + \sum FixedYear + \sum FixedIndustry + \varepsilon_{it}$$

Model (2)

$$ABHAR_{it} = a + \beta_1 ACC_{it} + \beta_2 H_FE_{it} + \beta_3 ACC_{it} * H_FE_{it} + \beta_4 \mathrm{AGE}_{it} + \beta_5 UNDERPRICING_{it} + \beta_6 \Delta ASSET_{it} + \beta_7 RD_IPO + \beta_8 CASH_IPO_{it} + \sum FixedYear + \sum FixedIndustry + \varepsilon_{it}$$

ABHARit= long-term stock return is the dependent variable of the study which is computed after initial public offering based on the method of adjusted buy-and-hold abnormal return according to the market index. This model introduced for the first time in 1991 using the following formula:

$$MABHRi = \sum_{i=3}^{t-n} \left\{ IN \left(\frac{\mathrm{Pi,t}}{\mathrm{Pi,t-1}} \right) - IN \left(\frac{Im,t}{Im,t-1} \right) \right\}$$

Based on the previous studies (Loughran and Ritter, 1995; Wang et al., 2018), the long-term period for calculating long-term return is one year and two years.

ACC_{it}= variable of conservatism for the year before initial offering (PRE_ACC) and the year of initial stock offering (Post_ACC) is the independent variable of the study. The model of Ball and Shivakumar (2005) is used for calculation, the formula of which is as follows:

$$ACCit = \mathrm{a} + b_1 \times D_{i,t} + b_2 \times CF_{i,t} + b_3 \times D_{i,t} \times \mathrm{CF}_{i,t} \quad (1)$$

where, ACC_{it}: total discretionary accruals, CF_{it}: operational cash flow, D_{it}: a virtual variable that if $CF_{i,t}$ is negative, it is 1, otherwise, it would be 0.

In this equation, b2 indicates the correlation between discretionary accruals and cash flow when there is good news (operational profits).

b2+b3 indicates the correlation between discretionary accruals and cash flow when there is bad news (operational losses). In this equation, the bigger the b3, the more is the asymmetrical behavior against operational profit and loss (good and bad news) and the more the conservatism.

H_FE$_{it}$ = indicate a high amount of information asymmetry between managers and investors. In those studies that information asymmetry is calculated, the precision of earnings forecast is used by the management to measure the information asymmetry. This studies showed an inverse relationship between earnings management accuracy by the management and information asymmetry (Li and Zhao, 2008). Thus, in this paper, the average segmentation index is used for measuring the information asymmetry to divide the entire sample into a sample with high information asymmetry and low information asymmetry. Companies with earnings forecast ratio of less than mean are considered as high information asymmetry, for which 1 will be considered, otherwise it will be 0.

$ACC_{it} * H_FE_{it}$ = variable of conservatism for the year before initial offering(PRE_ACC*H_FE) and the year of initial stock offering (Post_ACC*H_FE) is the independent variable of the study

AGE_i = firm age is equal to the logarithm of the number of years passed from the foundation data of the firm to before the initial public offering.

$UNDERPRICING_{it}$ = stock return in the first day of stock offering (initial public offering and secondary stock offering). In order to measure the underpricing of initial and secondary stock offering, we use the method proposed by Aggrawal et al. (1993). For example, the market return in the first day of transaction is used as an index for underpricing of the initial public offering. This measurement is calculated by the following formula:

$$Underpricingi = \frac{\mathrm{Pi,1 - Pi,0}}{\mathrm{Pi,0}}$$

Pi, 1 : the price of stock closing in the first day of transaction.

Pi, 0 : the price of initial offering.

$\Delta ASSET_{it}$: Growth of total assets in the year t, which is the year o initial stock offering.

RD: cost of research and development divided by total computed initial assets in the year t, which is the year of initial stock offering.

$CASH_IPO_{it}$: cash and bonds divided by total computed initial assets in the year t, which is the year of initial stock offering.

4. Research findings

4.1. Descriptive statistical indexes

Table (1) illustrates the descriptive statistics of the study. 69 companies examined in this study from 2003 to 2013 that in total the information of these companies was observable in initial public offering. It is worth mentioning that the data of the year 2002 were also collected for measuring the variables related to conservatism in the year before initial offering and some other variables of the study.

Table (1): descriptive statistics of research variables

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
PRE__ACC	0.0032	-0.0016	0.3857	-0.1531	0.0738
POST__ACC	0.0317	0.0002	3.2191	-0.5682	0.3972
MABHR1	-0.0863	0.0070	0.8536	-1.5356	0.5066
MABHR2	-0.2375	-0.1571	0.8800	-1.8449	0.6023
AGE	2.6806	2.7081	3.9512	1.3863	0.6240
UNDERPRICINGI	-0.0050	0.0000	0.2934	-0.2221	0.0547
$\Delta ASSET_{it}$	0.3120	0.2293	1.7672	-0.3169	0.3428
RD_IPO	0.0018	0.0000	0.0936	0.0000	0.0114
CASH_IPO	0.1054	0.0746	0.5209	0.0023	0.1113

As can be seen in the table, on average, the sample companies in the first year after initial public offering and in the second year after initial public offering have experienced a negative long-term stock return. The mean and median of long-term stock return for two years after are a negative number and less than long-term stock return for a year after initial public offering. Moreover, based on Table (1), on average, the sample companies in the year before initial public offering and in the year of initial public offering have shown a different range of positive accounting conservatism. The mean and median of accounting conservatism in the year of initial public offering is positive and more than the accounting conservatism in the year before initial public offering. Therefore, the amount of accounting conservatism increases after initial stock offering.

4.2. Examining the hypotheses of classic regression

Table (2) shows the results of classic hypotheses of the regression. Since the research model has an intercept, the null hypothesis of mean errors is accepted. Moreover, since the number of observations is more than 30 times, we can hardly accept the normality hypothesis of model residuals. Error distribution of the research models, which is depicted in Table (2) is similar to a normal distribution and the results of variance homogeneity are presented in Table (2) for model 1 and 2 using the Breusch-Pagan method.

Table (2): variance homogeneity test for model (1) and (2)

Model	Hypothesis	Return	Model error distribution		Model variance homogeneity test		
			B-J statistic	significance	F statistic	Degree of freedom	significance
1	1	One year	1.412	0.494	0.797	18and38	0.692
		Two year	1.059	0.588	1.135	18and34	0.364
	2	One year	3.088	0.214	1.12	18and34	0.376
		Two year	0.412	0.814	1.316	18and38	0.233
2	3	One year	1.192	0.551	1.261	20and29	0.278
		Two year	1.088	0.580	1.345	20and30	0.2263
	4	One year	2.212	0.331	1.079	20and30	0.4161
		Two year	3.481	0.176	0.539	20and29	0.922

Since the significance of the F statistic in model 1 and 2 is more than 0.05, the variance homogeneity hypothesis is accepted. Given the results of table 3, 4, 5, and 6, since the VIF has values less than 10, this hypothesis is accepted. It is worth mentioning that since all classic hypotheses of regression are correct, this statistic is less than 10 for control variables of industry and year.

4.3. The results of first hypothesis

As can be seen in Table (3), the F statistic of models (1) for testing the relationship between conservatism in the year before initial stock offering and long-term stock return after initial public offering for a year return and two years return is equal to 1.931 and 3.527, respectively, so the generality of model (1) is accepted, this means that there is a significant relationship between independent variables and the dependent variable and at least one independent variable has a significant relationship with the dependent variable.

Table (3): the primary results of model (1) estimation on research data

Variable	One year return				Two years return			
	Coefficient	**T statistic**	**Significant**	**VIF**	**Coefficient**	**T statistic**	**Significant**	**VIF**
B_0	-0.366	-1.092	0.282	--	0.041	0.134	0.894	--
PRE__ACC	0.205	0.332	0.742	1.255	2.103	3.076	0.004	1.238
AGE	-0.029	-0.142	0.888	1.533	0.148	0.729	0.471	1.4
UNDERPRICINGI	-1.022	-1.161	0.253	1.338	2.287	2.571	0.015	1.387
$\Delta ASSET_{it}$	0.404	2.938	0.006	1.263	-0.282	-1.939	0.061	1.342
RD_IPO	-10.26	-2.506	0.017	1.316	-14.6	-3.616	0.001	1.313
CASH_IPO	-0.727	-1.694	0.098	1.251	-1.12	-2.492	0.018	1.288
Fixed Year	Controlled				Controlled			
Fixed Industry	Controlled				Controlled			
F statistic	1.931				3.527			
F significance	0.044				0.000			
Model R^2	0.478				0.651			
Adjusted R^2	0.23				0.467			
No. of observations	57				53			

The results of model (1) in Table (3) indicates that the coefficient of conservatism in the year before initial offering has a positive value, consequently, the level of significance of this statistic is more than 0.05. This finding shows that after considering the control variables, there is no relationship between conservatism in the year before initial stock offering and long-term stock return a year after initial stock offering. However, the coefficient of conservatism variable a year before initial offering has a positive value, so the level of significance of this statistic is also less than 0.05. This finding reveals that after considering the control variables, a relationship exists between conservatism in the year before initial stock offering and long-term stock return two years after initial stock offering, so the first hypothesis is accepted.

4.4. The results of second hypothesis

As can be seen in Table (4), the F statistic of model (1) for testing the relationship between conservatism in the year before initial stock offering and long-term stock return after initial public offering for a year return and two years return is equal to 2.273 and 2.821, respectively, so their significance is less than 0.05 and the generality of model (1), which is regression for the second hypothesis testing is accepted, this means that there is a significant relationship between independent variables and the dependent variable and at least one independent variable has a significant relationship with the dependent variable.

Table (4): the primary results of model (1) estimation on research data

Variable	One year return				Two years return			
	Coefficient	T statistic	Significant	VIF	Coefficient	T statistic	Significant	VIF
B_0	-0.166	-0.54	0.593	--	-0.16	-0.469	0.642	--
Post__ACC	0.06	0.592	0.558	1.2	-0.151	-1.232	0.226	1.17
AGE	-0.135	-0.7	0.487	1.6	0.197	0.871	0.389	1.482
UNDERPRICINGI	-0.767	-0.944	0.352	1.38	2.175	2.206	0.034	1.37
_ASSET	0.351	2.695	0.011	1.306	-0.137	-0.899	0.374	1.28
RD_IPO	-9.028	-2.338	0.025	1.419	-14.931	-3.289	0.002	1.326
CASH_IPO	-0.975	-2.1	0.043	1.399	-1.019	-2.134	0.039	1.26
FixedYear	Controlled				Controlled			
FixedIndustry	Controlled				Controlled			
F statistic	2.273				2.821			
F significance	0.02				0.004			
Model R^2	0.602				0.572			
Adjusted R^2	0.337				0.369			
No. of observations	57				53			

Nevertheless, the results of model (1) in Table (4) indicates that the coefficient of conservatism has a positive value, consequently, the level of significance of this statistic is more than 0.05. This finding shows that after considering the control variables, there is no relationship between conservatism in the year before initial stock offering and long-term stock return a year after initial stock offering. However, the coefficient of conservatism variable has a negative value, so the level of significance of this statistic is also more than 0.05. This finding reveals that after considering the control variables, no relationship exists between conservatism in the year before initial stock offering and long-term stock return two years after initial stock offering, so the second hypothesis is rejected.

4.5. The results of third hypothesis

As can be seen in Table (5), the F statistic of model (1) for testing the relationship between conservatism in the year before initial stock offering and long-term stock return after initial public offering for a year return and two years return in a setting with high information asymmetry is equal 2.205 and 3.363, respectively, so model (2), which is regression for the third hypothesis testing is accepted, this means that there is a significant relationship between independent variables and the dependent variable and at least one independent variable has a significant relationship with the dependent variable.

Table (5): the primary results of model (2) estimation on research data

Variable	One year return				Two years return			
	Coefficient	T statistic	Significant	VIF	Coefficient	T statistic	Significant	VIF
B_0	-0.019	-0.061	0.951	--	-0.053	-0.173	0.864	--
PRE__ACC	-0.424	-0.662	0.513	1.628	-1.013	-0.323	0.749	1.802
H_FE	0.109	0.783	0.44	2.913	0.12	0.895	0.378	1.817
PRE_ACC* H_FE	2.894	2.154	0.038	1.62	1.825	0.561	0.579	1.881
AGE	-0.215	-1.157	0.257	1.647	0.136	0.678	0.503	1.478
UNDERPRICING	-1.158	-1.457	0.156	1.474	2.828	3.138	0.004	1.459
$\Delta ASSET_{it}$	0.284	1.963	0.059	1.773	-0.267	-1.773	0.086	1.432
RD_IPO	-10.823	-2.766	0.01	1.628	-14.671	-3.661	0.001	1.330
CASH_IPO	-1.02	-2.274	0.03	1.36	-0.832	-1.878	0.07	1.283
Fixed Year	Controlled				Controlled			
Fixed Industry	Controlled				Controlled			

F statistic	2.205	3.363
F significance	0.026	0.001
Model R2	0.603	0.692
Adjusted R2	0.33	0.486
No. of observations	50	51

Nevertheless, the results of model (2) in Table (5) indicates that the coefficient of conservatism in a setting with high information asymmetry (PRE_ACC*H_FE) has a positive value in the year before initial offering in a setting with high information asymmetry, consequently, the level of significance of this statistic is less than 0.05. This finding shows that after considering the control variables, there is a positive relationship between conservatism in the year before initial stock offering and long-term one-year return in a setting with high information asymmetry. However, the coefficient of conservatism variable has a negative value in the year before initial offering in a setting with high information asymmetry, so the level of significance of this statistic is also more than 0.05. This finding reveals that after considering the control variables, no relationship exists between conservatism in the year before initial stock offering and long-term two-year return in a setting with high information asymmetry, so the third hypothesis is accepted.

4.6. The results of fourth hypothesis

As can be seen in Table (6), the F statistic of model (2) for testing the relationship between conservatism in the year before initial stock offering and long-term stock return after initial public offering for a two-year return and two-year return in a setting with high information asymmetry is equal to 2.077 and 6.311, respectively, with the level of significance of less than 0.05, so model (2), which is regression for the fourth hypothesis testing is accepted. This means that there is a significant relationship between independent variables and the dependent variable and at least one independent variable has a significant relationship with the dependent variable.

Table (6): the primary results of model (2) estimation on research data

Variable	One year return				Two years return			
	Coefficient	T statistic	Significant	VIF	Coefficient	T statistic	Significant	VIF
B_0	-0.016	-0.063	0.95	--	-0.52	-2.46	0.02	--
POST__ACC	0.043	0.447	0.658	1.251	-0.133	-1.564	0.129	1.257
H_FE	0.144	1.062	0.297	2.995	0.08	0.774	0.445	2.098
POST_ACC *H_FE	1.541	2.179	0.037	2.131	1.392	2.281	0.03	2.021
AGE	-0.142	-0.755	0.456	1.716	0.148	0.894	0.379	1.574
UNDERPRICINGI	-1.416	-1.775	0.086	1.559	2.425	3.277	0.003	1.615
_ASSET	0.32	2.175	0.038	1.828	-0.134	-1.133	0.266	1.554
RD_IPO	-11.175	-2.901	0.007	1.656	-15.801	-4.999	0.000	1.422
CASH_IPO	-1.032	-2.232	0.033	1.53	-1.695	-4.136	0.000	1.497
Fixed Year	Controlled				Controlled			
Fixed Industry	Controlled				Controlled			
F statistic	2.077				6.311			
F significance	0.033				0.000			
Model R2	0.573				0.813			
Adjusted R2	0.297				0.684			
No. of observations	52				50			

Nevertheless, the results of model (2) in Table (6) indicates that the coefficient of conservatism in a setting with high information asymmetry (POST_ACC *H_FE**)** has a positive, consequently, the level of significance of this statistic is less than 0.05. This finding shows that after considering the control variables, there is a positive relationship between conservatism in the year of initial stock offering and long-term one-year return in a setting with high information asymmetry. However, the coefficient of conservatism variable has a positive value, so the

level of significance of this statistic is also more than 0.05. This finding reveals that after considering the control variables, no relationship exists between conservatism in the year before initial stock offering and long-term two-year return in a setting with high information asymmetry, so the fourth hypothesis is accepted.

5. Conclusion and suggestions

The present study is concerned about the effect of conservatism on long-term stock return after initial stock offering in Tehran Stock Exchange. In this paper, four hypotheses were designed given the related theoretical principles which are studied based on the OLS regression method.

The findings of the study indicate that there is a positive relationship between conservatism in the year before initial stock offering and long-term stock return in the initial offering. The obtained results are in line with that of the Teoh et al. (1998a), Penman et al. (2002), Kousenidis et al. (2009), and Kim and Pevzner (2010). In the second hypothesis, however, we found a negative relationship between conservatism in the year of initial stock offering and long-term stock return after initial public offering. Such results are in conformity with that of the Kim (2014). The results of the third hypothesis indicate that there is a positive and significant relationship between conservatism in the year before initial offering and long-term stock return after initial public offering in intense information asymmetry setting. In other words, the more the conservatism, the higher is the long-tern stock return, so we argue that the suppliers use the earnings management in the year before stock offering and benefit from less conservatism in the upcoming year.

Given the related literature, we expect a negative or positive relationship between accounting conservatism and long-term stock return, but the results of the study showed a positive relationship between accounting conservatism and long-term stock return after initial public offering. Moreover, some of the research studies illustrate no relationship between accounting conservatism and long-term stock return after initial public offering, which is due to the manipulation of earnings before issuance by the IPO firms. This could lead to the dramatic decline of long-term stock return. In addition, these studies suggest that the IPO firms that manage their discretionary accruals at a high level during initial public offering, will experience a weaker performance after the initial offering than non-IPO firms (Jackson et al., 2000; Roosenboom et al., 2003; DuCharme et al., 2004; Cormier and Martinez, 2006; Fan, 2007; Cohen and Zarowin, 2010; Shen et al., 2014; Gao et al., 2015; Massel et al., 2017; and Wang et al., 2018).

Given the results of the study, we recommend the Iranian Accounting Standard Compilation Committee to establish some standards to prevent the opportunistic behavior of managers in providing conservative reports to enhance the supervisory level on managers' performance and to increase the quality of financial statements. Further, we recommend the practitioners of Tehran Stock Exchange to not take the accounting information of firms for granted to experience less the long-term negative stock return after the initial public offering.

The present study faced some limitations, among which we could refer to the conservative measurement model in initial offering because conservative measurement in the year before initial offering was not possible using models with stock exchange variables and model with accounting variables should be used for this purpose. Hence, the model of Ball and Shivakumar (2005) is employed in this study to measure the accounting conservatism. Among other limitations of the study, we could also refer to the presence of small number of firms with initial public offering.

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