Accounting conservatism of
Foreign and Domestic Earnings

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Abstract

This paper examines whether there is any systematic difference in the levels of conservatism between domestic and foreign earnings and explore which factors drives the differential conservatism of domestic and foreign earnings. We find that the domestic earnings conservatism is much higher than that of foreign earnings. This result is robust across a variety of model specifications for conservatism. More importantly, we find that the differential conservatism is likely to be a consequence of (1) the tax costs related to repatriating foreign earnings, (2) financial leverage due to territorialism and (3) information asymmetry.

Keyword: domestic earnings, foreign earnings, accounting conservatism, repatriating earnings