Accounting Accruals and Information Asymmetry in Europe

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Abstract
We investigate whether the positive relation between accounting accruals and information asymmetry documented for U.S. stock markets also holds in European markets, considered as a whole and at the country level. This research is relevant because this relation is likely to be affected by differences in accounting standards used by companies for financial reporting, in the traditional use of the banking system or capital markets for firm financing, in legal systems and cultural environment. We find that in European stock markets discretionary accruals are positively related with the Corwin and Schultz high-low spread estimator used as a proxy for information asymmetry. Our results suggest that the earnings management component of accruals outweighs the informational component, but the significance of the relation varies across countries. Further, such association tends to be stronger for firms with the highest levels of positive discretionary accruals. Consistent with the evidence provided by the authors, our results also suggest that the high-low spread estimator is more efficient than the closing bid-ask spread when analyzing the impact of information quality on information asymmetry.

Keywords: Information quality, information asymmetry, discretionary accruals, high-low spread estimator.
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