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The Moderating Effect of IFRS Convergence on the Relationship between Accounting Conditional Conservatism and Stock Price Crash Risk: Indonesian Evidence

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Abstract
This research aims to test the effect of conditional conservatism on stock price *crash* risk of firms listed in LQ45 Index in Indonesia Stock Exchange, either it is directly or is moderated by the full implementation of IFRS convergence. Research result proves that accounting conditional conservatism has no direct effect on stock price *crash* risk, but it has negative effect on stock price *crash* risk when it is moderated by the full implementation of IFRS convergence. This is given after controlling other variables that are considered to influence the stock price *crash* risk, consisting of detrended share turnover, negative coefficient of skewness in year t, standard deviation of weekly returns, average of weekly returns, and firm size. The last finding supports the certainty effect and the reflection effect of prospect theory. The moderating effect of the full implementation of IFRS convergence is the new finding related to the effect of conditional conservatism on stock price *crash* risk in the country which is already adopting the IFRS.
Keywords: conditional conservatism, *crash* risk, full implementation of IFRS convergence, LQ45

1. Introduction

For the investors who allocate a certain fund to investment activity on stocks, return is the important thing to be expected. Besides the dividend as yield, it also consists of capital gain through the difference between the sell and buy price of stocks (Tandelilin, 2010: 53). The higher the sell price, the higher the return will be gotten. Chen, Hong, and Stein (1999) stated that aggregate market returns are asymmetrically distributed. Moreover, there are asymmetric volatilities on market returns, which is the tendency of volatility increasing on negative return rather than volatility increasing on positive returns. This tendency is called crash risk. Based on the explanation above, it can be concluded that return and crash risk are the things that stick on the stock price. Therefore, besides return, the investors need to pay attention to the tendency of stock price to experience crash. As it is known, stocks are securities that can give the highest return among other marketable securities.

In Indonesia, research that examines the stock price crash seen from fundamental factors is very limited. It should be noted that crash risk is very important to be examined because not all investors allocating their funds to several stocks. If stock price crash happens for the investors who only allocate their funds to a stock, they will get big losses as analogized by Markowitz (1950 on Tandelilin, 2010: 117) through a parable putting down all of the eggs in a basket that causing breaking all of the eggs if the basket falls.

Although the stock price crash risk is not often being researched, it does not mean that stocks in Indonesia are free from the problem. Djunaedie (2009) stated that the crash of PT Bumi Resources Tbk stock price in 2008 was caused by the holding company pawned the stocks of its five subsidiaries to many parties, including PT Bumi Resources Tbk to pay its debt. The investors were in panic selling that they sold the Bakrie Group stocks with low prices. Besides the stock price crash of PT Bumi Resources Tbk in 2008, in 2012 it also suffered from the same problem. It was caused by the loss booked on the first semester in 2012 as much as USD 322 million (Delima, 2015). Fundamental performance of Bakrie Group was categorized as bad and was potential to be default as much as IDR 7.1 trillion (Wei, 2012 in Perdana, 2013). The stock price of PT Bumi Resources Tbk at the beginning of 2012 was approximately on IDR 2,550. If it is compared to its highest price reached in 2008 which is IDR 8,550, the price at that time was just as much as 29.2% of its highest price.

The stock crashes were not only happened in private sector, but also in governmental-owned firm (perseroan). An example of the phenomena is what happened to PT Perusahaan Gas Negara (Persero) Tbk that experienced stock price crash as much as 23.36% that happened only in a day on January 12 2007 (Hasmi, 2012). Sasongko (2008) stated that there was insider trading in the case because some investors already knew that the gas piping project from the South Sumatera to the West Java was delayed and the problem causing the huge sales of their stocks.

The fundamental factor that is generally used to be a guideline in making decisions is financial statement. One of the financial statements' qualitative characteristics which is relevance, is already written in the conceptual framework for financial reporting and stating that information that has relevancy will affect the economic decisions of its users in decision making process (IAI, 2012: p26). Darsono (2012: 130) stated that relevance is the main element of accounting information system and the measurement can be done by testing the

association power of numbers in financial statements and stock prices.

Commonly, not all information in financial statement will be responded by the market. Because of various restrictiveness, several information related to earnings will have stronger responses than others (Scott, 2009: 168). Related to earnings, it can be gain or loss.

Related to the gain or loss, each firm has different preference level to recognize it based on the timeliness. One of the methods that recognize gain or loss based on its timeliness is conservatism. Conservatism is recognizing gain when it already occurs and recognizing the loss when it is still a potency (Basu, 1997). Conservatism consists of two kinds, the first is conditional conservatism and the second is unconditional conservatism (André, Filip, Paugam, 2013: 2). Conditional conservatism is recognizing the loss when it is a potency and recognizing the gain when already occurs if the firm is on the uncertain condition (news-dependent). Unconditional conservatism is continually recognizing the loss when it is still a potency and recognizing the gain when it is already happened without noticing the condition of the firms (news-independent).

Related to two kinds of conservatism above, the accounting standards board are already urging the financial statement compiler to use conditional conservatism and avoiding unconditional conservatism through financial statement qualitative characteristics in the conceptual framework in prudence part (IAI, 2012: p37). It happens because conditional conservatism gaining unbiased decisions, while unconditional conservatism results in wrong decisions.

Indonesia is already implementing the adoption of the International Financial Reporting Standard (IFRS) in step wise approach since 2009 and the full implementation of the convergence began in 2012. The implementation of conservatism is much related to the accounting standard prevails in related countries. Related to the case, principally IFRS fully supports conditional conservatism to be practiced. However, André et al. (2013) found that the conditional conservatism practice in Europe was decreased after the mandatory IFRS adoption. In Indonesia, Aristiya and Budiharta (2013) had found that conservatism practice after the IFRS convergence was decreased. Based on the explanation above, the researcher is interested in examining the impact of conditional conservatism on stock price crash risk when Indonesia already implementing the IFRS adoption since 2009 until 2014 and to examine the impact of the full implementation of IFRS convergence in 2012 on the relationship between conditional conservatism and the stock price crash risk.

2. Research Hypotheses

Conditional conservatism principally recognizing gain when the evidences are sufficient, while the loss will be recognized when there is a possibility to happen. The principle is appropriate with the people's behavior in the scope of prospect theory which was developed by Kahneman and Tversky (1979). The principle is the people like the certain gain and uncertain loss.

Pasquariello (2014) found that the nature of risk-seeking in loss which is formulated in the prospect theory urges the investors to trade based on the firms' fundamental information. If the investors use the financial statement as the basis of investment decision making, the investors will be given the early warning about the loss that the firm will get through the firms' conditional conservatism practice. Yet, the gain recognized should be already occurs. Ding, Charoenwong, and Seetoh (2004) found that the earning surprise is related to the increase in stock returns. If conditional conservatism has impact to earnings surprise and the increase of stock returns, it is expected that the crash risk will be decreased.

Conditional conservatism which is the adversary of piling bad news and causing the stock price crash had been being supported by the empirical evidence from the research conducted by Kim and Zhang (2012). It shows that the degree of conditional conservatism has significant negative effect on stock price crash risk in the future. However, Moradzadehfard, Lotfi, and Fathi (2011) found different result. By using the measurement of crash risk developed by Chen et al. (1999), conservatism has positive effect on stock price crash risk. Kim and Zhang (2012) examined the stocks in USA, while Moradzadehfard et al. (2011) used the Iran stocks. The results were acquired after controlling other factors that were being considered to have effects on stock price crash risk.

H_1: conditional conservatism has significant effect on the stock price crash risk of firms listed in LQ45 Index

The research examining the effect of conditional conservatism on the stock price crash risk by Kim and Zhang (2012) and Moradzadehfard et al. (2011) were being conducted in countries that have not adopted the IFRS. On the other hand, this study is conducted in Indonesia that implementing the IFRS adoption step by step since 2009 and were being fully implemented since January 1 2012. Related to this matter, principally, IFRS fully supports conditional conservatism although it is not clearly expressed in the conceptual framework (IASB, 2008 in André et al., 2013: 2). However, the empirical evidence of André et al. (2013) shows that there was a decline on conditional conservatism practice in Europe after IFRS mandatory implementation. The same thing occurred to the research of Aristiya and Budiharta (2013) that examined the difference of conservatism level before and after IFRS convergence implementation in Indonesia. They found that conservatism in Indonesia has decreased after the IFRS convergence.

H_2: full implementation of IFRS convergence moderates the effect of conditional conservatism on stock price crash risk of firms listed in LQ45 Index.

3. Research Method

3.1. Population and Sample

Population of this research is all firms listed in Indonesia Stock Exchange and also included in LQ45 Index. The sampling method used is judgment sampling. The criteria of using judgment sampling in this research are as follow.

1. The stocks are listed in LQ45 Index of Indonesia Stock Exchange for at least four consecutive periods, which is started from the beginning of the fiscal year since 2009 until 2014;
2. Publicizing audited financial statements for the fiscal year ended on December 31 of the chosen observation year based on the first criteria;
3. The firms do not have the accumulated loss in equity;
4. The stocks at least having twenty six times of positive weekly returns in a year;
5. All of the data needed are completely available.

The stocks on LQ45 Index are chosen because the index is made to solve the problem of the development and the IHSG liquidity level that do not quite reflect the real condition occurs in the stock exchange (Tandelilin, 2010: 87). In the exchange, some securities are very actively traded but some others just have a few transaction frequencies and tend to be passive.

The list of stocks grouped on LQ45 Index is being renewed after six months. The criteria that stocks must be listed on LQ45 Index in four consecutive periods is caused by the independent and the control variables are measured in year t, while the dependent one measures the crash risk on stocks in year t + 1. The researcher takes the observation period started in 2009 because at that year the IFRS adoption began to be implemented and as per January 1 2012, IFRS-based PSAK (Indonesian GAAP) must be implemented in public firms in Indonesia.

The next criteria which is the firms must not have accumulated loss in equity is caused by the accumulated loss will subtract the book value of equity. The firms' book value of equity with accumulated loss will make them much lower than the firms that do not have accumulated loss. It will have an effect to the market to book ratio as an indicator in conditional conservatism.

Criteria of positive returns amount in a year is used because the crash measurement by Chen et al. (1999) needs to be implemented in a firm that at least has positive returns half of the year in a fiscal year. The stock price crash risk with that characteristic will be better predicted. This treatment had also been done in the researches of Kim and Zhang (2012) and Moradzadehfard et al. (2011).

3.2. Operational Definition and Variable Measurements

1. Dependent variable

The dependent variable in this research is stock price crash risk. This variable is measured using the model developed by Chen et al. (1999).

$$NCSKEW_{it+1} = \frac{-(n(n-1)^{\frac{3}{2}}\Sigma W_{it+1}{}^{3})}{(n-1)(n-2)(\Sigma W_{it+1}{}^{2})^{\frac{3}{2}}}$$

Where:

W_{it+1} = the sequence of stock i weekly returns in period t+1

n = observations amount of the weekly returns during the fiscal year

2. Independent variable

The independent variable in this research is conditional conservatism. This variable is gained from the calculation as follows (Khan and Watts, 2009).

$$G_{Score_{it}} = 0.237 - 0.033 * MKV_{it} - 0.007 * \frac{M}{B}_{it} + 0.033 * LEV_{it}$$

$$C_{Score_{it}} = 0.031 + 0.005 * MKV_{it} - 0.006 * \frac{M}{B}_{it} + 0.005 * LEV_{it}$$

$$CC\ AR = \frac{(C\ Score_{it} + G\ Score_{it})}{G\ Score_{it}}$$

C score and G score are the components of asymmetric response coefficient (CC AR) as a proxy of conditional conservatism. To calculate it, the following are the data needed.

a. Size (MKV_{it})

MKV_{it} = natural logarithm (ln) market value of equity

b. *Market to Book Ratio* ($\frac{M}{B_{it}}$)

$$\frac{M}{B_{it}} = \frac{market\ value\ of\ equity}{book\ value\ of\ equity}$$

c. Leverage (LEV_{it})

$$LEV_{it} = \frac{total\ of\ short\ term\ debt + total\ of\ long\ term\ debt}{market\ value\ of\ equity}$$

3. Moderating variable

In this research, the moderating variable used is the full implementation of IFRS convergence in 2012. The sample of stocks before the full implementation of IFRS convergence are coded by 0 (null) and the sample after the full implementation of IFRS convergence are coded by 1 (one).

4. Control variables

a. Detrended Share Turnover ($DTURN_{it}$)
   Controlling the detrended share turnover in year t is conducted because Chen et al. (1999) showed that the variable proxies the differences of opinion among the investors and has significant positive effect on negative skewness of return or stock price crash risk in year t + 1.

b. Negative Coefficient of Skewness ($NCSKEW_{it}$)
   A firm with the high skewness of return in year t tend to has high skewness of return in year t + 1 as well (Kim and Zhang, 2012: 16).

c. Standard Deviation of Firm Weekly Returns ($SIGMA_{it}$)
   Controlling the volatility of weekly returns is conducted because the stocks with high return volatility in year t more tend to experience stock price crash in year t + 1 (Kim and Zhang, 2012: 16).

d. Firm Average Weekly Returns (RET_{it})
   Chen et al. (1999) had been proved that stock price crash risk in the future is higher for stocks that have high past returns than the low ones.

e. Firm Size ($SIZE_{it}$)
   To control the impact of firm size on crash risk, Kim and Zhang (2012) and Moradzadehfard et al. (2011) also involving firm size to the equations.

3.3. Technique of Analyzing Data

Multiple Regression Analysis is used to test the hypotheses of this research. The model of this research consists of three equations. From those equations, the first two equations are the ones without interaction variables. The first equation consists of independent and control variables to answer H_1. The second equation consists of an independent variable, control variables, and a moderating variable as the independent variable. The third equation is the moderated regression analysis (MRA) to answer H_2 that consists of an independent variable, control variables, a moderating variable as the independent one, and the interaction variables of each control variable and independent variable with the moderating one. The three equations are as follow.

$$NCSKEW_{it+1} = \alpha_0 + \alpha_1 CC\_AR_{it} + \sum_{q=2}^{m} \alpha_q\ (q^{th} Control\ Variables_{it}) + \varepsilon_{it} \quad \text{.....(I)}$$

$$NCSKEW_{it+1} = \alpha_0 + \alpha_1 CC\_AR_{it} + \sum_{q=2}^{m} \alpha_q\ (q^{th} Control\ Variables_{it}) + \alpha_7\ DFULL_{it} + \varepsilon_{it} \quad \text{.....(II)}$$

$$NCSKEW_{it+1} = \alpha_0 + \alpha_1 CC\_AR_{it} + \sum_{q=2}^{m} \alpha_q\ (q^{th} Control\ Variables_{it}) + \alpha_7\ DFULL_{it} + \alpha_8 CC\_AR_{it} DFULL_{it} + \sum_{r=9}^{n} \alpha_r\ (r^{th} Control\ Variables_{it} DFULL_{it}) + \varepsilon_{it}$$

.....(III)

Where:

$NCSKEW_{it+1}$ = stock price crash risk

CC_AR_{it} = conditional conservatism

$Control\ Variables_{it}$ =
   a. detrended share turnover ($DTURN_{it}$)
   b. negative coefficient of skewness ($NCSKEW_{it}$)
   c. standard deviation of firm weekly returns ($SIGMA_{it}$)
   d. firm average weekly returns (RET_{it})
   e. firm size ($SIZE_{it}$)

$DFULL_{it}$ = dummy variable for the full implementation of IFRS convergence

$CC\_AR_{it} DFULL_{it}$ = interaction variable between conditional conservatism and the full implementation of IFRS convergence

$Control\ Variables_{it} DFULL_{it}$ = interaction variable between each control variable and the full implementation of IFRS convergence

α_0 = constant

α_n = regression coefficients

ε_{it} = error

4. Research Results

4.1. Sample Determination

Based on the 156 firm-years observations that listed in LQ45 since 2009 until 2014, the sample data processed are as much as 74 firm-years observations. Table 1 gives the result of sample taking by judgment method. The criteria to take the sample of this research are as follow.

Table 1. Determining the Research Sample

No.	Criteria of Determining Sample	Amount
1.	Amount of the stocks observations that listed on the LQ45 Index for four consecutive periods starts in the beginning of the fiscal year	156
2.	Amount of the stocks observations with accumulated loss in equity	(1)
3.	Amount of the stocks with positive weekly return less than twenty six times in a year for period t	(78)
4.	Amount of the observations which do not fulfill the normality data assumption	(3)
5.	**Sample observations amount of the research**	**74**

4.2. Testing the Research Hypotheses

The effect of the independent variable, which is accounting conditional conservatism and the control variables on the dependent variable, which is stock price crash risk in year t + 1, whether it is directly or is moderated by the full implementation of IFRS convergence were processed using computer program IBM SPSS Statistics 19. The result of regression testing of those three equations used is given in Table 2 below.

Table 2. Results of the Multiple Regression Analysis

No.	Variable	Eq. I		Eq. II		Eq. III	
		Un. Coeff.	Sig.	Un. Coeff.	Sig.	Un. Coeff.	Sig.
1.	CC_AR_{it}□	2.206	0.198	2.208	0.201	3.771	0.043*
2.	$DTURN_{it}$•	-0.164	0.215	-0.161	0.225	-0.163	0.185
3.	$NCSKEW_{it}$•	-0.035	0.683	-0.033	0.711	0.309	0.041*
4.	$SIGMA_{it}$•	-0.000069	0.574	-0.000074	0.553	0.00028	0.411
5.	RET_{it}•	-0.000490	0.455	-0.001	0.436	0.000096	0.956
6.	$SIZE_{it}$•	0.133	0.267	0.139	0.259	0.227	0.082
7.	$DFULL_{it}$○			-0.057	0.804	26.680	0.003*
8.	$CC\_AR_{it}DFULL_{it}$●					-8.173	0.023*
9.	$DTURN_{it}DFULL_{it}$◊					0.431	0.620
10.	$NCSKEW_{it}DFULL_{it}$◊					-0.490	0.007*
11.	$SIGMA_{it}DFULL_{it}$◊					0.001	0.080
12.	$RET_{it}DFULL_{it}$◊					0.002	0.507
13.	$SIZE_{it}DFULL_{it}$◊					-0.681	0.010*
Constant		-5.740		-5.901		-9.543	
Sig.		0.663		0.764		0.012*	
R^2		0.058		0.059		0.339	

Where:

□	: independent variable
•	: control variables
○	: moderating variable
●	: interaction between the independent variable and the moderating variable
◊	: interactions between the control variables and the moderating variable
*	: significant on the 0.05 level

4.2.1. Testing the Appropriate Model

If the result of F test is combined with the test of determination coefficient, it can be concluded that conditional conservatism can explain the stock price crash risk as much as 33.9% using the full implementation of IFRS convergence as the moderating variable. This is given after controlling the detrended share turnover, negative coefficient of skewness in period t, standard deviation of weekly returns, average weekly returns, and the firm size, and the rest for 66.1% (100% - 33.9% = 66.1%) is explained by other variables or variables that are not tested in this research. Testing the appropriate model which can be seen from the significance value of F test and R^2 shows that the most appropriate model to estimate the actual value is the third model involving the interaction variables of the independent and each control variable with the moderating variable.

4.2.2. T Test

For the first hypothesis that has the aim to know whether conditional conservatism has direct effect or not on stock price crash risk, the data needed is the T test result on the first model. Based on the Table 2 with the significance level < 0.05, accounting conditional conservatism has significance level as much as 0.198 which is more than 0.05. Therefore, conditional conservatism has no significant effect partially on stock price crash risk. Therefore, H_1 is not supported.

For the second hypothesis that has the aim to test the moderating effect of the full implementation of IFRS convergence on the relationship between conditional conservatism and stock price crash risk, the result of T test is used. The significance value of T test on the third model of conditional conservatism is under 0.05, which is 0.043. Besides, the full implementation of IFRS convergence variable is as much as 0.003, and the interaction variable of conditional conservatism and the full implementation of IFRS convergence has value of 0.023. If they are compared to the second model which also involving the full implementation of IFRS convergence as the independent variable, none of the variables affect the dependent variable. This result shows that the full implementation of IFRS convergence is a moderating variable and is not an independent variable in explaining the dependent variable variation. Therefore, H_2 is supported.

4.3. Discussion of Research Results

4.3.1. Accounting Conditional Conservatism in Affecting Stock Price Crash Risk

The result of this research that does not support H_1 is not in line with Kim and Zhang (2012) who found that conditional conservatism has significant negative effect on stock price crash risk in the future. Kim and Zhang (2012) argued that accounting conservatism increases the release of bad news earlier; therefore it can reduce the stock price crash risk.

Sinha and Watts (2001) also Dontoh et al. (2004) in Darsono (2012: 130) stated that accounting information that has low relevance cannot be used as the basis of economic decision making by the investor and other stakeholders because showing the low quality of financial statement. Related to this matter, Cahyonowati and Ratmono (2012: 105) had proved that the application of IFRS-based standard in Indonesia does not raise the accounting information quality. Moreover, Maharani and Siregar (2014: 1) had proved that value relevance of accounting information in Indonesia, Malaysia, and Singapore has not been increasing yet during the IFRS convergence.

The second reason of accounting conditional conservatism that has no significant direct effect on the stock price crash risk is because there is a decline of conservatism level when the IFRS convergence is fully implemented. It is proven by André et al. (2013) that in some countries which already adopted the IFRS in 2005 in Europe, the degree of conditional conservatism tend to be decreased. Aristiya and Budiharta (2013: 1) also proved that the degree of accounting conservatism in Indonesia was also decreased after the implementation of IFRS convergence.

The first hypothesis which is not supported by the result also supports the argument of André et al. (2013) that the IFRS implementation is not as good as expected by the standards board that are already written in the conceptual framework. If André et al. (2013) found that the level of conditional conservatism was decreased after the IFRS mandatory adoption in Europe, this research also completing their findings through the effect of conditional conservatism during the IFRS adoption process in investment decision making, especially for stocks.

4.3.2. Full Implementation of IFRS Convergence in Moderating the Relationship Between Conditional Conservatism and Stock Price Crash Risk

The result of the third regression model examination which also consists of the interactions between an independent and control variables with the moderating variable shows that the conditional conservatism positively affects stock price crash risk partially. This result supports the regression result of Moradzadehfard et al. (2011) who found that conservatism positively affects the stock price crash risk in the future in Iran, a country that has not adopted the IFRS yet. However, there is no further explanation of the result because Moradzadehfard et al. (2011) continued to test the hypothesis using the model of Hutton, Marcus, and Tehranian (2009) and found that the conditional conservatism decreasing the stock price crash risk.

This result shows that conditional conservatism affects stock price crash risk and is moderated by the

full implementation of IFRS convergence. This finding supports the prospect theory as a base of conditional conservatism on affecting the stock price crash risk. Furthermore, the result of the test also supports the finding of Pasquariello (2014) who found that the nature of risk-seeking in loss in prospect theory motivates the investors to trade aggressively using the firms' fundamental information. This result supports that in the scope of prospect theory, investors rely on the fundamental information which is reflected in financial statement, including the accounting conditional conservatism before selling or buying stocks. This is an important finding because the investors of LQ45 stocks in Indonesia are proven to use the information approach in financial statement to make decisions. Other than that, the result of this research also shows that the information in financial statements causes the economic consequences for the investors of LQ45 stocks, which is crash risk of the stock price.

In the third model, the dummy variable, the full implementation of IFRS convergence has significant positive effect on stock price crash risk. It means that when Indonesia entered the full implementation phase of IFRS convergence, the stock price crash risk is higher instead. Compared to the historical value, the use of fair value in IFRS can cause hesitancy of the firms' true value. Therefore, the stock price crash risk gets higher. This result is not in line with the result of Bleck and Liu (2007) who found that the market value can give the early warning mechanism whereas the historical price gives the management a loophole that the firms' economic performances can be hidden. Money market which is more opaque causing more frequent and horrifying stock price crash risk.

When the dummy variable the full implementation of IFRS convergence is interacted with the conditional conservatism, they reduce the stock price crash risk. This result shows that the investors not only look the conditional conservatism implemented by the firm separately with the assessment based on the accounting standard prevails, but also considering the two simultaneously to make the appropriate investment decision. This finding adds the literature of the effect of conditional conservatism that has to be combined with the full implementation of IFRS convergence to reduce the stock price crash risk in the country that is already adopting the IFRS. Furthermore, this finding also proves that the investors of LQ45 stocks behave as the prospect theory by preferring certain gain (certainty effect) and the uncertain loss (reflection effect) which is implemented through the conditional conservatism in financial statements.

If we see the value of beta coefficient in the third model, it can be concluded that the full implementation of IFRS convergence is the strongest variable affecting the stock price crash risk, followed by the interaction variable between conditional conservatism and the full implementation of the IFRS convergence, and the third is the conditional conservatism. However, if the full implementation of IFRS convergence variable is not interacted with the independent variable and the control variables like in the second model, the variable does not affect the stock price crash risk.

4.3.4. The Effect of the Control Variables on Stock Price Crash Risk

Based on the first and the second model that are not involving the interaction variables, there is none of the control variables affecting the dependent one. However in the third model that is also involving the interaction variables, the different result is given. The negative coefficient of skewness variable has significant positive effect on the stock price crash risk. The interaction between that variable and the full implementation of IFRS convergence also affects the stock price crash risk, yet in the negative direction. At last, the firm size variable which is interacted with the full implementation of IFRS convergence also negatively affects the stock price crash risk.

The control variable negative coefficient of skewness on the third model which positively affects the stock price crash risk supports the results of either Kim and Zhang (2012) or Moradzadehfard et al. (2011). This finding proves that in Indonesia which is already adopting the IFRS, LQ45 stocks with high negative skewness of returns in the previous year will also have the high negative skewness of returns in the next year. However, the interactions between the full implementation of IFRS convergence variable with the negative coefficient of skewness and the firm size which negatively affect the stock price crash risk are the new findings, especially for the research conducted in the country which is already adopting the IFRS.

5. Conclusion, Research Contributions, Limitation, and Suggestion

5.1. Conclusion and Research Contributions

The research results prove that the accounting conditional conservatism does not directly affect the stock price crash risk, yet it negatively affects the stock price crash risk when the variable is moderated by the full implementation of IFRS convergence. This is given after controlling other variables that are considered affecting the stock price crash risk, consisting of detrended share turnover, the negative coefficient of skewness in period t, standard deviation of weekly returns, the average of weekly returns, and firm size.

Theoretically, this result supports the certainty effect and the reflection effect on the prospect theory which is principally also appropriate with the conditional conservatism. However, when the conditional conservatism is separated with the full implementation of IFRS convergence and the effect on stock price crash

risk is tested, the positive effect of this accounting treatment does not occur. This finding does not support the findings of the previous research in the countries that have not adopted the IFRS yet. This is the new important finding related to the effect of conditional conservatism on stock price crash risk in the country that is adopting the IFRS.

Practically, the result of this research gives contribution to the go public-firms, especially the firms whose the stocks are listed in the LQ45 Index to increase the use of conditional conservatism. The contribution is based on direct response of the capital market traders to conditional conservatism which is proven to be minimal seen through the stock price crash risk. Whereas, conditional conservatism is supported by the Standards Board as one of the financial statement characteristics in the prudence part (IAI, 2012: p37).

The research result shows there is no significant effect of conditional conservatism on stock price crash risk. This finding has policy contribution that does not yet support the qualitative characteristic of financial statement in relevance part. It states that the information which has relevance will affect the economic decision of the users in decision making-process (IAI, 2012: p26). Therefore, the empirical result shows that the expectation of the standard setters which is written in the conceptual framework while arranging the IFRS convergence has not been being fulfilled yet.

5.2. Research Limitation and Suggestion

When the IFRS convergence is fully implemented in Indonesia, the time distance of this research is relatively short. It occurs because when the research is conducted, the data of 2015 have not yet been available, therefore the examination of year 2014 as period t and the 2015 data as period t + 1 cannot be conducted. Based on the research limitation, the next research can increase the time distance so that the amount of the observation years when the IFRS convergence is fully implemented can be at least equal with the observation years when the IFRS convergence had not been being fully implemented.

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