

The study of the relationship between conservatism in financial reporting and stock liquidity

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Abstract

The main objective of the present research is to study the relationship between conservatism in financial reporting, and stock liquidity. In this study, conservatism in financial reporting is considered as the independent variable, and the 13 criteria of stock liquidity are used as the dependent variables. The study period is of 7 years, and includes the period between the beginning of 2003 until the end of 2010 in terms of the solar calendar (i.e. March 2003 to March 2010). The statistical sample includes 70 companies from various industries. The data are collected using the library method. A univariate regression model is used to test the study hypotheses, and the estimations are performed in the form of panel data. The results of hypothesis testing indicate that there is no significant relationship between conservatism in financial reporting, and stock liquidity indices.

Keywords: conservatism, stock liquidity

Introduction

The senior managers of the companies, who are responsible for the preparation of the financial statements, will have more awareness about the investors and creditors giving the comprehensive information concerning the company's financial status. They are often optimistic, and try to project a favorable image of the firm. If the image of the firm looks favorable, the incentives for the injec-

tion of capital and financial resources by the individuals outside the organization increase. Under such circumstances, the accounting principles and practices -by the support of the authorities developing the accounting standards- implement the conservatism concept in order to balance the managers' optimism, protect the Stakeholders' rights, and fair presentation of financial statements. Thus, conservatism - as one of the limiting principles of accounting - has been implemented in accounting for many years, and has maintained its position among other principles of accounting, despite the widespread criticism it has received. Consequently, conservatism can be considered as a mechanism that, if applied correctly, can resolve many issues facing the corporations. Therefore, it seems that companies not only have the responsibility of conducting economic activity on their shoulders, but they also have to perform the reporting about the outcomes of their activity; and they are expected to lead their financial reporting in such a way that the interpreters of the financial statements do not cause the wealth to transfer out of the company, to the same extent that they try to cut down on their costs and increase their incomes. In other words, the companies pay attention to the economic consequences of financial reporting, apart from providing the honest results of their operations and financial status – which is under the supervision of the institutions developing the accounting standards. Paying too much attention to the economic outcomes, leads to a situation where the financial statements will no longer be the honest representation of the results of the company's activities.

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Dishonest presentation of the operations' results usually appears in the form of the profits more or less than the actual value. Since all methods used to present the profit less than the actual value place within the framework of the accounting standards, it leads to a type of information asymmetry in the recognition of profits and losses (Ebrahimi Kordlar, 2009). Information asymmetry is associated with various undesired consequences such as increased cost of transactions, market weakness, low level of liquidity, and in general a reduction in the profits of the capital market transactions.

Accordingly, due to the need for enriching the accounting literature in this field, particularly in the Iran's capital market, and regarding the importance of the stock liquidity, this study will investigate the relationship between the conservatism and the stock liquidity of the companies listed in Tehran Stock Exchange Market; and aims at estimating the relation between the conservatism and the stock liquidity through this investigation.

Theoretical Foundations and Research Background

The concept of conservatism in accounting has a long history. Watts (2003) defines the conservatism as: "Anticipate no profit, but anticipate all losses". Basu (1997) interprets this traditional proverb as "the tendency of accounting toward the obligation of a higher level of confirmability for the identification of good news or earnings, compared to the level of confirmability required for the identification of bad news or bad news".

Some investors, including the intra-organizational individuals such as the managers and analysts, and also the institutions receiving information from the people, have access to the confidential news (Easley & O'Hara, 2004). The more the confidential information available, the greater the difference-range of the suggested prices for the buying and selling (bid-ask spread) of the shares among the investors will be. As a result, the returns will reduce for the investors who do not have access to such information (Chung *et al.*, 2009). This phenomenon is in accordance with the findings of numerous experimental researches. Qaemi and Vatanparast (2005), in addition to addressing the background of the issue worldwide, have demonstrated that the increased information asymmetry among the traders broadens the bid-ask spread of the shares in Tehran Stock Exchange Market

as well. However, the phenomenon of the bid-ask spread of the shares has roots in the abnormal current of supply and demand. The abnormal current of supply and demand occurs as a result of the emergence of confidential information. When the existing confidential information is bad, the supply of the shares increases, and consequently the suggested selling prices reduce. Vice versa, when the existing confidential information is good, the demand increases, and consequently the suggested selling prices increase as well. In case there is no confidential information, the effects of general information are reflected in the share prices by the market-makers. It means that receiving the information, the market-makers lead the prices toward the appropriate level, and thus no abnormal buying and selling will be evident. Securities markets carefully supervise the agency costs and the declines in stock prices. The concept of liquidity in emerging markets such as the Iran's market is of more pivotal importance. The findings of the studies conducted in the field of stock liquidity in the Iran's securities market show that the investors highly consider the illiquidity risk in their decisions (Yahyazadeh Far *et al.*, 2008). This study investigates the relationship between the conservatism in financial reporting, and the stock liquidity. Indeed, this research tries to answer the question of "What relationship is there between the conservatism in financial reporting, and the stock liquidity?", since the main focus of most investors and shareholders is at the stock liquidity of the corporations. In this study, conservatism in financial reporting is considered as the independent variable, and the information criteria of stock liquidity are used as the dependent variable.

Studies performed in relation to the research background show that no research similar to this study has been conducted in or outside Iran. Nevertheless, a few studies conducted concerning the variable of stock liquidity are presented as follows.

Chen *et al.* (2007) investigated the relationship between the corporate governance and stock liquidity according to S&P (Standard and Poor's) rating, which is based on transparency and disclosure of information. These scholars concluded that companies with a low level of disclosed information suffer serious information asymmetry. The evidences of the mentioned paper indicate that there is a direct relationship between the corporate governance and stock liquidity, and

that the costs of stock liquidity are higher in the companies which implement weak methods of information disclosure. Their findings also show that weak information disclosure is associated with weak corporate governance, and higher risk of information asymmetry, that finally results in a larger price gap (half-spread) by the market-makers. They have used the S&P ratings and T&D (Transparency and Disclosure) ratings as the variables of corporate governance; and the effective half spread and average half-spread as the criteria for the evaluation of liquidity.

Chung *et al.* (2009) conducted a study by the aim of investigating the relationship between the corporate governance and the market liquidity with emphasis on some indices of the characteristics of corporate governance. These indices are determined on the basis of the 24 standard characteristics of corporate governance according to Institutional Shareholder Services (ISS), which are most related to the operational and financial transparency of the companies. On the other hand, criteria such as half-spread, price impact, and the probability of information-based trading are implemented to determine the liquidity. The findings of the study showed that a better mechanism of corporate governance has led to a reduction in the half-spread, and that the price changes have been less influenced by the volume of transactions. Therefore, it mitigates the probability of transaction on the basis of information.

Cueto (2009) scrutinized the relationship between the ownership structure and market liquidity in Brazil and Chile. He has demonstrated that the owners of the holders of the large blocks of shares cause a reduction in the availability of the free float in the market, and consequently a reduction in the market liquidity.

Yahyazadehfar and Khorramdin (2008) studied the role of the liquidity factors and the illiquidity risk on the excess stock returns in Tehran Stock Exchange Market during a monthly time series from February 2006 to March 2008. They inferred that illiquidity risk has a negative effect on the excess stock returns.

Izadinia and Rasaeian (2010) in a research entitled "Ownership Dispersion and Stock Liquidity", concluded that there is no significant relationship between the stock liquidity (whose criterion is the bid-ask spread) and the ownership dispersion (whose criterion is the percentage of stock ownership in terms of share blocks).

It means that variations in the ownership dispersion (ownership concentration) do not justify the changes in the bid-ask spread for the shares of companies listed in Tehran Stock Exchange Market.

Rahmani *et al.* (2010) in a study titled "The Relationship between the Institutional Ownership and Liquidity in Iran" inferred that there is a significant positive relationship between these two variables, and that the concentration of institutional ownership leads to a decrease in the stock liquidity of the corporations. This kind of relationship has been evident in both the trading criteria such as the volume of transactions, the percentage of free float, and Amihud measure; and the information criteria such as the bid-ask spread.

Moradzadeh Fard *et al.* (2010), conducted a research entitled "A Study of the Role of Accruals Management in the Stock Liquidity of the Companies Listed in Tehran Stock Exchange Market" and found out that accruals management had a significant negative impact on the stock liquidity of the companies; in such a way that a higher level of earnings management leads to the advent of information asymmetry, and higher transaction costs. Under such conditions, the tendency of the uninformed traders to transact the company shares is severely diminished, and the stock liquidity is reduced.

Fakhari and Fallah Mohammadi (2010) in their study by the title of "A Study of the Effects of Information Disclosure on the Stock Liquidity of the Companies Listed in Tehran Stock Exchange Market" inferred that there is a significant inverse relationship between the disclosure and the liquidity. Moreover, they realized that the rating of the companies by the use of the information disclosure checklist is negatively related to the information asymmetry, and that weaker disclosure activities lead to a larger bid-ask spread, and a decrease in the bid-ask spread causes an increase in the liquidity of the capital market.

Methodology

Based on the purpose of the study, the followings were considered in this section:

Study Hypothesis

H1: There is a relationship between the financial reporting and the stock liquidity.

Secondary Hypotheses

H2: There is a relationship between the conservatism in financial reporting and the stock trading days.

H3: There is a relationship between the conservatism in financial reporting and the number of share trades.

H4: There is a relationship between the conservatism in financial reporting and the volume of stock trading.

H5: There is a relationship between the conservatism in financial reporting and the value of trading stock.

H6: There is a relationship between the conservatism in financial reporting and the percentage of free float.

H7: There is a relationship between the conservatism in financial reporting and the share turnover.

H8: There is a relationship between the conservatism in financial reporting and the free float turnover.

H9: There is a relationship between the conservatism in financial reporting and the wait time to trade.

H10: There is a relationship between the conservatism in financial reporting and the stock for flow ratio.

H11: There is a relationship between the conservatism in financial reporting and the illiquidity ratio.

H12: There is a relationship between the conservatism in financial reporting and the Amivest liquidity ratio.

H13: There is a relationship between the conservatism in financial reporting and the absolute bid-ask spread.

H14: There is a relationship between the conservatism in financial reporting and the relative bid-ask spread.

Statistical Population, Sample, and Sampling Method

The statistical population of the study encompasses the companies listed in Tehran Stock Exchange Market. The temporal scope is the 7-year period 2003 to 2010. The sampling method has been systematic elimination, after which only companies under the following conditions are selected as the study sample:

1. Have been listed in Tehran Stock Exchange Market before 2003.

2. Their fiscal year terminates in March (the end of the solar calendar year).

3. Have not changed their fiscal year during the period 2003 to 2010.

4. Their stocks have been actively and constantly traded in Tehran Stock Exchange Market, and have not suspended their trading for more than 1 year continuously.

5. Are not among the investment companies, banks, insurance corporations, or financial intermediation companies.

Regarding these conditions, 70 companies from 18 industries were selected as the statistical sample.

Results and Discussion

Data Collection and Processing

Since the research method has been library-based and it deals with the actual data of the companies, the required data and information have been gathered from different sources such as the official CDs, the database of the Tehran Stock Exchange Organization, Rahavard-e-Novin and Tadbir-Pardaz software packs, the library of the Stock Exchange Market, and the official websites of the Stock Exchange Company, and the Stock Exchange Organization. Then, the Excel and SPSS software packs are used to analyze the data and information.

Definition of the Study Variables

Conservatism

The present study has used the Givoly – Hayn (2000) model to measure the accounting conservatism index. According to the mentioned model, the conservatism index is calculated as:

$$\text{Conservatism Index} = \frac{\text{Operational Accruals}}{\text{Total Assets in the First Period}} \times (-1) \quad (1)$$

The operational accruals are calculated as the difference between the operating profits and the cash flow from operations (Nikoumaram and Bada-var Nahandi, 2009).

Evaluation of the Dependent Variables

Criteria Related to Liquidity

The present research will investigate the amount and the turnover of the free float as one of the important factors of liquidity. A total of 13 criteria are assigned into two groups of trading criteria (transac-

tion-based) and information criteria (information-based). The operational definitions of these two groups are presented in the further lines (Rahmani *et al*, 2010).

A. Trading Criteria

1. The stock trading days: It refers to the number of days over a particular period in which the stock exchange has occurred. This criterion is measured on a yearly basis.

2. The number of share trades: It includes the number of transactions for one share over a one-year interval.

3. The volume of stock trading: It is equal to the number of shares traded over a period of time. The volumes of trading for each company over one-year intervals are extracted from the information bank.

4. The value of trading stock: It is calculated as the product of the stock transaction price multiplied by the volume of trading. In order to calculate the amount of this criterion, the product of the stock price in the moment of trading is multiplied by the number of shares traded, and finally the average annual transaction value is considered as the value of trading stock over one year.

5. The percentage of free float: The term *free float* is referred to as the amount of shares which is owned by minor shareholders. These shares are available to the investors for trading in the market, are traded without any restrictions, and are expected to be traded in the near future; meaning that they belong to the owners who are ready to offer for sale in case they receive a fair price.

Free Float (FF) Percentage = (100 – The Percentage of Institutional Ownership)

6. The share turnover: The share turnover is equal to the number of shares traded, divided by the number of shares issued over a specific timeframe. The yearly value of this criterion can be calculated as follows:

$$SHTO = \frac{\text{(The Number of Shares Traded)}}{\text{(The Number of Shares Issued)}}$$

7. The free float turnover: It is equal to the volume of shares traded divided by the number of free float.

$$FLTO = \frac{\text{(The Volume of Shares Traded)}}{\text{(The Number of Free Float)}}$$

8. The wait time to trade: It means the time difference between two consecutive transactions of a specific share, often whose average over a specific timeframe is used. The wait time to trade is calculated in terms of *days*, and indicates the average wait time (days) to trade a company's share. Due to the calculation of this criterion over one-year periods, the number 250 -as the number of days a year in which a transaction is possible- is located at the fraction's numerator (the number of days a year in which a transaction is possible was assumed as equal to 250, according to the official website of the Stock Exchange Organization).

$$WAIT = 250 / (\text{The Number of Transactions})$$

9. The stock to flow ratio: This criterion is obtained by dividing the value of trading on the wait time to trade, and is calculated on a seasonal basis.

10. The stock illiquidity ratio (the price effect): This criterion defines the liquidity as the absolute daily returns on the volume of trading during the specified day. Based on the implementation of the daily data in relation to the returns and the volume of trading, this measure can be obtained by the following formula (Maleki Nejad, 2009):

$$ILLIQ = \frac{R_i}{VOLD_{iyd}} \quad (2)$$

Where:

R_i : The Returns on Stock

$VOLD_{iyd}$: The Monetary Volume of Trading during the Day

11. The Amivest liquidity ratio: This measure calculates the trading value of one share associated with the price changes occurred at a specified timeframe, and is obtained by dividing the value of trading stock on the absolute value of returns. This measure is calculated for any given year as follows:

$$AMIVEST = \frac{\text{The Value of Trading}}{|\text{Returns}|} \quad (3)$$

B. Information Criteria (or Order-based Criteria)

Unlike the trading criteria that are calculated on a yearly basis, the information criteria require daily information and data of any specified hour. Daily data concerning the one-hour time interval 11 A.M. to 12 P.M. are used to calculate both criteria. Each day's calculations during the seasons summer, fall, and winter are performed separately, and then each

season's average value is included in the model (Rahmani *et al*, 2010).

12. The absolute bid-ask spread: This value is obtained from the difference between the suggested prices for the buying and for the selling of the shares:

$$ABS = \sum (P_A - P_B) \quad (4)$$

13. The relative bid-ask spread: This measure is calculated by dividing the bid-ask spread on the mean value of the ask prices and the bid prices.

$$RS = \sum \left(\frac{P_A - P_B}{\frac{P_A + P_B}{2}} \right) \quad (5)$$

Results

When using the descriptive methods, the aim is to describe the research data through present-

ing the results in tables and implementing the measures of descriptive statistics such as the central tendency and dispersion, in such a way that it would help to provide a clear picture of the issue. The results descriptive measures are presented in Table 1.

According to table (1), the difference between the minimum value and the maximum value is high for most of the test variables. The reason is that the outlying observations have not been neglected in order to shrink the samples. The low values of standard deviation for the variables, suggest the low dispersion and high integrity (harmony) of the study population, with the relative bid-ask spread having the standard deviation of 0.000187659, which indicates the lowest dispersion and the highest integrity. Also, the variable of conservatism with the mean value of -0.079 shows the low level of conservatism among the variables of the study.

Table 1. The results of the descriptive statistics of the research

	Number	Minimum	Maximum	Mean	Median	Standard Deviation
Conservatism	490	-2.108	0.59	-0.079	-0.037	0.24
Trading Days	490	0	5.505	4.38	4.81	1.0914
Number of Trades	490	1.1	11.903	6.97	7.11	2.01
Volume of Stock Trading	490	6.785	20.964	15.259	15.64	2.44
Value of Trading Stock (In Million Rials)	490	1.099	16.399	9.8	10.146	2.722
Percentage of Free Float	490	0	1	0.63	0.58	0.29
Share Turnover	490	-4.273	12.515	3.11	2.935	2.851
Free Float Turnover	490	0.00001	7.64	0.295	0.115	0.607
Wait Time to Trade	490	1.016	250	7.96	2.0325	20.09
Stock to Flow Ratio	490	-4.423	16.23	8.663	9.315	3.58
Stock Illiquidity Ratio	490	0.00	2.47	0.015	0.00040	0.127
Amivest Liquidity Ratio	490	-1.43	14.108	7.5704	7.665	2.455
Absolute Bid-Ask Spread	490	-4.167	17.173	4.23	4.342	2.158
Relative Bid-Ask Spread	490	0.00	0.179355641	0.20133322	0.018	0.000187659

Correlation among the Variables

The relationship between the variable "conservatism" and the variables "trading days, number of trades, volume of stock trading, value of trading stock, percentage of free float, share

turnover, free float turnover, wait time to trade, stock to flow ratio, stock illiquidity ratio, Amivest liquidity ratio, absolute bid-ask spread, and relative bid-ask spread" was tested, and the result was as follows:

Table 2. The matrix of Pearson's correlation between the variables

		Correlation Coefficient	Significance Level	Number	Existence	Non-Existence
The Relationship between the Variable "Conservatism" and:	Trading Days	-0.165	0.00	489	*	-
	Number of Trades	-0.032	0.48	489	-	*
	Volume of Stock Trading	0.006	0.90	489	-	*
	Value of Trading Stock	0.03	0.51	489	-	*
	Percentage of Free Float	-0.008	0.85	489	-	*
	Share Turnover	-0.02	0.623	489	-	*
	Free Float Turnover	0.03	0.50	489	-	*
	Wait Time to Trade	-0.01	0.77	489	-	*
	Stock to Flow Ratio	0.02	0.53	489	-	*
	Stock Illiquidity Ratio	0.002	0.97	489	-	*
	Amivest Liquidity Ratio	0.02	0.63	489	-	*
	Absolute Bid-Ask Spread	0.02	0.6	489	-	*
	Relative Bid-Ask Spread	0.024	0.6	489	-	*

According to table 2, it is apparent that there is a significant relationship between the variable "conservatism" and the variable "trading days". Conversely, there is no significant relationship between the variable "conservatism" and the variables "number of trades, volume of stock trading, value of trading stock, percentage of free float, share turnover, free float turnover, wait time to trade, stock to flow ratio, stock illiquidity ratio, Amivest liquidity ratio, absolute bid-ask spread, and relative bid-ask spread".

Since no significant relationship is observed between most of the liquidity measures and the conservatism in financial reporting, it can be inferred that the conservative reporting of the income and expenses items has no effect on the information risk of the company; and it does not lead to an improved stock liquidity.

Inferential Statistics

Table 3 indicates the results of the linear regression statistical test using the ENTER method. This test allows for the determination of the optimal regression model, and also the independent variables that can be entered into the model.

Since there are 13 measures of the dependent variable, only a univariate regression test is presented.

Interpretation of the Results of Hypothesis Testing

According to the results shown in table 3, the regression coefficients B are very intangible, and their level of significance is higher than 0.05. Also, at the confidence level of 95%, the variable of trading days, explains the changes of the independent variable (conservatism). It should be noted that the value of the coefficient of determination (R^2) for the variables of trading days, number of trades, volume of stock trading, value of trading stock, percentage of free float, share turnover, free float turnover, wait time to trade, stock to flow ratio, stock illiquidity ratio, Amivest liquidity ratio, absolute bid-ask spread, and relative bid-ask spread are respectively equal to 0.027, 0.015, 0.005, 0.03, 0.001, 0.00, 0.00, 0.001, 0.013, 0.01, 0.00, 0.00, and 0.001. One condition for the use of regression model is the independence of residuals. Since the Durbin–Watson (D.W.) statistic values for the study variables are respectively equal to 1.534, 1.907, 1.793, 2.029, 1.678, 2.078, 2.011, 1.952, 1.502, 2.003, 1.556, 1.851, and 2.021, which fall in the range of 1.5 to 2.5, the residuals are independent. As can be observed, the Sig values of the t-statistic the F-statistic for the study variables are respectively equal to 0.045, 0.482, 0.136, 0.260, 0.519, 0.986, 0.91, 0.517, 0.110, 0.528, 0.823, 0.914, and 0.998. Since the Sig value of the t-statistic for all of the study variables, except for the trading days, is higher than 0.05, it can be concluded that the regression model is not valid, except for the trading days.

Table 3. The regression model of relationship between the conservatism and the measures of liquidity

Dependent Variables		Independent Variable "Conservatism (CO)"				Durbin-Watson (D.W.) statistic	Coefficient of Determination (R ²)	Adjusted Coefficient of Determination	Unstandardized Coefficients			Result
		t-statistic		ANOVA					B	Standard Error	Standardized Coefficient B	
		Value	Sig	Value	Sig							
Trading Days	TD	1.139	0.045	13.42	0.045	1.534	0.027	0.025	0.57	0.408	0.006	confirmed
Number of Trades	TN	-0.704	0.482	7.5	0.482	1.907	0.015	0.013	-1.026	0.375	-0.123	re-jected
Volume of Stock Trading	TC	-1.493	0.136	2.229	0.136	1.793	0.005	0.003	-0.686	0.459	0.067	re-jected
Value of Trading Stock	TV	-1.127	0.260	1.269	0.260	2.029	0.03	0.001	-0.576	0.512	-0.051	re-jected
Percentage of Free Float	FF	0.645	0.519	0.417	0.519	1.678	0.001	-0.001	0.035	0.055	0.029	re-jected
Share Turnover	ST	0.017	0.986	0.00	0.986	2.078	0.00	-0.02	0.009	0.536	0.001	re-jected
Free Float Turnover	FFT	-0.113	0.91	0.013	0.91	2.011	0.00	-0.02	-0.06	0.529	-0.005	re-jected
Wait Time to Trade	WTT	0.648	0.517	0.420	0.517	1.952	0.001	-0.001	2.350	3.627	0.029	re-jected
Stock to Flow Ratio	SFR	-2.539	0.11	6.447	0.110	1.502	0.013	0.011	-1.707	0.672	-0.114	re-jected
Stock Illiquidity Ratio	NLR	0.632	0.582	0.399	0.528	2.003	0.01	-0.01	0.015	0.024	0.029	re-jected
Amivest Liquidity Ratio	LR	0.224	0.823	0.050	0.823	1.556	0.00	-0.02	0.104	0.462	0.010	re-jected
Absolute Bid-Ask Spread	ABLS	-0.108	0.914	0.012	0.914	1.851	0.00	-0.02	-0.044	0.406	-0.005	re-jected
Relative Bid-Ask Spread	RBSL	0.015	0.998	0.00	0.998	2.021	0.001	-0.002	0.000479	0.003	0.001	re-jected

According to the above table, one can deduce that there is a negative relationship between the conservatism in financial reporting, and the number of trading days in the companies listed in Tehran Stock Exchange Market. Based on the results of hypothesis testing and the overall results of the study, there is no relationship between the con-

servatism in financial reporting, and the measures of stock liquidity. It means that conservatism in financial reporting cannot be considered as a factor to reduce the stock liquidity risk. Also, it is worth mentioning that the level of conservatism in the financial reporting of the Iranian companies is extremely low.

Conclusions

The present research studied the relationship between the conservatism in financial reporting, and stock liquidity in the companies listed in Tehran Stock Exchange Market. For the purpose of the study, the relationship between the conservatism in financial reporting, and the various measures of stock liquidity including the number of trading days, number of trades, volume of stock trading, value of trading stock, percentage of free float, share turnover, free float turnover, wait time to trade, stock to flow ratio, stock illiquidity ratio, Amivest liquidity ratio, absolute bid-ask spread, and relative bid-ask spread was investigated. According to the findings of the study and in general, there is no significant relationship between the conservatism in financial reporting, and the criteria of stock liquidity. It means that the conservative reporting of the income and expenses items has no effect on the information risk of the company; and it has no tangible effect on the stock liquidity. Therefore, it can be concluded that the flow of stock in Iran's capital market is not under the influence of the management's approach in the reporting of the items of financial statements.

Research Recommendations

Recommendations on the Basis of the Research Results

The managers are recommended to implement variables and factors other than conservatism in financial reporting if they desire to inspect and improve their stock liquidity, because based on the finding of the present study, there is no relationship between the conservatism in financial reporting, and stock liquidity.

Moreover, the capital market investors are advised to consider other qualitative features of the accounting information when making decisions concerning keeping the shares, or buying or selling of the shares by the aim of liquidity, since based on the finding of this research, there is no relationship between the conservatism in financial reporting, and stock liquidity.

Suggestions for the Future Studies

The further researchers are recommended to:

1. Conduct studies concerning the effects of the industry type on the conservatism relations and the stock liquidity of the companies.

2. Examine the relationship between the capital structure and the stock liquidity of the companies.

3. Investigate the relationship between the competitiveness of the product market and the stock liquidity.

4. Study the effects of political and economic news on the stock liquidity.

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