Corporate Governance and Earning Conservatism in Malaysia

#Marziana Madah Marzuki
School of Management
Universiti Sains Malaysia
11800 USM
Penang, Malaysia
marzianamadahmarzuki@gmail.com

Effiezal Aswadi Abdul Wahab
School of Accounting
Curtin University of Technology
Bentley, Western Australia
Email: *effiezal.abdulwahab@curtin.edu.au*

Professor Datin Hasnah Haji Haron
School of Management
Universiti Sains Malaysia
11800 USM
Penang, Malaysia
hhasnah@usm.my

Corporate Governance and Earning Conservatism in Malaysia

Abstract

The objective of this paper is to examine whether earning conservatism is enhanced after the amendment of corporate governance code in 2007 (MCCG 2007). We hypothesized that earnings conservatism increase after the amendment of MCCG 2007. Based on conservatism model by Basu (1997) we find that MCCG 2007 enhance earning conservatism and among the corporate governance variables that contribute to the enhancement are board accounting qualification, audit committee expertise and number of audit committee meetings. Nevertheless, board independence provides no support that it enhances earning conservatism even though there is an increment in percentage of non-executive directors as well as independent non-executive directors after MCCG 2007. Our result concludes that earning conservatism enhancement is influenced by Malaysia's institutional setting.

[#]Corresponding author.

Email:marzianamadahmarzuki@gmail.com

1.0   Introduction

The review of Malaysian Code of Corporate Governance (MCCG) in 2007 marked a significant milestone in corporate governance reform in Malaysia. This code codified the principles and best practices of good governance and described optimal corporate governance structures and internal processes for the listed companies in Malaysia after the release of MCCG in 2000. The Prime Minister, Dato' Seri Abdullah Ahmad Badawi had announced in the Budget 2008 speech that "the Code is being reviewed to improve the quality of the board of public listed companies (PLCs) by putting in place the criteria for qualification of directors and strengthening the audit committee, as well as the internal audit function of the PLCs (The Malaysian Bar Council, 2007). The extensive qualifications of board of directors and audit committee in determining good corporate governance practices is expected to be translated into high financial reporting quality.

Nevertheless, the quality of financial reporting in Malaysia is still low. Instead of corporate governance reforms, it is believed that Malaysia's political economy has influenced the extent of information to be disclosed in Malaysia's financial reporting which has affected the business operations and reporting system. CLSA Asia Pacific Market report on overall of Malaysia's performance in Corporate Governance Watch 2007 reported that:

> *"The quality of financial reporting among small listed companies is poor, while the standards of non-financial reporting among companies leave a lot to be desired. Few companies report their audited annual results within 60 days. Securities laws do not appear to provide a credible deterrent against insider trading. Legal remedies for shareholders are limited. There is virtually no voting by poll at AGMs. There is little confidence in the market that independent directors are genuinely independent in Malaysia. While public enforcement efforts have improved, regulators do not have reputation for treating companies and individuals equally. Indeed, the consensus is that politic hampers the ability of regulators to do their job properly. Private enforcement by the market is limited (at both the institutional and retail level), with many investors have a low opinion of the ethical standards of the average listed company".*

One of the main critics on the lower quality of financial reporting in Malaysia is lack of transparency. The issue of financial reporting transparency has been debated in Malaysia since the Asian Financial Crisis in 1997/1998. Weak corporate transparency has been identified as one of the major factor behind the crisis. Levitt (1998) stated that "The significance of transparent, timely and reliable financial statements and its importance to investor protection has never been more apparent. The current financial situations in Asia …………..are stark examples of this new reality. These markets are learning a painful lesson taught many times before: investors panic as a result of unexpected or unquantifiable bad news".

Therefore the objective of this study is to investigate whether Malaysia's corporate governance reforms in 2007 enhances financial reporting transparency measured by earning conservatisms. Earnings conservatism is regarded as the best measure of financial reporting transparency as this concept require higher degree of verification for recognizing good news than bad news. According Basu (1997), conservatism can be defined as "capturing accountants' tendency to require a higher degree of verification for recognizing good news than bad news in financial statements." This accountants 'tendency' has resulted in two important re-

porting features of conservative accounting which are asymmetric timeliness recognition of accounting gains versus losses and systematic understatement of net assets (Watts, 2003).

For the purpose of this study, we analyze earning conservatism before and after corporate governance reforms in 2007 by incorporating four corporate governance variables which has been stressed in MCCG 2007. The variables are board of directors' qualification, audit committee expertise, audit committee independency and audit committee meetings. This study employs the model as suggested by Basu (1997) as previous studies (Ball et al., 2000, Chi et al., 2009, Kung et al., 2008) have shown that estimated asymmetric timeliness coefficients reveal predictable associations with economic, legal and political institutional variables, at the firm, industry, and jurisdictional levels.

This study is motivated by The CLSA Asia Pacific Market report on overall of Malaysia's performance in Corporate Governance Watch 2010. Even though the report revealed that Malaysia's overall performance has improved from the score 44% in 2007 to 49% in 2010 with better improvement in enforcement category, Malaysia's score for corporate governance culture drop one percent from the score 33% in 2007 to 32% in 2010. Comparing the governance score between political and regulatory and corporate governance culture of eleven market in Asia, the gap between these two scores is greatest in Malaysia showing that corporate governance culture still poses a threat to the corporate governance practices in Malaysia even though there is improvement in the enforcement and regulatory system in Malaysia.

This study differs from other studies on earnings conservatism and corporate governance in several ways. First, this study investigates the relationship between earning conservatism and corporate governance variables which have been chosen based on recent amendments of Malaysian Code of Corporate Governance 2007. Second, the study is conducted specifically in Malaysia. There is a study by Bushman and Piotroski (2006) that investigate the effect of regulation and other institutional factors such as political connection on conservatism. However, Bushman and Piotroski (2006)'s study is conducted in thirty-eight countries which may not capture specifically the differences of culture in those countries that might have important interpretation to the results.

There is a study in Malaysia by (Mohammed et al., 2011) that examines the effect of earning conservatism on regulation and institutional culture which is political connection. Our study differs from Mohammed *et al.* (2010) in a way that Mohammed *et al.* (2010) study the effect of corporate governance variables adopted following the Anglo-Saxon model of corporate governance in the Malaysian market, while this study take the current changes of corporate governance code as we investigate the effect of corporate governance code amendment done in 2007 (MCCG 2007) on conservatism and compare it with the previous code of MCCG 2000.

This study extends the current literature in several ways. First, this study provides insights to the regulators to formulate accounting policies, rules and standards that take into consideration of Malaysia institutional culture. Since Malaysia's financial reporting quality is significantly affected by culture (CLSA, 2010), it is hoped that this study will provide useful insight to the regulators to the Malaysia's institutional culture that can be focused on. Second, as evidence in relation to earnings conservatism is relatively scarce in Malaysia and its institutional setting is relatively different from other developed countries, this study fills in the literatures gap by examining specifically the effect MCCG 2007 and institutional culture on accounting conservatism.

The remainder of this paper is organized as follows. Section two provides institutional background of the study. Section three analyses a review of the literature and hypotheses development. Section four describes the research method. Section five reports the empirical findings. Finally, section six concludes the paper.

2.0 Institutional Background

2.1 Malaysian Code of Corporate Governance

In Malaysia, the initiative of corporate governance started with the establishment of Finance Committee on Corporate Governance in 1998 that consists of both government and industry (Zulkafli, Samad and Ismail, 2005). In March 2000, Malaysian Code on Corporate Governance was developed by the Working Group on Best Practices in Corporate Governance (JPK1) and the code subsequently approved by the high level Finance Committee. The JPK1 was chaired by the Chairman of the Federation of Public Listed Companies and their members comprise a mix of private and public sector. The Code is then reviewed in 2007 to further strengthen corporate governance practices in line with developments in the domestic and international capital markets.

Among the main amendments of MCCG 2000 in 2007 are specifying the qualification of appointed directors by specifying the candidates of board of directors who have skills, knowledge, expertise, experience, professionalism and integrity, emphasizing that all members of the audit committee should be financially literate and at least one should be a member of an accounting association or body, the amendment specifies that all members of the audit committee should be non-executive directors, increasing the number of meetings from once a year to twice a year, stressing on the need of the chairman of the audit committee to be engaged on a continuous basis with senior management, such as the chairman, the chief executive officer, the finance director, the head of internal audit and the external auditors, putting further disclosure on details of relevant training attended by each director and finally putting a requirement for the company to establish an internal audit function and identifying a head of internal audit who reports directly to the audit committees.

2.2 Malaysia's Political Economy and Ownership Structure

Even though the regulatory bodies in Malaysia have played their role in formulating and enforcing rules and regulations i.e MCCG that can best serve the interest of company's stakeholders and ensure a sound reporting system that can be translated in to transparent and high quality of financial reporting, Malaysia's financial reporting quality is highly influenced by its institutional culture. The main factors that play major role in shaping Malaysia's institutional culture are its political economy and ethnicity. These two factors become apparent since the British colonialisation of Malaya.

The Malaysia's history since British colonial rule has played a major role in shaping the relationship based economy in this country. This type of political economy has led Malaysia into criticism of less credibility of legal enforcement and less independence of directors and regulators. The economic inequality between Malays and others ethnicity especially Chinese still exist even though many policies have been introduced to eliminate it.

The political connection and family dominance in Malaysia provide a link for the corporations to obtain 'private' information and thus, will rarely reflected in stock market. The con-

nected firms are also enjoying easier access to debt financing from state-controlled banks, even though their situation does not justify additional credit. For example, in 1982, a Malaysian company, Baktimu Sdn Bhd, which was owned by Daim Zainuddin (former Malay Deputy Prime Minister and close friend of Prime Minister Mahathir), acquired a 33 percent stake in Sime UEP, for RM75million cash (Faccio, 2007).

The influence and dominance of family presence and ownership in Malaysia has been well documented (Claessens and Fan, 2002; Jaggi, Leung and Gul, 2009). According to statistic that has been presented by South China Morning Post (SCMP) as quoted by Jaggi *et al.* (2009), Malaysia is the second highest percentage of family ownership of listed companies in the region after Indonesia. Claessens, Djankov and Lang (2000) found that the presence of family dominance has enabled them to control firms and this representing a large percentage of stock market capitalization in nine East Asian countries including Malaysia. This situation has lead to Type II agency problem which is the conflict between majority and minority shareholders. In this Type II agency problem, minority shareholders have less power to voice out their dissatisfaction with firm's poor governance and most of the management's operation are influenced by the majority shareholders, whether family-control or political connection. The capital control by family dominance and political connected in Malaysia's political economy has lead to increase in cronyism (Johnson and Mitton, 2003).

3.0   Prior Research and Hypotheses Development

Conservatism has been extensively employed as a proxy for financial reporting quality as it plays an important role in alleviating agency problems and limit deadweight losses from poor investment decisions. The timely loss recognition of conservatism ensure that all possible losses are recognized before making a distribution and the distribution of the claimants are made to the parties who has a prior contractual claim such as creditors. By requiring more timely recognition of economic (or expected) losses conservatism helps in identifying negative net present value (NPV) projects or poorly performing investments and hence conservatism is regarded as the desirable attributes of accounting earnings that can be used in order to avoid unexpected economic downturn and corporate failure (Francis et al., 2004, Vichitsarawong et al., 2010).

Watts (2003) discusses four main determinants of conservatism which are contracting, litigation, regulation and taxation. Despite of these four main determinants, the most important determinant that has been used extensively in extant literature is contracting explanation (Ahmed and Duellman, 2007, Jiang et al., 2008, Lara et al., 2009b). In firm's contract with their stakeholders, conservatism is seen as a means to relieve information asymmetry between firms' as an agent and its principals (owners). According to Whittington (1993), information asymmetry between management and the providers of finance may exist because management has access to internal information of the company, which is not available to the capital providers. Therefore, another means to control the separation of ownership and control exist in the agent-principal relationship, is by means of corporate governance.

Corporate governance is the way in which the companies are directed and controlled to relieve information asymmetry between two parties which are providers of finance (shareholders and debtholders) and top management). Chi *et al.*(2009) offer two competing perspectives about the possible relationship between conservatism and corporate governance. First is from the *substitutive perspective* which argues that conservatism is greater in situations with more

agency problems. Therefore, a weaker governance structure will lead to a more conservative accounting (demand side of conservatism).

Second from the *complementary* perspective, corporate governance provision plays an important role in the implementation of accounting conservatism, as it help managers and investors to distinguish between good and bad investment opportunities and hence prevent managers from expropriating the wealth of investors. Therefore it is expected that stronger governance firms will recognize bad news on a timelier basis and therefore enhance conservatism (supply side of conservatism).

Instead of these two competing perspectives, this study argues that stronger corporate governance will enhance conservatism based on the governance role of conservatism. First, conservatism can help managers and investors to identify and distinguish between good and bad investment opportunities (project identification), thus giving an important information to the investors and hence prevent managers from expropriating the wealth of investors. Second it helps to reduce the information asymmetry among the investors by firms' pre-commitment to the timely disclosure of high-quality financial accounting information.

Ball and Shivakumar (2005) state that financial reporting quality is a function of the level of market demand. Thus, it is expected that strong corporate governance will demand high quality of financial reporting. A lot of studies have been done to test the relationship between financial reporting quality and corporate governance. Most of the empirical studies found that corporate governance has positive impact on financial reporting quality proxied by decrease in earnings management (Duh et al., 2009), accruals quality (Dhaliwal et al., 2006), value-relevance of accounting numbers (Davis-Friday et al., 2006) and conservatism (Ahmed and Duellman, 2007).

Previous studies have showed that there is positive relationship between conservatism and corporate governance (Beekes et al., 2004, Ahmed and Duellman, 2007, Lara et al., 2009a, Lara et al., 2009b). Those studies have been conducted in the context of developed countries such as United Kingdom (UK) and United States (USA). Testing for endogeneity, Lara *et al.* (2009b) find that the results are consistent with governance causing conservatism but not vice versa, indicating that governance employs conservatism as a mechanism to fulfill its monitoring role.

Therefore we hypothesize that:

H_1 : **Earnings conservatism increases after amendment of MCCG 2007**

4.0   Research Methods

4.1   *Sample Selection and Data Collection*

Our final sample consists of 3183 observations. Financial institutions, insurance and real estate companies are excluded due to different regulatory framework. PN4 companies, companies that change financial year end and companies with missing data are also excluded from the sample. The sample is divided into two periods which are pre-MCCG 2007 (2004 till 2006) and post-MCCG 2007 (2007 till 2009). The year selection is based on effective date for the implementing the amendment of MCCG 2007 is on 1 January 2007.

Data are collected from Compustat Global. Some data such as number of audit committees, number of board of directors, number of meetings and percentage of financial expertise are collected by hand, leading to the uniqueness of our data. The minimum data required for each year firm observation are the current year's earnings, the previous fiscal year-end stock price, book value of assets and equity and returns data (Basu, 1997). Following Vichitsarawong *et al*. (2009) and Ball *et al*. (2003), accounting variables are deflated by the beginning of period price to control for heteroscedasticity. In addition, serial correlation of period SUR is reported for regressions to correct for heteroscedasticity and general correlation of observations within a cross-section. The 1st and 100th percentiles of each variable are excluded to reduce the effect of outliers. Finally, each firm-year observation with a missing value for any of the variables is excluded. Table 1 shows the definition of variables used in this study:

[Insert Table 1 here]

4.2 Model Specification

Asymmetric timeliness of earnings and accounting conservatism were tested using Basu (1997)'s model specification. This model has been tested in Malaysia by Ball *et al*. (2003) and Vichitsarawong *et al.* (2010). Basu (1997) uses reverse regression of annual earnings on contemporaneous returns to investigate the relationship between economic income, as measured by stock returns, and accounting income. The model is shown as follows:

$$N_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 R_{it} + \beta_3 R_{it} \times DR_{it} + \varepsilon_{it} \qquad (1)$$

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; and DR_{it} is dummy variable, equalling one if R_{it} is negative, and zero otherwise.

In this model, a stock returns are the independent variable, while earnings are dependent variable. The coefficient on stock returns β_2 measures the sensitivity of accounting income to positive stock returns (a proxy for economic gains). The coefficient β_3 is the main measurement for earning conservatism which measures the incremental sensitivity of accounting income to the incorporation of bad news as measured by negative stock returns (a proxy for economic losses). The total sensitivity of accounting income to negative stock returns is measured by ($\beta_2 + \beta_3$). The regression model (1) is run for the sample countries during the pre-MCCG 2007 and post-MCCG 2007. This study uses panel data analysis to accounts for individual heterogeneity (Baltagi, 2008).

5.0 Empirical Results

5.1 Descriptive Statistics

Table 2 reports descriptive statistics for all the variables within the periods. The mean (median) value for the dependent variable which is earnings 4.391 (0.000), while the mean (median) for return (log) is -0.067(-0.013). Panel B presents the descriptive statistics for corporate governance variables. In average, 25% of board of directors have accounting expertise with maximum number of 100% and it is only about 2% of them have finance expertise with maximum number only 40% showing the importance of accounting over finance expertise in the composition of board of directors. About 39% of the audit committees are financially literate

and 93% of the firms consist of at least one of the audit committee being a member of an accounting association or body. The mean for audit committee meeting with external auditors is 0.566 which is less than 1. The result shows that most of the companies still cannot achieve the MCCG 2007 requirement for the audit committees to have meetings with external auditors without executive board members present at least twice a year. From our data, only 12 percent of the companies disclose that the audit committees held two meetings a year or more with external auditors without executive board members while 32 percent of them only held one meeting. The rest which is 56 percent do not held any meetings with external auditors without executive board members. Nevertheless, the result is hard to conclude as majority of the firms do not disclose the number of meetings that they held with external auditors. Therefore we conclude that majority of them do not held the meeting.

[Insert Table 2 here]

5.2 *Univariate Analyses*

Table 3 presents both the Pearson and Spearman correlations for the test variables. Generally, there is no serious multi-collinearity issue between the variables. All the correlation coefficient of about 0.3 or lower except for the correlation coefficient between the corporate governance variables. For example the Pearson correlation coefficient between *ACCTG_EXPERT_PERC* and *AUCOMM_FINLITERATE_PERC* is 0.606 and the Spearman correlation coefficient between *AUCOMM_NONEXEC_PERC* and *AUCOMM_INDNONEXEC_PERC* is 0.517. Therefore those variables are run separately in a regression.

[Insert Table 3 here]

Table 4 presents differences in the mean and median values of our measures of corporate governance and institutional culture variables for the periods before and after the amendment of the MCCG in 2007. The table shows a significant improvement in some of the corporate governance variables after 2007. *ACCTG_EXPERT_PERC* has increased from 24 percent to 26 percent after MCCG 2007 and the increment is highly significant at both of the tests, t-test and Mann-Whitney test. *AUCOMM_FINLITERATE_PERC* is also increase after MCCG 2007 from 38% to 40% and the increment is also highly significant at both of the tests, t-test and Mann-Whitney test. Both *AUCOMM_INDNONEXEC_PERC* and *AUCOMM_NONEXEC_PERC* have increased almost 20% after amendment of the MCCG in 2007 from 71.62 percent to 82.68 percent and from 79.08 percent to 93.17 percent respectively. The high increment indicates the positive effect of MCCG 2007 but yet firms are still not complying with the requirement of MCCG 2007 as the code requires that all members of the audit committee should be non-executive directors. *NUM_AUCOMMEETINGS* is also significantly improved after MCCG 2007. Other variables such as *FINANCE_EXPERT_PERC* and *D_MEMBERASSOC* have also showed an improvement after MCCG 2007 but the difference is not significant. The average *MEETINGS_EXTERNALAUD* shows significant increment after MCCG 2007 with the mean increase from 0.251 to 0.807. The result shows that most of the firms still do not comply even with the MCCG 2000 which requires firms to have at least one meeting with external auditors without the present of executive board members.

[Insert Table 4 here]

5.2 *Multivariate Analyses*

Table 5 reports the regression results for model (1) in the pre-MCCG and post-MCCG. The intercept is significantly positive as predicted by Basu (1997). Supporting H_1, the result shows that earning conservatism increase after MCCG 2007 and it is significant at 5 percent

level. The result indicates the positive effect of MCCG 2000 and the positive effect is better after the amendment of MCCG 2007. The result supports Abdul Wahab, How and Verhoeven (2007) who view that the establishment of the Malaysian Code on Corporate Governance (MCCG) has been recognized as one of the recommendations to solve the problem of transparency among firms in Malaysia. Consistent with previous studies (Ahmed and Duellman, 2007, Lara et al., 2009a, Kousenidis et al., 2009, Jiang et al., 2008, Houqe et al., 2010), the result supports that corporate governance provides greater monitoring of financial reporting and hence firms with strong corporate governance experience significantly improved quality of earnings i.e conservatism.

[Insert Table 5 here]

5.3   *Further Analysis*

We continue our analysis on which of the developed corporate governance variables in the amendment of MCCG 2007 works the best and contributes to the positive effect of conservatism as corporate governance mechanisms vary according to its functions. Based on the amendment of MCCG in 2007, four corporate governance variables that we focused on which are board qualification, audit committee expertise, audit committee independence and audit committee meetings. The variables are explained in Table 1. For the purpose of this analysis, each of the corporate governance variables is interacted with each of variables in Basu's model as stated below:

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 CG\_VARIABLES_{it} + \beta_5 CG\_VARIABLES_{it} * DR_{it} +$$
$$\beta_6 CG\_VARIABLES_{it} * R_{it} + \beta_7 CG\_VARIABLES_{it} * R_{it} * DR_{it}$$

where all variables are as described above and *CG_VARIABLES* are described in Table 1.

The coefficient β_3 measures earning conservatism whereas β_7 measures the interaction between earning conservatism and corporate governance variables. The equation is run separately for the period before and after MCCG to determine the effect of corporate governance variables on earning conservatism before and after MCCG 2007.

The result demonstrates that there is significant positive relationship (at 5 percent level) between earning conservatism and percentage of accounting expertise after MCCG 2007. The result is consistent with the previous researches who find that there is positively and significantly correlation between accounting financial expertise and stock market reaction (Defond et al., 2005), conservatism (Krishnan and Visvanathan, 2008), accruals quality (Dhaliwal et al., 2010), improved financial disclosure timeliness (Schmidt and Wilkins, 2011) and less likely to be identified with internal control weakness (Zhang et al., 2007) .

The result support the arguments made by Krishnan and Visvanathan (2008) on why accounting expertise is expected to enhance conservatism. First, directors with accounting expertise have better capability to differentiate between conservative and aggressive accounting policies. Second, they have capability to evaluate the nature and appropriateness of accounting choices made by managers. Third, as risk of litigation is heavily placed on accounting expertise, an accounting expertise has more incentives to promote accounting conservatism.

[Insert Table 6 here]

9

Contrary to the result of accounting expertise, our result finds that there is no significant relationship between earning conservatism and percentage of finance expertise, providing evidence that accounting financial experts can enhance the quality of financial reporting more than those who have non-accounting expertise. The result is consistent with the findings by Krishnan and Visvanathan (2008) as they find no correlation between conservatism and non-accounting financial expertise. Both the results of board qualification therefore contend the general requirement of MCCG 2007 to provide narrower definition of board of directors' qualification by specifying accounting qualification.

[Insert Table 7 here]

For audit committee expertise, MCCG 2007 requires that all audit committee should be financially literate and at least one should be a member of an accounting association. Financially literate is defined as prescribed by code as 'all its members should be able to read, analyse and interpret financial statements so that they will be able to effectively discharge their functions'. As the interpretation of financially literate is made in broad-spectrum, we define financially literate percentage as having either finance or accounting or both backgrounds. This is because accounting is a subset of finance and thus those who are having finance qualification is also expected to be able to read, analyse and interpret financial statements.

The result of this study shows that there is significant positive relationship between earning conservatism and percentage of audit committees that are financially literate after MCCG 2007 supporting the hypothesis that MCCG 2007 enhance earning conservatism. The result support the view that audit committees that have financial expertise are less likely to have fraudulent financial reporting (Farber, 2005) earning restatements (Agrawal and Chadwa, 2005, Abbott et al., 2004) and more likely to have forecast updates (Karamanou and Vafeas, 2005). The important of having financial expertise on audit committee also have been agreed by international authoritive bodies such as Commonwealth of Australia, European Commission and Financial Reporting Council (FRC).

[Insert Table 8 here]

On the other hand, we find that there is no association between conservatism and being a member of an accounting association body. We conclude the result as having accounting qualification is more vital than having specific accounting experience by being a member of an accounting association or body. The result is therefore rejecting the view that effective audit committee members are those who have experience rather that those who have an accounting of financial background.

[Insert Table 9 here]

The table 8 and 9 provides no evidence to support the proposition that there is stronger positive relationship between earning conservatism and audit committee independence as both of the tables report that there is insignificant relationship between earning conservatism and *AUCOMM_NONEXEC_PERC* as well as *AUCOMM_INDNONEXEC_PERC* after MCCG 2007, even though the result before MCCG 2007 shows significant positive relationship between those variables.

We offer the following explanations for the insignificant findings. First, as the percentage of independent non-executive audit committee increase to even approximately hundred percent, it does not necessarily lead to better financial reporting quality. Rainsbury, Bradbury, and Cahan (2009) find that there is no relationship between audit committee independence and the accounting choices (whether aggressive or conservative or in between). They state that

the benefits of having high quality audit committees may be less than anticipated by regulators and policymakers. Therefore they conclude that imposing 'best practice' membership requirements on all firms is unlikely to lead to a significant improvement in financial reporting while, at the same time, imposing unnecessary compliance costs. The result is supported by Klein (2002) who find that there is no relationship between earnings management and audit committee independence when there is more stringent regulations of hundred percent of independence audit committee.

Second, the classification of board of directors or audit committees into independent and non-independent is still questionable, whether the independent audit committees are truly independent or not. Even though the definition of independent directors has been amended in 2008 when Bursa Malaysia (BM) revised its listing rules where major shareholder can nominate an independent director in certain circumstances, the institutional setting of Malaysia is still influenced by relationship based economy. Therefore the nomination can still be influenced by close relationship between directors and shareholders.

CLSA Asia Pacific Market report on overall of Malaysia's performance in Corporate Governance Watch 2007 reported that there is little confidence in the Malaysian market that independent directors are genuinely independent. Although public enforcement efforts have improved, the report blames the regulators for not having reputation for treating companies and individuals equally. The CLSA committees make consensus that it is the **politic** that hampers the ability of regulators to do their job properly (CLSA, 2007). The CLSA report in 2010 once again highlight this issue as they pointed out that the main area of weaknesses in Malaysian corporate governance is on accountability and the number of independent audit committees.

[Insert Table 10 here]
[Insert Table 11 here]

Tables 12 to 15 provide results for audit committee meetings. Contrary to past researches which document that higher frequency of audit meetings is associated with factors that can enhance financial reporting quality (Abbott and Parker, 2000; Beasley, Carcello, Hermanson and Lapides, 2000; Abbott *et al.,* 2004; Anderson *et al.,* 2004), we find that there is negative significant relationship between earning conservatism and number of audit committee meetings. The result in table 12 shows that there is negative relationship between earning conservatism and *NUM_AUCOMMEETINGS* and the negative relationship become even stronger after MCCG 2007 as it is significant at 1 percent level.

[Insert Table 12 here]

The result is quite surprising as most of previous researches do support that audit committee meeting is an important element to solve firm's problems such as internal control weaknesses (Zhang *et al.*, 2007) and to help audit committee in carrying out their monitoring responsibilities (Anderson et al., 2004). Therefore we rerun the test by alternative variable for audit committee meetings which are *D_AUCOMMEETINGS,* a dummy variable coded as '1' if audit committee meetings more than five and '0' otherwise. The variable is set as the result for descriptive statistic shows that the mean for audit committee meetings are five. We posit that the result is significantly negative as having too many meetings may lead to lower financial reporting quality. This is because the meetings might be used by the audit committees as a place to discuss unimportant issue or issues that are not related to their responsibilities.

The result in table 13 supports that having more than five meetings lead to negative relationship between earning conservatism and number of audit committee meeting even before MCCG 2007. We rerun the test once again by replacing the variable $D\_AUCOMMEETINGS$ with $D\_AUCOMMEETINGS2$ which is a dummy variable coded as '1' if audit committee meetings less or equal to five and '0' otherwise in table 6.15. An interesting finding is that the interaction variable $D\_AUCOMMEETINGS2*DR*R$ in table 14 is significantly positive and the relationship become even stronger after MCCG 2007. The result indicates that there is significant positive relationship between earning conservatism and number of audit committee meetings when the meeting is equal or less than five.

[Insert Table 13 here]

[Insert Table 14 here]

The result of the tests indicate that audit committee meetings is an indicator of the overall demand for monitoring of the firm's financial reporting process (Goodwin-Stewart and Kent, 2006; Engel, Hayes and Wang, 2010) and hence is believed to be translated into higher financial reporting transparency. Nevertheless, having too many meetings in a year may lead to lower financial reporting quality as audit committee may use the meetings as a place to discuss issues that are unrelated to their monitoring task. The result indicates four to five meetings are the best benchmark for having effective mechanism for audit committees to carry out their responsibilities. The 1999 Blue Ribbon Committee Report likewise advocates that the audit committee can best assure the quality of the financial statements by having at least 4 meetings a year (Morrissey, 2000).

Table 15 provides regression results for the determinants of earning conservatism measured by $MEETINGS\_EXTERNALAUD$. The MCCG 2000 has been amended in MCCG 2007 to increase the number of audit committee meetings with external auditor without the present of executive members from one to two meetings in a year. The objective of the test is not simply to test the effect of audit committee meetings to the earning conservatism, but the purpose of the test is also to test the independence of audit committee as such the MCCG code has require the meetings to be held without the present of executive board members. The result indicates that the interaction variable $MEETINGS\_EXTERNALAUD*DR*R$ is insignificant even before MCCG 2007. The result therefore concludes that there is no evidence to support that additional meetings held by audit committee without the present executive board members will enhance financial reporting quality.

We provide two possible reasons for the insignificant result. First, even though the regulators has amended MCCG 2007 to increase the number of meetings with external auditors without executive board members from one to two meetings, the result of univariate analysis indicates that the mean after MCCG 2007 is only 0.807 which is still less than one. Even though there is significant increase after MCCG 2007 from mean 0.251 to 0.806, the average number of meeting is still less than one which indicates that most of the companies did not held the meeting or only held only one meeting a year.

Second, even the regulator has increased the number of meetings from one two meetings a year, it does not give any effect to the financial reporting quality as the code require that the meetings are to be held without executive board members. The major issue here is whether the disclosure made is truly conducted in companies operation. The issue has also been highlighted in CLSA report in 2010 which reports that even though the corporate governance score of Malaysia increase in 2010 from 49 percent to 52 percent, yet doubts still remain whether the change is genuine change or is only part of window dressing(CLSA, 2010). The

result is consistent with the effect of audit committee independence (*AUCOMM_NONEXEC_PERC* and *AUCOMM_INDNONEXEC_PERC*) on earning conservatism which also shows insignificant result even after MCCG 2007.

[Insert Table 15 here]

6.0   Conclusion

Overall, our results are consistent with the CLSA Asia Pacific Market report on overall of Malaysia's performance in Corporate Governance Watch 2010 that Malaysia is doing well in their corporate governance rules and practices. Enforcement category also has been improved as SC has been actively promoting good governance. Consistent with our findings, the report revealed that the regulators are trying hard to better the system as the political and regulatory environment show better improvement compared to before the amendment of MCCG 2007. Based on our analysis, among the amendment that contributes to the improvement are percentage of accounting experts, percentage of financial literate of audit committees and number of audit committee meetings. All the variables show significant positive relationship with earning conservatism and hence we conclude that they are among the determinants of earning conservatism.

Instead of the improvement, the results provides no evidence to support the proposition that there is stronger positive relationship between earning conservatism and audit committee independence as the results show that there is insignificant relationship between earning conservatism and *AUCOMM_NONEXEC_PERC* as well as *AUCOMM_INDNONEXEC_PERC* after MCCG 2007, even though the result before MCCG 2007 shows significant positive relationship between those variables. We conclude that there is still a doubt whether audit committees in Malaysia whether they are genuinely independent and the increment in percentage of non-executive as well as independent non-executive directors in Malaysia might be a part of financial reporting window dressing.

The result is consistent with the CLSA Asia Pacific Market which report that even though Malaysia's overall performance has improved from the score 44% in 2007 to 49% in 2010 with better improvement in enforcement category, Malaysia's score for corporate governance culture drop one percent from the score 33% in 2007 to 32% in 2010. Comparing the governance score between political and regulatory and corporate governance culture of eleven market in Asia, the gap between these two scores is greatest in Malaysia showing that corporate governance culture still poses a threat to the corporate governance practices in Malaysia even though there is improvement in the enforcement and regulatory system in Malaysia:

> *Malaysia retained its sixth spot in our rankings this year, but with a higher overall score of 52% compared to 49% in 2007. Regulators have been making steady progress in the past three years and appear more open to listening to the market. Yet doubts remain. A major issue we have is how much of this is window dressing and how much is genuine change? Will this take corporate governance practices beyond box-ticking? These uncertainties are why Malaysia's CG culture score recorded a one-percentage drop this year, whereas all other categories saw improvement.*
> *(CLSA, 2010, pg. 87)*

Therefore future research can be extended to investigate the effect of earning conservatism, MCCG and Malaysian institutional culture as Malaysia has unique institutional setting which

can be described as more concentrated ownership (La Porta et al., 1999, Claessens and Fan, 2003), less shareholders' activism (Satkunasingam and Shanmugam, 2006) and less enforcement (Ball et al., 2000, Ball et al., 2003).

7.0   References

ABBOTT, L. J., PARKER, S. & PETERS, G. F. 2004. Audit Committee Characteristics and Restatements. *Auditing: A Journal of Practice & Theory,* 23**,** 69-87.

ABDUL WAHAB, E. A., HOW, J. C. Y. & VERHOEVEN, P. 2007. The Impact of the Malaysian Code on Corporate Governance: Compliance, Institutional Investors and Stock Performance. *Journal of Contemporary Accounting & Economics,* 3**,** 106-129.

AGRAWAL, A. & CHADWA, S. 2005. Corporate Governance and Accounting Scandals. *Journal of Law and Economics,* 48**,** 371-406.

AHMED, A. S. & DUELLMAN, S. 2007. Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics,* 43**,** 411-437.

ANDERSON, R. C., MANSI, S. A. & REEB, D. M. 2004. Board characteristics, accounting report integrity,and the cost of debt. *Journal of Accounting and Economics,* 37**,** 315-342.

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.

BALL, R., ROBIN, A. & SHUANG WU, J. 2003. Incentives versus standards: properties of accounting income in four East Asian countries. *Journal of Accounting and Economics,* 36**,** 235-270.

BALL, R. & SHIVAKUMAR, L. 2005. Earnings Quality in UK Private Firms:Comparative Loss Recognition Timeliness. *Journal of Accounting and Economics,* 39**,** 83-128.

BALTAGI, B. H. 2008. *Econometric Analysis of Panel Data,* The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, UK, John Wiley & Sons Ltd.

BASU, S. 1997. The conservatism principle and the asymmetric timeliness of earnings *Journal of Accounting and Economics,* 24**,** 3-37.

BEEKES, W., POPE, P. & YOUNG, S. 2004. The Link Between Earnings Timeliness, Earnings Conservatism and Board Composition: evidence from the UK. *Corporate Governance: An International Review,* 12.

CHI, W., LIU, C. & WANG, T. 2009. What affects accounting conservatism: A corporate governance perspective. *Journal of Contemporary Accounting and Economics,* 5**,** 47-59.

CLAESSENS, S., DJANKOV, S. & LANG, L. 2000. Separation of ownership from control of East Asian firms. *Journal of Financial Economics,* 58**,** 81-112.

CLAESSENS, S. & FAN, P. H. J. P. 2003. Corporate Governance in Asia: A Survey. SSRN.

CLSA, A. P. M. 2007. CG Watch 2007: Corporate Governance in Asia.

CLSA, A. P. M. 2010. Corporate Governance Watch 2010: Corporate governance in Asia.

DAVIS-FRIDAY, P. Y., ENG, L. L. & CHAO-SHIN, L. 2006. The effects of the Asian crisis, corporate governance and accounting system on the valuation of book value and earnings. *The International Journal of Accounting,* 41.

DEFOND, M. L., HANN, R. N. & HU, X. 2005. Does the Market Value Financial Expertise on Audit Committees of Boards of Directors? *Journal of Accounting Research,* 43.

DHALIWAL, D., NAIKER, V. & NAVISSI, F. 2010. The Association Between Accruals Quality and the Characteristics of Accounting Experts and Mix of Expertise on Audit Committees. *Contemporary Accounting Research,* 27.

DHALIWAL, D. S., NAIKER, V. & NAVISSI, F. 2006. Audit Committee Financial Expertise, Corporate Governance and Accruals Quality: An Empirical Analysis. SSRN.

DUH, R.-R., LEE, W.-C. & LIN, C.-C. 2009. Reversing an impairment loss and earnings management: The role of corporate governance. *The International Journal of Accounting,* 44**,** 113-137.

FARBER, D. 2005. Restoring trust after fraud: Does corporate governance matter? *The Accounting Review,* 80**,** 539-561.

FRANCIS, J., LAFOND, R., OLSSON, P. M. & SCHIPPER, K. 2004. Cost of Equity and Earning Attributes. *The Accounting Review,* 79**,** 967-1010.

HOUQE, N., ZIJL, T. V., DUNSTAN, K. L. & KARIM, A. K. M. W. 2010. Does Corporate Governance affect Earnings Quality: Evidence from an Emerging Market. *Academy of Taiwan, Business Management Review, Forthcoming. ,* Available at SSRN: http://ssrn.com/abstract=1726134.

JAGGI, B., LEUNG, S. & GUL, F. 2009. Family control, board independence and earnings management: Evidence based on Hong Kong firms. *Journal of Accounting Public Policy,* 28**,** 281-300.

JIANG, W., LEE, P. & ANANDARAJAN, A. 2008. The Association Between Corporate Governance and Earnings Quality: Further Evidence Using GOV-Score. *Advances in Accounting, Incorporating Advancesin International Accounting,* 24**,** 191-201.

KARAMANOU, I. & VAFEAS, N. 2005. The Association between Corporate Boards, Audit Committees, and Management Earnings Forecasts: An Empirical Analysis. *Journal of Accounting Research,* 43**,** 453-486.

KOUSENIDIS, D. V., C.LADAS, A. & I.NEGAKIS, C. 2009. Value Relevance of Conservatisve and Non-Conservative Accounting Information *The International Journal of Accounting,* 44**,** 219-238.

KRISHNAN, G. V. & VISVANATHAN, G. 2008. Does the SOX Definition of an Accounting Expert Matter? The Association between Audit Committee Directors' Accounting Expertise and Accounting Conservatism. *Contemporary Accounting Research,* 25**,** 827-858.

KUNG, F.-H., TING, C.-W. & JAMES, K. 2008. Accounting conservatism in Greater China: the influence of institutions and incentives. *Asian Review of Accounting,* 16.

LA PORTA, R., LOPEZ DE SILANES, F., SHLEIFER, A. & VISHNY, R. W. 1999. Investor Protection and Corporate Governance. SSRN.

LARA, J. M. G., OSMA, B. G. & FERNANDO, P. 2009a. Accounting conservatism and corporate governance. *Review Accounting Study,* 14**,** 161-201.

LARA, J. M. G., OSMA, B. G. & PENALVA, F. 2009b. Board of Directors' Characteristics and Conditional Accounting Conservatism: Spanish Evidence. *European Accounting Review,* 16**,** 727-755.

LEVITT, A. 1998. The Numbers Game. New York: Presentation at the New York University Center for Law and Business.

MOHAMMED, N. F., AHMED, K. & JI, X. D. 2011. Accounting Conservatism, Corporate Governance and Political Influence: Evidence from Malaysia. http://www.afaanz.org/openconf/2011/modules/request.php?module=oc_proceedings &action=view.php&a=Accept+as+Paper&id=56.

RAINSBURY, E. A., BRADBURY, M. & CAHAN, S. F. 2009. The impact of audit committee quality on financial reporting quality and audit fees. *Journal of Contemporary Accounting & Economics,* 5**,** 20-33.

SATKUNASINGAM, E. & SHANMUGAM, B. 2006. The Consequences of Culture on Shareholder Activism in Malaysia. *Journal of Applied Management Accounting Research,* 4**,** 45-56.

SCHMIDT, J. J. & WILKINS, M. S. 2011. Bringing Darkness to Light: The Influence of Auditor Quality and Audit Committee Expertise on the Timeliness of Financial Statement Restatement Disclosures. *Available at SSRN: http://ssrn.com/abstract=1787008 or http://dx.doi.org/10.2139/ssrn.1787008.*

THE MALAYSIAN BAR COUNCIL. 2007. *PM's Budget 2008 Speech* [Online]. The Malaysian Bar Council.

VICHITSARAWONG, T., ENG, L. L. & MEEK, G. K. 2010. The Impact of the Asian Financial Crisis on Conservatism and Timeliness of Earnings: Evidence from Hong Kong, Malaysia, Singapore, and Thailand. *Journal of International Financial Management and Accounting,* 21**,** 32-61.

WATTS, R. L. 2003. Conservatism in Accounting Part I: Explanations and Implications. *Accounting Horizons,* 17**,** 207-221.

WHITTINGTON, G. 1993. Corporate governance and the regulation of financial reporting. *Accounting and Business Research,* 23**,** 311-319.

ZHANG, Y., ZHOU, J. & ZHOU, N. 2007. Audit committee quality, auditor independence, and internal control weaknesses. *Journal of Accounting and Public Policy,* 26**,** 300-327.

Table 1   Description of Variables

Variables	Symbol	Definition
PANEL A:EARNING CONSERVATISM		
Earnings/price	N	net income before extraordinary items per share of firm i, deflated by beginning of period share price
Returns	R	fiscal year continuously compounded return
Negative returns	DR	dummy variable that takes the value of one if return is negative, and zero otherwise
PANEL B: CG_VARIABLES		
Percentage of accounting expert	ACCTG_EXPERT_PERC	calculated as percentage of board of directors that has accounting expertise
Percentage of finance expert	FINANCE_EXPERT_PERC	calculated as percentage of board of directors that has finance expertise
Percentage of audit committee that are financially literate	AUCOMM_FINLITERATE_PERC	calculated as percentage of audit committee that are financially literate
Audit committee that is a member of an accounting association or body	D_MEMBERASSOC	dummy variable; coded as '1' if at least one of the audit committee being a member of an accounting association or body and '0' otherwise
Percentage of independent non-executive audit committee	AUCOMM_INDNONEXEC_PERC	calculated as percentage of audit committee that are solely independent non-executive directors
Percentage of non-executive audit committee	AUCOMM_NONEXEC_PERC	calculated as percentage of audit committee that are solely non-executive directors
Number of audit committee meetings	NUM_AUCOMMEETINGS	calculated as how many times meetings are conducted
Number of audit committee meetings with external auditors	MEETINGS_EXTERNALAUD	Calculated as how many times audit committees conduct meetings with external auditors

Table 2   Descriptive Statistics

PART 1	Mean	Median	Maximum	Minimum	Std. Dev.
PANEL A – EARNING CONSERVATISM					
N	4.391	0.000	152.516	-73.638	11.840
R	1.170	0.988	14.444	0.137	1.120
R (log)	-0.067	-0.013	2.670	-1.987	0.638
DR	0.509	1.000	1.000	0.000	0.500
PANEL B – CG_VARIABLES					
ACCTG_EXPERT_PERC	25.182	22.222	100.000	0.000	13.820
FINANCE_EXPERT_PERC	1.942	0.000	40.000	0.000	5.475
AUCOMM_FINLITERATE_PERC	38.880	33.333	100.000	0.000	18.670
D_MEMBERASSOC	0.934	1.000	1.000	0.000	0.248
AUCOMM_NONEXEC_PERC	87.045	100.000	100.000	50.000	15.222
AUCOMM_INDNONEXEC_PERC	77.868	75.000	100.000	33.333	14.530
NUM_AUCOMMEETINGS	4.905	5.000	18.000	0.000	1.276
MEETINGS_EXTERNALAUD	0.566	0.000	4.000	0.000	0.711

PART 2	Percentage of dummy variable for pooled sample period	
Dummy variables	1	0
PANEL A - MAIN VARIABLES		
DR	50.519	49.481
PANEL B - CORPORATE GOVERNANCE VARIABLES		
D_MEMBERASSOC	93.474	6.526

Table 3   Correlation Matrix

Pearson and Spearman Rank (in italic and bold) correlations are reported in the table.

	N		R		R(log)		DR		CG1		CG2	
N	1.000		*0.139*	***	*0.139*	***	*-0.120*	***	*-0.043*	**	*-0.027*	
R	0.205	***	*1.000*		*1.000*		*-0.866*	***	*0.017*		*-0.003*	
R (log)	0.190	***	0.792	***	*1.000*		*-0.866*	***	*0.017*		*-0.003*	
DR	-0.143	***	-0.479	***	-0.731	***	*1.000*		*-0.017*		*-0.019*	
ACCTG_EXPERT_PERC (CG1)	-0.019		0.024		0.025		-0.026		*1.000*		*-0.055*	***
FINANCE_EXPERT_PERC (CG2)	-0.025		-0.006		-0.016		-0.019		-0.067	***	*1.000*	
AUCOMM_FINLITERATE_PERC (CG3)	-0.012		-0.012		0.010		-0.010		0.606	***	0.102	***
D_MEMBERASSOC (CG4)	0.016		0.025		0.031	*	-0.022		0.239	***	-0.110	***
AUCOMM_NONEXEC_PERC (CG5)	0.007		0.047	***	0.055	***	-0.076	***	0.147	***	-0.016	
AUCOMM_INDNONEXEC_PERC (CG6)	0.018		0.031	*	0.034	*	-0.045	***	0.053	***	-0.003	
NUM_AUCOMMEETINGS (CG7)	-0.007		-0.048	***	-0.055	***	0.040	**	0.042	**	0.014	
MEETINGS_EXTERNALAUD (CG8)	0.001		0.037	**	0.055	***	-0.078	***	0.109	***	-0.011	

Continued   Correlation Matrix

	CG3		CG4		CG5		CG6		CG7		CG8	
N	*-0.033*	*	*0.034*	*	*-0.014*		*0.018*		*-0.021*		*0.013*	
R	*-0.002*		*0.029*	*	*0.064*	***	*0.031*	*	*-0.035*	*	*0.065*	***
R (log)	*-0.002*		*0.029*	*	*0.064*	***	*0.031*	*	*-0.035*	*	*0.065*	***
DR	*0.001*		*-0.022*		*-0.076*	***	*-0.043*	**	*0.024*		*-0.076*	***
ACCTG_EXPERT_PERC (CG1)	*0.553*	***	*0.223*	***	*0.158*	***	*0.062*	***	*0.018*		*0.108*	***
FINANCE_EXPERT_PERC (CG2)	*0.108*	***	*-0.099*	***	*-0.005*		*-0.005*		*0.036*	**	*0.002*	
AUCOMM_FINLITERATE_PERC (CG3)	*1.000*		*0.236*	***	*0.070*	***	*0.006*		*-0.015*		*0.056*	***
D_MEMBERASSOC (CG4)	0.285	***	*1.000*		*0.036*	**	*0.039*	**	*0.007*		*0.056*	***
AUCOMM_NONEXEC_PERC (CG5)	0.056	***	0.032	*	*1.000*		*0.517*	***	*0.093*	***	*0.383*	***
AUCOMM_INDNONEXEC_PERC (CG6)	0.046	***	0.027		0.543	***	*1.000*		*0.064*	***	*0.280*	***
NUM_AUCOMMEETINGS (CG7)	0.029		0.019		0.107	***	0.049	***	*1.000*		*0.114*	***
MEETINGS_EXTERNALAUD (CG8)	0.053	***	0.059	***	0.379	***	0.304	***	0.124	***	*1.000*	

Table 4 **Univariate Analysis of Differences in Main Variables of Conservatism and Corporate Governance Variables in the Pre- and Post MCCG 2007**

Significant p-values are in bolds. The figures in parentheses denote Chi-square statistics.

	Pre MCCG (n=1384)			Post MCCG (n=1799)			p-value t-test	p-value Mann-Whitney
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.		
PANEL A - EARNING CONSERVATISM								
N	4.247	0.000	11.050	4.502	0.000	12.416	0.646	0.728
R	1.113	0.926	1.117	1.214	1.000	1.121	**0.006**	0.000
R(log)	-0.119	-0.077	0.637	-0.027	0.000	0.636	**0.000**	0.000
DR	0.568	1.000	0.496	0.464	0.000	0.499	(0.000)	0.000
PANEL B - CG_VARIABLES								
ACCTG_EXPERT_PERC	23.615	20.000	13.284	26.387	25.000	14.104	**0.000**	0.000
FINANCE_EXPERT_PERC	1.924	0.000	5.487	1.955	0.000	5.467	0.885	0.850
AUCOMM_FINLITERATE_PERC	37.783	33.333	18.359	39.725	33.333	18.868	**0.002**	0.000
D_MEMBERASSOC	0.934	1.000	0.248	0.934	1.000	0.248	(0.990)	0.990
AUCOMM_NONEXEC_PERC	79.079	75.000	14.381	93.174	100.000	12.828	**0.000**	0.000
AUCOMM_INDNONEXEC_PERC	71.616	66.667	9.632	82.678	75.000	15.780	**0.000**	0.000
NUM_AUCOMMEETINGS	4.860	5.000	1.249	4.939	5.000	1.296	**0.084**	0.016
MEETINGS_EXTERNALAUD	0.251	0.000	0.472	0.807	1.000	0.768	**0.000**	0.000

Table 5   Earning Conservatism and Corporate Governance

$$\beta_0 + \beta_1 DR_{it} + \beta_2 R_{it} + \beta_3 R_{it} xDR_{it} + \beta_4 D\_MCCG + \beta_5 D\_MCCGxDR_{it} +$$
$$\beta_6 D\_MCCGxR_{it} + \beta_7 D\_MCCGxR_{it} xDR_{it} + \varepsilon$$

Regressions	1		2		3		4		5		6	
Dependent variable						Earning Conservatism *(DR*R)*						
Intercept	2.884	**	3.215	**	2.988	**	3.579	**	3.156	**	2.604	*
	1.988		*2.220*		*2.049*		*2.435*		*2.134*		*1.741*	
DR	-0.319		-0.835		-0.338		-1.351	*	-0.435		-0.391	
	-0.540		*-1.356*		*-0.573*		*-1.947*		*-0.537*		*-0.482*	
R	5.491	***	5.355	***	5.492	***	5.492	***	6.609	***	7.911	***
	7.763		*7.529*		*7.764*		*7.767*		*7.766*		*7.986*	
DR*R	-4.107	***	-3.425	***	-4.109	***	-4.099	***	-4.323	***	-6.546	***
	-4.188		*-3.380*		*-4.189*		*-4.180*		*-4.420*		*-4.969*	
D_MCCG					-0.172		-1.099	**	-0.373		0.474	
					-0.430		*-1.970*		*-0.554*		*0.608*	
D_MCCG*DR							1.780	**	0.117		0.249	
							2.379		*0.103*		*0.219*	
D_MCCG*R									-1.790	**	-3.884	***
									-2.014		*-2.866*	
D_MCCG*DR*R											**3.959**	**
											2.151	
Period fixed	No		Yes		No		No		No		No	
Industry dummies	Yes		Yes		Yes		Yes		Yes		Yes	
R-squared	0.046		0.050		0.046		0.047		0.049		0.050	
Adjusted R-squared	0.042		0.045		0.042		0.043		0.044		0.045	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and D_MCCG is the dummy variable which takes the value of 1 for period after MCCG 2007 and 0 otherwise. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 6   Earning conservatism and percentage of accounting expertise: pre and post MCCG 2007

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 ACCTG\_EXPERT\_PERC_{it} + \beta_5 ACCTG\_EXPERT\_PERC_{it} * DR_{it} +$$
$$\beta_6 ACCTG\_EXPERT\_PERC_{it} * R_{it} + \beta_7 ACCTG\_EXPERT\_PERC_{it} * R_{it} * DR_{it}$$

Regressions	Pre MCCG (n=1387)		Post MCCG (n=1831)	
	1	2	3	4
Intercept	3.367	3.757	4.219 *	4.424 *
	1.441	*1.610*	*1.655*	*1.737*
DR	-0.591	-1.141	1.541	1.111
	-0.351	*-0.674*	*0.855*	*0.610*
R	4.735 **	4.390 **	9.361 ***	9.386 ***
	2.419	*2.232*	*4.397*	*4.408*
DR*R	-2.507	-1.537	-7.692 ***	-7.419 **
	-0.944	*-0.570*	*-2.583*	*-2.488*
ACCTG_EXPERT_PERC	-0.038	-0.035	0.033	0.034
	-0.884	*-0.813*	*0.792*	*0.820*
ACCTG_EXPERT_PERC*DR	-0.002	-0.004	-0.060	-0.058
	-0.039	*-0.058*	*-0.968*	*-0.949*
ACCTG_EXPERT_PERC*R	0.125 *	0.126 *	-0.194 ***	-0.196 ***
	1.781	*1.795*	*-2.859*	*-2.887*
ACCTG_EXPERT_PERC*DR*R	**-0.171** *	**-0.170** *	**0.188** *	**0.194** **
	-1.770	***-1.765***	***1.916***	***1.980***
Period fixed	No	Yes	No	Yes
Industry dummies	Yes	Yes	Yes	Yes
R-squared	0.086	0.093	0.040	0.042
Adjusted R-squared	0.075	0.080	0.031	0.032

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise; and $ACCTG\_EXPERT\_PERC$ is percentage of board of directors that has accounting expertise. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 7 **Earning conservatism and percentage of finance expertise: pre and post MCCG 2007**

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 FINANCE\_EXPERT\_PERC_{it} + \beta_5 FINANCE\_EXPERT\_PERC_{it} * DR_{it} +$$
$$\beta_6 FINANCE\_EXPERT\_PERC_{it} * R_{it} + \beta_7 FINANCE\_EXPERT\_PERC_{it} * R_{it} * DR_{it}$$

Regressions	Pre MCCG (n=1387)				Post MCCG (n=1831)			
	1		2		3		4	
Intercept	2.299		2.794		5.466	**	5.704	**
	1.116		*1.355*		*2.373*		*2.478*	
DR	-0.520		-1.127		-0.172		-0.576	
	-0.593		*-1.240*		*-0.193*		*-0.621*	
R	8.030	***	7.699	***	4.200	***	4.189	***
	7.605		*7.242*		*4.019*		*4.009*	
DR*R	-6.800	***	-5.830	***	-2.629	*	-2.234	
	-4.789		*-3.933*		*-1.771*		*-1.480*	
FINANCE_EXPERT_PERC	0.059		0.050		-0.078		-0.075	
	0.557		*0.476*		*-0.728*		*-0.696*	
FINANCE_EXPERT_PERC*DR	-0.056		-0.048		0.022		0.020	
	-0.351		*-0.302*		*0.146*		*0.130*	
FINANCE_EXPERT_PERC*R	-0.175		-0.162		-0.154		-0.164	
	-0.967		*-0.902*		*-0.872*		*-0.925*	
FINANCE_EXPERT_PERC*DR*R	**0.142**		**0.129**		**0.118**		**0.127**	
	0.598		***0.545***		***0.502***		***0.538***	
Period fixed	No		Yes		No		Yes	
Industry dummies	Yes		Yes		Yes		Yes	
R-squared	0.084		0.091		0.037		0.038	
Adjusted R-squared	0.072		0.078		0.027		0.028	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise; and $FINANCE\_EXPERT\_PERC$ is percentage of board of directors that has finance expertise. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

23

Table 8   Earning conservatism and percentage of audit committees that are financially literate: pre and post MCCG 2007

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 AUCOMM\_FINLITERATE\_PERC_{it} + \beta_5 AUCOMM\_FINLITERATE\_PERC_{it} * DR_{it} +$$
$$\beta_6 AUCOMM\_FINLITERATE\_PERC_{it} * R_{it} + \beta_7 AUCOMM\_FINLITERATE\_PERC_{it} * R_{it} * DR_{it}$$

Regressions	Pre MCCG (n=1387)				Post MCCG (n=1831)			
	1		2		3		4	
Intercept	2.193		2.606		2.837		3.066	
	0.915		*1.088*		*1.104*		*1.194*	
DR	0.023		-0.550		1.549		1.113	
	0.012		*-0.289*		*0.784*		*0.559*	
R	8.777	***	8.349	***	10.028	***	10.104	***
	3.687		*3.500*		*4.337*		*4.365*	
DR*R	-7.894	**	-6.935	**	-10.576	***	-10.277	***
	-2.499		*-2.167*		*-3.317*		*-3.223*	
AUCOMM_FINLITERATE_PERC	0.007		0.009		0.061	*	0.062	**
	0.206		*0.272*		*1.951*		*1.972*	
AUCOMM_FINLITERATE_PERC*DR	-0.017		-0.018		-0.040		-0.040	
	-0.380		*-0.400*		*-0.884*		*-0.882*	
AUCOMM_FINLITERATE_PERC*R	-0.027		-0.024		-0.156	***	-0.158	***
	-0.458		*-0.397*		*-2.918*		*-2.961*	
AUCOMM_FINLITERATE_PERC*DR*R	**0.036**		**0.035**		**0.212**	***	**0.216**	***
	0.455		***0.448***		***2.853***		***2.908***	
Period fixed	No		Yes		No		Yes	
Industry dummies	Yes		Yes		Yes		Yes	
R-squared	0.084		0.091		0.040		0.042	
Adjusted R-squared	0.073		0.079		0.031		0.032	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise; and $AUCOMM\_FINLITERATE\_PERC$ is percentage of audit committee that are financially literate. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 9   **Earning conservatism and dummy variable of audit committee being a member of an accounting association: pre and post MCCG 2007**

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 D\_MEMBERASSOC_{it} + \beta_5 D\_MEMBERASSOC_{it} * DR_{it} +$$
$$\beta_6 D\_MEMBERASSOC_{it} * R_{it} + \beta_7 D\_MEMBERASSOC_{it} * R_{it} * DR_{it}$$

| | Pre MCCG (n=1387) | | Post MCCG (n=1831) | |
Regressions	1	2	3	4
Intercept	3.503	3.995	4.726	5.007 *
	1.110	*1.269*	*1.574*	*1.668*
DR	-3.780	-4.531	1.050	0.609
	-1.078	*-1.293*	*0.343*	*0.198*
R	2.109	1.429	1.924	1.693
	0.465	*0.316*	*0.565*	*0.497*
DR*R	-5.706	-4.597	1.102	1.671
	-1.023	*-0.824*	*0.223*	*0.337*
D_MEMBERASSOC	-1.492	-1.472	1.005	0.972
	-0.569	*-0.563*	*0.444*	*0.429*
D_MEMBERASSOC*DR	3.340	3.488	-1.214	-1.193
	0.927	*0.971*	*-0.381*	*-0.375*
D_MEMBERASSOC*R	5.963	6.341	2.109	2.320
	1.286	*1.374*	*0.602*	*0.663*
D_MEMBERASSOC*DR*R	**-0.788**	**-0.898**	**-3.677**	**-3.852**
	-0.137	***-0.157***	***-0.722***	***-0.757***
Period fixed	No	Yes	No	Yes
Industry dummies	Yes	Yes	Yes	Yes
R-squared	0.087	0.095	0.035	0.037
Adjusted R-squared	0.076	0.082	0.026	0.027

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise; and $D\_MEMBERASSOC$ is is dummy variable; coded as '1' if at least one of the audit committee being a member of an accounting association or body and '0' otherwise. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 10   Earning conservatism and percentage of non-executive audit committees: pre and post MCCG 2007

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 AUCOMM\_NONEXEC\_PERC_{it} + \beta_5 D\_AUCOMM\_NONEXEC\_PERC_{it} * DR_{it} +$$
$$\beta_6 D\_AUCOMM\_NONEXEC\_PERC_{it} * R_{it} + \beta_7 AUCOMM\_NONEXEC\_PERC_{it} * R_{it} * DR_{it}$$

Regressions	Pre MCCG (n=1387)				Post MCCG (n=1831)			
	1		2		3		4	
Intercept	-2.975		-1.813		10.526	**	10.525	**
	-0.780		-0.474		2.287		2.181	
DR	3.269		1.856		-2.567		-1.800	
	0.715		0.404		-0.431		-0.301	
R	29.456	***	28.528	***	-4.179		-4.674	
	5.410		5.250		-0.594		-0.664	
DR*R	-26.009	***	-24.651	***	7.605		8.857	
	-3.601		-3.415		0.775		0.897	
AUCOMM_NONEXEC_PERC	0.068	*	0.060		-0.054		-0.052	
	1.649		1.450		-1.259		-1.125	
AUCOMM_NONEXEC_PERC*DR	-0.048		-0.038		0.025		0.013	
	-0.843		-0.663		0.397		0.204	
AUCOMM_NONEXEC_PERC*R	-0.267	***	-0.259	***	0.088		0.093	
	-4.033		-3.924		1.176		1.242	
AUCOMM_NONEXEC_PERC*DR*R	**0.237**	***	**0.231**	***	**-0.108**		**-0.117**	
	2.666		*2.613*		*-1.036*		*-1.112*	
Period fixed	No		Yes		No		Yes	
Industry dummies	Yes		Yes		Yes		Yes	
R-squared	0.097		0.104		0.039		0.040	
Adjusted R-squared	0.086		0.091		0.030		0.030	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and $AUCOMM\_NONEXEC\_PERC$ is percentage of audit committee that are solely non-executive directors. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 11   Earning conservatism and percentage of independent non-executive audit committees: pre and post MCCG 2007

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 AUCOMM\_INDNONEXEC\_PERC_{it} + \beta_5 D\_AUCOMM\_INDNONEXEC\_PERC_{it} * DR_{it} +$$
$$\beta_6 D\_AUCOMM\_INDNONEXEC\_PERC_{it} * R_{it} + \beta_7 AUCOMM\_INDNONEXEC\_PERC_{it} * R_{it} * DR_{it}$$

	Pre MCCG (n=1387)			Post MCCG (n=1831)		
Regressions	1		2		3	4
Intercept	-4.418		-3.433		3.448	2.889
	-0.912		*-0.710*		*0.917*	*0.755*
DR	5.405		4.439		-1.665	-1.493
	0.871		*0.716*		*-0.379*	*-0.340*
R	30.007	***	29.265	***	5.978	5.935
	4.492		*4.391*		*1.162*	*1.153*
*DR*R*	-29.051	***	-27.686	***	-10.778	-10.662
	-2.863		*-2.730*		*-1.497*	*-1.477*
AUCOMM_INDNONEXEC_PERC	0.092		0.085		0.025	0.035
	1.474		*1.371*		*0.674*	*0.923*
*AUCOMM_INDNONEXEC_PERC*DR*	-0.081		-0.076		0.020	0.012
	-0.950		*-0.894*		*0.379*	*0.230*
*AUCOMM_INDNONEXEC_PERC*R*	-0.302	***	-0.296	***	-0.024	-0.024
	-3.346		*-3.288*		*-0.386*	*-0.385*
AUCOMM_INDNONEXEC_PERC*DR*R	**0.304**	**	**0.298**	**	**0.101**	**0.104**
	2.168		***2.131***		***1.177***	***1.216***
Period fixed	No		Yes		No	Yes
Industry dummies	Yes		Yes		Yes	Yes
R-squared	0.092		0.099		0.036	0.038
Adjusted R-squared	0.081		0.087		0.027	0.028

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and $AUCOMM\_INDNONEXEC\_PERC$ is percentage of audit committee that are solely independent non-executive directors. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

27

Table 12   **Earning conservatism and number of audit committee meetings: pre and post MCCG 2007**

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 NUM\_AUCOMMEETINGS_{it} + \beta_5 NUM\_AUCOMMEETINGS_{it} * DR_{it} +$$
$$\beta_6 NUM\_AUCOMMEETINGS_{it} * R_{it} + \beta_7 NUM\_AUCOMMEETINGS_{it} * R_{it} * DR_{it}$$

Regressions	Pre MCCG (n=1387)				Post MCCG (n=1831)			
	1		2		3		4	
Intercept	1.413		1.937		13.700	***	13.851	***
	0.468		*0.643*		*4.296*		*4.345*	
DR	0.778		-0.017		-8.031	**	-8.429	***
	0.244		*-0.005*		*-2.493*		*-2.613*	
R	10.738	***	10.202	***	-10.264	***	-10.346	***
	2.729		*2.600*		*-3.103*		*-3.129*	
*DR*R*	-5.528		-4.311		10.842	**	11.377	**
	-1.107		*-0.862*		*2.297*		*2.400*	
NUM_AUCOMMEETINGS	0.256		0.253		-1.704	***	-1.684	***
	0.533		*0.528*		*-3.607*		*-3.562*	
*NUM_AUCOMMEETINGS*DR*	-0.298		-0.257		1.663	***	1.660	***
	-0.464		*-0.401*		*2.597*		*2.594*	
*NUM_AUCOMMEETINGS*R*	-0.667		-0.615		2.987	***	2.999	***
	-0.768		*-0.711*		*4.465*		*4.484*	
NUM_AUCOMMEETINGS*DR*R	**-0.144**		**-0.196**		**-2.803**	***	**-2.824**	***
	-0.136		***-0.187***		***-3.072***		***-3.096***	
Period fixed	No		Yes		No		Yes	
Industry dummies	Yes		Yes		Yes		Yes	
R-squared	0.087		0.094		0.046		0.048	
Adjusted R-squared	0.075		0.082		0.037		0.038	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and $NUM\_AUCOMMEETINGS$ is how many times audit committee meetings are conducted. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 13   Earning conservatism and dummy variable for audit committee meetings more than five: pre and post MCCG 2007

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 D\_AUCOMMEETINGS_{it} + \beta_5 D\_AUCOMMEETINGS_{it} * DR_{it} +$$
$$\beta_6 D\_AUCOMMEETINGS_{it} * R_{it} + \beta_7 D\_AUCOMMEETINGS_{it} * R_{it} * DR_{it}$$

Regression	Pre MCCG (n=1387)		Post MCCG (n=1831)	
	1	2	3	4
Intercept	2.428	2.949	6.109 ***	6.325 ***
	1.199	*1.455*	*2.730*	*2.828*
DR	-0.112	-0.727	-0.541	-0.894
	-0.124	*-0.781*	*-0.591*	*-0.946*
R	7.680 ***	7.354 ***	2.577 **	2.571 **
	7.266	*6.921*	*2.416*	*2.409*
DR*R	-5.626 ***	-4.646 ***	-0.961	-0.500
	-3.909	*-3.104*	*-0.617*	*-0.314*
D_AUCOMMEETINGS	-0.092	-0.195	-3.776 **	-3.685 **
	-0.053	*-0.113*	*-2.297*	*-2.234*
D_AUCOMMEETINGS*DR	-2.840	-2.705	2.991	2.806
	-1.213	*-1.158*	*1.301*	*1.218*
D_AUCOMMEETINGS*R	1.765	1.944	7.730 ***	7.624 ***
	0.504	*0.557*	*3.146*	*3.093*
D_AUCOMMEETINGS*DR*R	**-7.027** *	**-7.176** *	**-8.171** **	**-8.256** **
	-1.665	***-1.706***	***-2.507***	***-2.527***
Period fixed	No	Yes	No	Yes
Industry dummies	Yes	Yes	Yes	Yes
R-squared	0.088	0.095	0.040	0.042
Adjusted R-squared	0.076	0.082	0.032	0.032

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and $D\_AUCOMMEETINGS$ is dummy variable; coded as '1' if audit committee meetings more than five and '0' otherwise. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 14   Earning conservatism and dummy variable for audit committee meetings less than five: pre and post MCCG 2007

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 D\_AUCOMMEETINGS2_{it} + \beta_5 D\_AUCOMMEETINGS2_{it} * DR_{it} +$$
$$\beta_6 D\_AUCOMMEETINGS2_{it} * R_{it} + \beta_7 D\_AUCOMMEETINGS2_{it} * R_{it} * DR_{it}$$

Regressions	Pre MCCG (n=1387)				Post MCCG (n=1831)			
	1		2		3		4	
Intercept	2.336		2.754		2.334		2.640	
	0.928		1.096		0.900		1.018	
DR	-2.952		-3.432		2.450		1.912	
	-1.370		-1.593		1.167		0.896	
R	9.445	***	9.299	***	10.308	***	10.194	***
	2.824		2.784		4.638		4.573	
DR*R	-12.653	***	-11.822	***	-9.132	***	-8.756	***
	-3.188		-2.970		-3.159		-3.022	
D_AUCOMMEETINGS2	0.092		0.195		3.776	**	3.685	**
	0.053		0.113		2.297		2.234	
D_AUCOMMEETINGS2*DR	2.840		2.705		-2.991		-2.806	
	1.213		1.158		-1.301		-1.218	
D_AUCOMMEETINGS2*R	-1.765		-1.944		-7.730	***	-7.624	***
	-0.504		-0.557		-3.146		-3.093	
D_AUCOMMEETINGS2*DR*R	**7.027**	*	**7.176**	*	**8.171**	**	**8.256**	**
	1.665		**1.706**		**2.507**		**2.527**	
Period fixed	No		Yes		No		Yes	
Industry dummies	Yes		Yes		Yes		Yes	
R-squared	0.088		0.095		0.040		0.042	
Adjusted R-squared	0.076		0.082		0.032		0.032	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and $D\_AUCOMMEETINGS2$ is dummy variable; coded as '1' if audit committee meetings less than five and '0' otherwise. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.

Table 15   **Earning conservatism and meeting of audit committee with external auditors: pre and post MCCG 2007**

$$N_{it} = \beta_0 + \beta_1 D_{it} R_{it} + \beta_2 R_{it} + \beta_3 DR_{it} * R_{it} + \beta_4 MEETINGS\_EXTERNALAUD_{it} + \beta_5 MEETINGS\_EXTERNALAUD_{it} * DR_{it} +$$
$$\beta_6 MEETINGS\_EXTERNALAUD_{it} * R_{it} + \beta_7 MEETINGS\_EXTERNALAUD_{it} * R_{it} * DR_{it}$$

	Pre MCCG (n=1387)				Post MCCG (n=1831)		
Regressions	1		2		3		4	
Inercept	1.937		2.460		5.405	**	5.524	**
	0.951		*1.207*		*2.357*		*2.406*	
DR	-0.014		-0.574		0.165		-0.096	
	-0.015		*-0.596*		*0.141*		*-0.081*	
R	8.936	***	8.662	***	4.481	***	4.486	***
	7.309		*7.068*		*3.358*		*3.362*	
DR*R	-7.856	***	-6.887	***	-3.601	*	-3.225	*
	-4.983		*-4.237*		*-1.868*		*-1.651*	
MEETINGS_EXTERNALAUD	1.483		1.502		0.241		0.430	
	1.240		*1.261*		*0.318*		*0.543*	
MEETINGS_EXTERNALAUD*DR	-1.783		-1.979		-0.369		-0.574	
	-1.028		*-1.144*		*-0.337*		*-0.521*	
MEETINGS_EXTERNALAUD*R	-2.511		-2.588	*	-0.842		-0.894	
	-1.612		*-1.667*		*-0.634*		*-0.673*	
MEETINGS_EXTERNALAUD*DR*R	**2.747**		**2.703**		**1.686**		**1.770**	
	1.104		***1.090***		***0.912***		***0.957***	
Period fixed	No		Yes		No		Yes	
Industry dummies	Yes		Yes		Yes		Yes	
R-squared	0.086		0.093		0.035		0.037	
Adjusted R-squared	0.075		0.081		0.026		0.027	

where N_{it} net income before extraordinary items per share of firm i, deflated by beginning of period share price ; R_{it} is fiscal year continuously compounded return; DR_{it} is dummy variable, equaling one if R_{it} is negative, and zero otherwise and $MEETINGS\_EXTERNALAUD$ is how many times audit committee meetings with external auditors held without executive board members. *, ** and ***denote significance at the 10%, 5% and 1% level respectively.