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Abstract

We examine the effect of the Sarbanes-Oxley Act (SOX) on the conservative reporting behavior of chief executive officers (CEOs) of firms. Therefore, risk-averse CEOs are more likely to report discretionary accruals following SOX. Our results, based on a matched sample of dual-listed Canadian firms and their domestically listed counterparts, indicate that (1) firms subject to SOX are more conservative in financial reporting in the post-SOX period as evidenced by lower signed discretionary accruals, the Ball and Shivakumar (2005) conditional conservatism measure, and the Penman and Zhang (2002) unconditional conservatism measure; and (2) the impact of SOX on firms' conservative reporting through discretionary accruals in the post-SOX period is not homogeneous—that is, it is more pronounced for firms that were aggressive in the pre-SOX period.



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