

Conservatism and Initial Public Offerings (IPOs) Underpricing: An Audit Quality Perspective

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Abstract

The purpose of this paper is to focus on examining the impact of conservatism on IPOs underpricing and then examine the role of audit quality as a moderating variable in the relationship between conservatism and IPOs. Based on financial-behavioral theories, analyses are conducted of data from a sample

of Tehran Stock Exchange (TSE) listed companies for the fiscal years 2008–2017 (i.e. 230 firm-year observations). Correlation and regression analyses are performed to evaluate possible associations between conservatism and initial public offerings (IPOs) underpricing with regard to audit quality. There is a negative significant relationship between conservatism and IPOs underpricing, i.e., it reduces IPOs underpricing. Also, the research results indicated that the auditing quality cannot moderate the relationship between conservatism and IPOs underpricing in Iran's stock market. This conclusion may be explained under the winner's curse theory. Accordingly, informed investors do not request to purchase unattractive stocks, and uninformed investors demand and obtain all the unattractive stocks since there is no competition between informed and uninformed investors. A limitation of this paper is the number of firms, which for future studies needs to be considered. This research is expected to contribute comprehensively to expanding the theoretical foundations and increase audience knowledge of the underpricing of initial public offerings (IPOs). It is also expected that the results of the study will: 1. determine the underpricing of IPOs in Iran during the research period; 2. document the role of conservatism in reducing underpricing of IPOs; 3. potentially prevent inappropriate pricing of new stocks. Furthermore, the findings of this study suggest that the application of financial-behavioral theories calls for more inquiry.

Keywords: Conservatism, Initial Public Offerings (IPOs), Audit Quality, Iran.

Introduction

With the increasing development and diversification of the capital market and its multifaceted role in the economic growth and development of the country through the facilitation and diversification of companies' access to finance, exploitation of the capability of this market is of prime importance (Li and Zhou, 2006; Yatim, 2011 and Ammer and Ahmad-Zaluki, 2017). Such markets are the places where retail and unused funds are directed toward investing and applying to productive economic cycles (Guo, et al., 2004 Lizińska and Czapiewski, 2018). Given this, acceptance in such a market is often welcomed by companies because it offers many benefits such as increased capital, greater competition, tax breaks, and access to cheap financial resources (Wong et al., 2017; Yu et al., 2019).

In Iran, too, with the increasing trend of capital market activities to implement Article 44 of the Constitution and the privatization of state-owned companies, many companies are launching their initial public offering (IPOs) for the first time in the Tehran Stock Exchange, and this trend is continuing at a

faster pace. Private companies are more likely to publicly market their stocks when they first receive the intrinsic value of their assets and future growth and development opportunities from investors, which requires that the initial pricing is correct and proper returns are achieved on the first day (Rock, 1986 and Guo et al., 2004). Therefore, the importance of examining how companies are priced when they first enter the stock market has been a major area of focus for financial market participants.

In this regard, the main challenge arises when the efficiency of the initial offerings is examined in the short run. The stock that is offered for the first time on the stock exchange is usually priced below its fair value, which, in most cases, results in abnormally high returns (albeit in the short run). Then, because of the long-term price drop, it will bring massive losses to investors who have recently bought shares (Loughran, et al., 1994; Yong, et al., 2001 Yu et al., 2019). The results of many studies (Loughran & Ritter, 2002; Yatim, 2011; Lizińska and Czapiewski, 2018 and Yu et al., 2019) indicated that in IPOs, corporate stocks are priced lower than what the investors are willing to pay. In other words, companies sacrifice the interests of their primary shareholders and, so to speak, leave a significant amount of money on the table, incurring high costs and generating abnormal positive returns for new investors (Loughran and Ritter, 2002). The formation of such anomalous returns in the short run is attributed to the phenomenon of "underpricing" or "cheap" initial public offerings (IPOs) (Loughran and Ritter, 2002).

This phenomenon is pervasive and universal and has been documented in almost all countries (Ritter, 1984 and 1991; Loughran et al., 1994 Ritter, 2003). In fact, underpricing of IPOs in Asian developing capital markets (including Iran) is greater than in developed markets (Loughran and Ritter, 1994; How, et al., 2000; Yong et al., 2001; Ritter, 2003; How et al., 2007; Yong, 2007; Yatim, 2011; Yong et al., 2001 and Wong et al., 2017). This claim can be examined in light of the hypothesis of weaker information asymmetry, signaling, and corporate governance in developing countries because, in such countries, access to company information and their performance is difficult and information asymmetry is high (La Porta, et al., 1999 and 2000; Jelic, et al., 2001; Yatim, 2011 and Wong et al., 2017).

Therefore, an initial public offering is used to offset the effects of information asymmetry, as well as to provide incentives to buy corporate stocks and provide a positive signal (La Porta et al., 2000; Drobetz, et al., 2005; Yong, 2007 and Yatim, 2011). In the long run, however, the share price reaches its final equilibrium, as the returns on these stocks fall back on market returns and correct for sharp growth (Wong et al., 2017). Most research related

to the IPOs underpricing phenomenon (including Baron and Holmstrom, 1980; Rock, 1986; Beatty and Ritter, 1986; Yatim, 2011 and Yu et al., 2019) has focused on information asymmetry.

Information asymmetry as a key foundation in shaping the theory of signaling plays an important role in underpricing the offering firms so that by higher information asymmetry, the underpricing will increase (Rock, 1986; Cai, et al., 2004; Drobetz et al., 2005; Yong, 2007 and Yatim, 2011). In other words, as long as the information asymmetry is high, companies with low-cost IPOs provide a positive signal and incentive for investors (Drobetz et al., 2005; Yong, 2007 Yatim, 2011). Other factors, including weaknesses in corporate governance, the reputation of consumers, managers' conservatism, and weaknesses in supervisory and control quality that revolves around the hypothesis of information asymmetry and signaling theory can also shape this phenomenon (Beatty and Ritter, 1986; Cliff and Denis, 2004; Albring, et al., 2007; Yatim, 2011; Chen et al., 2012; Lizińska and Czapiewski, 2018; Wong et al., 2017; Yu et al., 2019 and Anand and Singh, 2019).

On the other hand, few studies (including Lin and Tian, 2012; Boulton et al., 2017) have investigated the impact of conservatism on IPOs underpricing, and to the researcher's best knowledge, no studies have examined the impact of audit quality on the relationship between conservatism and IPOs underpricing. Therefore, more research into the impact of such factors, including conservatism and audit quality is increasingly felt. The present study also focused on reducing information asymmetry through the application of conservatism in accounting and audit quality.

Therefore, the present study aimed at, first, examining the impact of conservatism on IPOs underpricing and then examining the role of audit quality as a moderating variable on the relationship between conservatism and IPOs. In other words, the key issues are whether conservatism reduces IPOs underpricing and whether audit quality (audit firm size, industry auditor expertise, auditor tenure, and type of audit statement) can reinforce the negative relationship between conservatism and IPOs underpricing.

IPOs underpricing is expected to decline if there is conservatism since conservative accounting requires verification of benefits more than losses (Ball, 2001; Chaney et al., 2011). Therefore, the net profit and loss reported under conservatism will be more reliable and verifiable, and conservatism accounting will reduce the opportunistic behavior of managers to maximize profit and minimize losses (Bushman and Piotroski, 2006; Bolton et al., 2017). As a result, the information asymmetry between equity issuers and other

stakeholders in the initial offering will be reduced (Lara, et al., 2007), and this will lead to a decrease in IPOs (Lin & Tian, 2012; Bolton et al., 2017). Researchers are also expected to reduce information asymmetry as long as audit quality in newly listed companies is high (Rahimah and Arifin, 2010; Clinch, Stokes, and Zhu, 2012; Agyei et al., 2019), the market price of new shares is fairly determined, and investors buy new shares more confidently in the capital market.

Unfortunately, in most studies of initial offering underpricing in Iran, following the research conducted in developed countries, they consider only the first-day return on stocks. In developing countries, such as Iran, due to less transparency and restrictions such as the volatility range (5% volatility and closing price volatility of more than 20% over 5 consecutive days and over 50% in 15 consecutive days), the first day returns may not be a good measure of underpricing of initial offerings, with many negative consequences to come. However, the fluctuation range and closing of the symbol can push prices up in the following days. Therefore, the present study has attempted to use a more appropriate criterion (anomalous returns of stocks adjusted to market returns for the first trading month).

This research is expected to contribute comprehensively to expanding the theoretical foundations and increase audience knowledge of the underpricing of initial public offerings (IPOs). It is also expected that the results of the study will:

1. Determine the underpricing of IPOs in Iran during the research period.
2. Document the role of conservatism in reducing underpricing of IPOs.
3. Clarify the role of audit quality in the process of preventing underpricing IPOs and reinforcing the effect of conservatism on the reduction of IPOs underpricing. It is supported by the empirical and documented findings in the Iranian capital market. The findings can help investors, capital market regulators and other accounting information users understand how conservatism impacts IPOs underpricing and audit quality.
4. Prevent inappropriate pricing of new stocks. As expected, inappropriate pricing will create a bitter experience for investors and will discourage investors from actively participating in the stock market, and may interfere with the implementation of Article 44 of the Constitution and the privatization of government. Furthermore, inappropriate stock pricing in initial offerings makes corporate executives unable to see the feedback of their financial and operating decisions in the form of price signals and doubts about the validation

or rejection of their beliefs (Bhagat and Rangan, 2004, Ghaznavi Doozandeh et al, 2021).

5. Help them have a better offering and to offer their stock at a better price by providing solutions to firms that have not yet publicly offered their shares.

The rest of the paper is organized as follows. Section 2 reviews the theoretical background related to initial public offering and underpricing, conservatism, and audit quality. Section 3 describes the research variables and models. Section 4 deals with the empirical results, and Section 5 concludes the paper.

Theoretical Basics

A number of reasons have been proposed in the literature for the stock returns of IPOs in the form of signaling theory, theories of asymmetric information, control theories, and behavioral theories. In the following, we present one of the most influential theories.

The winner's curse theory

The winner's curse is defined as a phenomenon that may occur in auctions with incomplete information. It also refers to the loss or gain less than expected by the auction winner. If the winner's estimation of the value of the goods exceeds its intrinsic value, the winner's gain will be less than expected or it may even lead to a loss. This loss or gain less than what the winner anticipates is called the winner's curse. Rock (1986) drew on this hypothesis to explain the reason for the cheap sale of IPOs. It is also called the fear of easy purchase in several studies. Well-informed investors, who have reliable information on the intrinsic price of the offered shares, prefer to buy attractive and profitable offers (the stock limit price is higher than the offered price), but uninformed investors do not distinguish between attractive and unattractive stocks when concluding the purchase contract.

Therefore, when well-informed investors do not have a request to buy such a stock, uninformed investors receive all the unattractive requested shares, because there is no competition between well-informed and uninformed investors. Therefore, as a result of the asymmetric information between investors, uninformed investors are afraid of their purchase and will not participate in subsequent offerings. Thus, this fear of easy purchase causes the stock issuing company to sell its stock cheaply to encourage all investors and reduce the role of information asymmetry (Rock, 1986; Su and Fleischer, 1999; Chan et al., 2004; Yong, 2007). According to LaFond and Watts (2008) and

Lara et al. (2007), conservative accounting and auditing quality (Rahimeh and Arefin, 2010; Clinch et al., 2012; Agimensa et al., 2019) reduces information asymmetry between investors. Hence, it is expected that high-quality auditing and conservative accounting can prevent the emergence of a winning curse in the cheap sale of IPOs by reducing information asymmetry. Finally, the winning curse hypothesis can explain the relationship between auditing quality, conservative accounting, and the cheap sale of IPO.

Information signaling and asymmetry

Allen and Faulhaber (1989), Grinblatt and Hwang (1989), and Welch (1989) believe that in the signaling hypothesis there is an information asymmetry between a stock issuing company and potential market investors. Compared to other stakeholders in the IPO process, stock issuing companies own more authentic information on the quality and future cash flows of the company and realize the limited value of the company. However, potential investors are not aware of these values. Consequently, the company owners signal the limit value of the company by offering less than the limit of the new stock price in order to achieve a better price in the next stock offering (Drobetz et al., 2005; Yong, 2007).

According to this hypothesis, the initial stock price indicates the quality of the new stock. However, Michaely and Shaw (1994) argue that underpricing cannot be considered an achievement in obtaining a better price in the next stock offering. For this reason, according to the signaling theory, one of the available solutions for reducing information asymmetry is the sale of the stock below the real value by a high-quality company experienced in IPO. Indeed, this lost revenue is the price that high-quality companies have to endure to signal themselves.

Once the market price is released and the information asymmetry is partially eliminated or minimized, a high-quality company can initiate the second stage to compensate for lost revenue by signaling and achieving the desired income and restarting the stock offering but this time at a higher price. The benefits of a reissuance of shares at a higher price are expected to outweigh the costs incurred by signaling.

Issuers of junk bonds refuse to imitate this strategy, namely, pricing less than the actual value because it is possible that the true value of their stock will be revealed in the time period between the two offerings. Consequently, only issuers of securities use the strategy of underpricing as an optimal solution (Wasan and Boone, 2010 Mashayekhi and Beirami, 2012). Information

asymmetry occurs when one of the exchange parties has more information than the other party, for example, because of confidential transactions and information (Myers and Majluf, 1984). The information asymmetry hypothesis insists that one party involved in the IPO process has more information than the others (Ljungqvist, 2005). Ethical risks in IPOs occur when the agent, in order to achieve his personal interests, prefers not to comply with certain provisions of the contract or act contrary to the contract. For example, a financing company (subscription of the new stock) may offer new shares below the actual price in order to sell more shares and receive more commission (Hoque, 2014).

Prospect theory

This theory, developed by Kahneman and Tversky (1979), denotes the people's concentration on maximizing their wealth. This theory is founded on the premise that the financing company has more information on the market demand than the issuing company. There is a degree of information asymmetry between the financing company and the issuing company. Accordingly, the financing company benefits from this information asymmetry, because such companies, as an intermediary, focus on maximizing their wealth. Consequently, these companies sell stocks cheaply so as to encourage more investors to buy stocks. Clearly, when investors compete to receive more cheap stock, investors prefer to pay a bribe to the financing company and receive more shares (Loughran and Ritter, 2002; Yong, 2007).

Initial public offering

The stock market is a bridge between the savings of people and the possibilities of investing. It follows goals such as maintaining a reliable capital market, helping to maintain the country's economic equilibrium, developing a shareholder culture, and protecting micro-investors to encourage public participation in economic and development activities. In this regard, many companies which are new to the capital market begin offering their shares publicly on the Tehran Stock Exchange.

The initial public offering of a company in the primary market aimed at financing is known as the initial offering, i.e., the first sale of company stock and transfer of ownership to an external shareholder (Ljungqvist, 2007; Schrand and Verrecchia, 2004; Alavi, et al., 2006). In a public initial offering, the bidding company uses the cooperation of a financing company to determine the type of securities to be issued, and determine the best offering price and the best time to enter the market. Therefore, a major function of this market is to

discover the fair price of securities. Price discovery is the determination of the price of a particular commodity or securities based on market factors that affect supply and demand (Wong et al., 2017).

The purpose of the initial public offering price discovery is to determine the cash price of the shares issued. Therefore, a fair price should be set which allows the shares to be transferred to investors, not buyers seeking to make a profit from the difference in the purchase and resale price of the shares. Initial public offering pricing largely depends on the firm's net assets and profits and the cash flow of those assets (Firth and Liao-Tan, 1998). The pricing of initial offerings is not theoretically different from the pricing of other offerings. Therefore, the most common approach is to discount future cash flows or the pricing model of equity. However, in practice, because the initial public offering is generally carried out by young firms (with an average age of about seven), there is little historical information to predict its cash flows, which has led to evaluation based on the information analysis of similar companies (Alavi et al., 2006).

Although high stock prices bring a reputation for the company and can create competition in the market for its products, not all shareholders will be able to buy high-priced stocks, and the willingness of micro-investors to buy is reduced. Therefore, it emphasizes that the stock price should be sufficient for everyone to be able to buy. By trying to set a fair price and equilibrium point in the stock price, the credit of the company is maintained and the volume of transactions increases, which is in line with the preferences of different groups of investors, and is subject to the general average market price, the overall industry average price and firm value (Yu et al., 2019; Arora and Singh, 2019).

The initial public offering is performed in multiple ways, the most well-known of which are 1. Book Building; 2. public offering by auction; 3. Fixed Price Offering; and 4. new internet methods. Choosing each of these ways varies by company, depending on the rules (Chang et al., 2008). In Iran, the book-building method is commonly used. In this way, a fixed price is not set for the initial offering of the share, but a minimum price per share is announced, and people can usually place their order up to a few percentages above that price.

As discussed in the preceding sections, the initial public offering of stock is of great interest, giving investors, creditors, and suppliers of raw materials more confidence in the company, which contributes to a higher rate of supply and decreases corporate financing (Chang et al., 2008).

However, in contrast to these benefits, entry into the stock exchange also

has its costs and limitations, most notably the cost of providing information in accordance with the rules of the Stock Exchange, the cost of auditing the firm and presenting a financial statement, subscription and issuance costs, and some qualitative costs, such as the time that senior executives spend on performing initial public offering the amount of which varies depending on the volume of supply and market power of the companies (Yatim, 2011 and Yu et al., 2019).

In addition, an initial public offering is often accompanied by anomalies, the most important of which can be long-term stock price drops (creating long-term negative returns relative to a market index or corporate stock returns in the same industry), underpricing, and Initial Public Offerings in Hot. Below, there is a discussion on underpricing (Jangweist, 2005; Sherand et al., 2004; Alavi et al., 2006).

Initial public offerings (IPOs) underpricing

The underpricing of stocks was first introduced in the US capital market by Ibbotson (1975). He studied 120 stocks initially listed on the New York Stock Exchange between 1965 and 1969, which yielded an average of 11.4% positive initial returns from the date of issue until the end of the first month of trading on the stock exchange (Cho and Lee, 2013). Lower pricing refers to a situation in which the issuing company sets a surprisingly lower offering price than its market price so that the investors only make significant returns from stock trading on the first day of its trade (Albring et al., 2007; Chang et al., 2008; Yatim, 2011; Chen et al., 2012).

The occurrence of such phenomena contradicts the assumptions of the efficient capital market hypothesis. According to the efficient market hypothesis, corporate stock prices are fully reflective of all the information available in the market, and market forces need to adjust the lower voluntary pricing to reach equilibrium prices and, in the long run, the return on these stocks is lagging behind market returns, and the stock price approaches their final equilibrium (Wong et al., 2017).

Beatty and Ritter (1986) argued that financing firms with greater pressures on equity issuers are demanding underpricing in initial offers to attract more unaware investors. Dunn et al. (2000) believed that a low-cost initial offering reduces information asymmetry between informed and uninformed investors, as low-cost is a mandatory cost for the stock issuer. To reduce this compulsory cost, companies are seeking to decrease information asymmetry among investors. Notably, Hogan (1997) has stated that it will continue to do so as long as the benefits of this asymmetry reduction cover the costs spent to reduce

the price.

Prior research has provided several reasons and hypotheses for underpricing initial public offerings. These include:

1. The winners' curse in studies by Rock (1986), Su and Fleisher (1999), and Young (2007)
2. Dynamic information acquisition in Benveniste and Spindt (1989)
3. Signaling by Allen and Faulhaber (1989), Grinblatt and Hwang (1989) and Welch (1989), Michaely and Shaw (1994), Drobbs et al. (2005), and Young (2007)
4. Information cascades in Welch (1989)
5. Marketing in Chemmanur (1993) and Demers and Lewellen (2003)
6. Prospect theory in Loughran and Ritter (2002)
7. Lawsuit avoidance in Tinic (1988), Hughes and Thakor (1992), Ritter (2003), and Young (2007)

These reasons can be explained in traditional theories such as information asymmetry and environmental uncertainty (Baron and Holmstrom, 1980; Rock, 1986; Beatty and Ritter, 1986; Yatim, 2011; Yu et al., 2019) to categorize new theories such as behavioral and critical theories (Lagrange and Ritter, 2002). The most prominent of these theories is the theory of information asymmetry, theories of control considerations, supervision and ownership structure, and financial-behavioral theories. Therefore, it is clear that several assumptions have been made to explain the phenomenon of initial public offering underpricing.

However, like most financial and accounting assumptions, no one is able to fully explain it, because, at some times, a hypothesis may be more likely to explain this phenomenon, while, at other times, the same hypothesis may explain a small part of it (Young, 2007). It is important to note that most of these assumptions are related to the hypothesis of information asymmetry. Therefore, the present study attempted to place greater emphasis on the information asymmetry hypothesis.

Conservatism and IPOs underpricing

Conservative accounting eliminates information asymmetry between investors by two potential mechanisms. First, conservative accounting can provide investors with a satisfactory level of definite information on current

performance. Reported net profit and assets under conservatism are more reliable and verifiable, and conservative accounting reduces managers' opportunistic behavior to maximize profits and minimize losses (Bushman and Petrovsky, 2006). Therefore, information asymmetry between stock issuing companies and other stakeholders in the IPO is reduced, leading to a reduction in the phenomenon of cheap sale of IPOs (Lin and Tian, 2012; Boulton et al., 2017).

Financial statements form the core of the financial reporting process. The financial statements and, particularly, the profit and loss statement (net profit figure) are at the center of investors' attention. In recent years, the topic of reported quality of profit has attracted the attention of many researchers. One aspect of the quality of profit is conservatism; that is, the higher the profit conservatism, the higher its quality (Ball, 2001; Dechow et al., 2010).

Basu (1997) identifies conservatism as the tendency of accountants to have strong documentation (high degree of verifiability) to identify good news from bad news. Thus, the greater the difference in the degree of verifiability for profit than loss, the greater conservatism. Accounting conservatism is the expectation that the net worth of an entity's reported assets will be less than its market value in the long run. In other words, it is assumed that due to accounting conservatism, the market value of the reported assets will be greater than their book value.

According to LaFond and Watts (2008), conservative accounting eliminates information asymmetry among investors by two potential mechanisms. First, conservative accounting can provide investors with an acceptable level of definitive information about current performance.

Second, definitive information provides a criterion to obtain valid information even from unreliable sources. Lara et al. (2007) believed that conservatism reduces information asymmetry and the cost of corporate capital. In their research, they found that with lower conservatism, investors expect higher returns. Lin and Tian (2012) examined the relationship between accounting conservatism and underpricing of initial public offerings in 201 emerging Chinese stock companies between 2001 and 2009.

The results of regression analysis indicated that there was a significant and inverse relationship between accounting conservatism and underpricing of initial public offerings. Bolton et al. (2017) also documented this inverse relationship in their research. Therefore, the net profit and loss reported under conservatism will be more reliable and verifiable, and conservatism accounting will reduce the opportunistic behavior of managers to maximize profit and

minimize losses (Bushman and Piotrovsky, 2006). As a result, the information asymmetry between equity issuers and other stakeholder groups in the initial offering will be reduced, which leads to lower IPOs underpricing (Lin and Tian, 2012; Bolton et al., 2017).

Yu et al. (2019) examined the relationship between profit quality and underpricing of publicly traded stocks at 3711 public initial offering companies in the same US industry between 1976 and 2013. The results showed that the profit quality in peer companies is inversely related to underpricing in such a way that low-profit quality leads to higher underpricing.

Liu and Magnan (2014) examined the relationship between conditional conservatism and newly-released bonds underpricing. In their view, there are two conflicting reasons for the underpricing of bonds:

1. When conditional conservatism exists, the information risk is lowered and therefore the bonds underpricing is reduced.
2. According to the signaling theory, when information risk is low, security issuers differentiate themselves by underpricing bonds to attract attention.

They have documented that underpricing of bonds is best described through the theory of signaling. Therefore, in order to achieve the goals of the research and based on the theoretical and empirical backgrounds presented, the first hypothesis of the research is formulated as follows:

H1: Conservatism reduces underpricing of initial public offerings (IPOs).

Audit quality, conservatism, and underpricing of IPOs

Audit quality is a multifaceted concept that can be examined from a variety of perspectives. A major consideration of audit quality is the extent to which relevant auditing standards are followed (Agimensa et al., 2019). In the research literature related to audit quality, it has been suggested that increasing audit quality reduces information asymmetry (Rahima and Arefin, 2010; Clintch et al., 2012; Agimensa et al., 2019), because for several reasons: First, higher audit quality improves the quality of information disclosure, and high-quality disclosure reduces the information imbalance by widening the scope of investor public information and entering private information into the public domain.

Second, the disclosure of public information reduces similar beliefs among traders and reduces the hiding of information by informed traders. Third, improving the quality of information disclosure reduces investors' incentives to

search for private information by reducing the expected benefits of such information (Albering et al., 2007; Chang et al., 2008; Alhadab, 2016). Auditing is also a tool for reducing information risk and enhancing the quality of financial reporting. Reducing information risk reduces the cost of equity capital (Leuz and Verrecchia, 2005). Thus, auditing minimizes adverse effects of ownership and management separation by reducing information asymmetry between users and providers of financial statements and plays a vital role in eliminating agency problems (Choi et al., 2010). Since audit quality is one of the components of disclosed information, the higher the audit quality, the lower the information asymmetry (Chang et al., 2008; Clintch et al., 2012).

Rahimah and Arefin (2010) examined the impact of audit quality on equity underpricing in newly listed companies in the Malaysian Stock Exchange from 2005 to 2009. They have used the size and expertise criteria of the auditor and the international auditor to measure the quality of the audit. The results showed that as long as the new entrants are audited by the four largest firms, there was less underpricing. However, if the company is audited by local agencies, this relationship will be positive. It was also found that the expertise of the auditor and the international auditor had a negative impact on the underpricing in the initial public offering of the corporate stock.

Alhadab (2016) examined the relationship between audit quality and IPO underpricing at 413 Alternative Investment Markets (AIM) of the London Stock Exchange in the UK from 1998 to 2008. The results indicated that audit quality reduces the level of IPO underpricing. Moreover, the findings showed that high-quality audit firms help reduce the level of information asymmetry in IPO companies and, consequently, lead to lower IPO underpricing. Moreover, the size, liquidity ratio, and high quality of judgments help reduce IPO underpricing in AIM.

Amer and Ahmad (2017) examined the role of gender diversity in audit committees on the accuracy of management's profit prediction in 190 newcomers to the Malaysian Stock Exchange from 2000 to 2012. The results showed that the presence of female directors on the board of directors leads to greater protection of investors and more efficient supervision of management due to having a set of specific characteristics. Given that managers often have more information and a better understanding of corporate performance than investors, it is likely that this asymmetry of contextual information causes misrepresenting and devaluing of the company and its stocks. A common way to reduce information asymmetry is to hire a reputable financial company or a well-known auditor.

Importantly, well-known financial institutions refuse to subscribe to low-quality publishers, and on the other hand, the high reputation and credibility of an auditor attest to the quality of the content of stock publishers' information. Beatty and Ritter (1986) argued that more qualified auditors are more motivated to detect errors or misstatements because they have invested more in their firm's reputation. The results of Beatty (1989), Aberbing et al. (2007), Chang et al. (2008), Rahimah and Arefin (2010), al-Haddab (2016), and Dhamija and Arora (2017) revealed that firms audited by reputable auditors have less underpricing of an initial public offering of stocks. Quality auditing is a sign of corporate value to society. Audit quality improves investment efficiency by reducing financing costs through reducing selection costs (Wooten, 2003). Therefore, audit quality can play at least two effective roles in preventing underpricing of the initial offering of shares:

1. Audit quality can play an informative and supervisory role by providing more accurate accounting information, which reduces the uncertainty of uninformed investors and thereby reduces the equity market.
2. Audit quality may be a positive sign of the value of the company in the initial offering market and may result in lower underpricing (Lam & Chang, 1994; Chang et al., 2008 AlHadab, 2016). Numerous studies have identified several indicators for audit quality, as discussed in the following.

Audit Firm Size

DeFond et al. (2000) believed that firms that are audited by larger, independent auditors disclose more reliable and qualitative information that reduces information asymmetry. They also argued that reducing information asymmetry decreases the level of risk in a company's information environment. From the auditors' point of view, the size of the audit firm affects the quality of the audit. DeAngelo (1981) argued that larger audit firms do not worry about losing their customers because of their reputation and the multitude of their clients and therefore offer higher-quality audit services.

Such institutions are thought to provide higher-quality auditing services because of access to more resources and facilities to train their auditors and perform various tests (Chang et al., 2008 AlHadb, 2016). Aurora and Singh (2019) examined the impact of auditors and the reputation of issuers IPO underpricing in 286 medium and small companies listed on the Indian Stock Exchange during the years 2012 to 2018. Their result showed that the reputation of the issuers reduces the IPO underpricing only by reducing the information asymmetry and signaling quality of the issuer company.

Auditors' expertise in the industry

Balsam, Krishnan, and Yang (2003) and Chen et al., (2018) believed that managers are less likely to manipulate profits in firms that have had high-quality auditors as the level of accruals in such companies is low (Daryaei and Fattahi, 2019). As Gramling and Stone (2001) also found, there is a strong correlation between current-year profits and the future cash flows of firms audited by expert auditors.

Thus, by reviewing the theoretical foundations, it became clear that the market view of the information provided by firms audited by expert auditors is that the information is more complete, relevant, and reliable. Therefore, it can be expected that due to the quality and transparency of the information provided by companies audited by expert auditing firms in the industry, the information asymmetry for these companies will be reduced and companies will not use IPO underpricing to compensate for their costs. Albring (2007) believed that high audit quality reduces the level of IPO underpricing. However, Singh and Singh (2012) surveyed Australian initial public offering companies between 2007 and 2009 and stated that there was no significant relationship between the auditor's expertise in the industry and the IOP underpricing.

Auditor's tenure

Among the factors affecting the auditor's quality are the tenure of the auditor and the successive years when the auditing firm reviews an auditor. In previous research, the length of audit tenure impact on audit quality has provided contradictory results in the form of two hypotheses: auditor independence and auditor expertise (Van Caneghem, 2004).

The auditor's expertise hypothesis argues that as the length of the audit tenure increases, the quality of the audit is enhanced, which reduces information uncertainty. Audit operations by an audit firm over several years may be more effective due to the familiarity of the audit team with the employee operations over many years. If the audit firm has had the experience of auditing the firm for several years, in addition to being more knowledgeable about the firm, it will accelerate audit operations, reduce audit costs, and increase audit quality (Myers et al., 2003, Aghaei Chadegani and Ebrahimi Kahrizsangi, 2020, and Malekipour et al, 2021).

The auditor's independence hypothesis also indicates that as the auditor's tenure increases, the auditor's independence is compromised and impaired independence reduces the quality of the audit, thereby augmenting information asymmetry.

Auditor's Opinion

The result of the audit work is presented in the form of a report where the auditors express their opinion on the financial statements of the client. This report sometimes contains financial and non-financial information that management has refused to provide for various reasons. Therefore, the audit report always reflects part of the company's confidential information and has a high information load. The information content of this report reduces the information asymmetry between managers, shareholders, and users of financial statements (Ming, 2007).

Therefore, as noted, conservatism accounting and audit quality reduce information asymmetry (Chang et al., 2008; Choi et al., 2010 and Clinch et al., 2012), which can lead to fewer IPOs underpricing (Rahima and Arefin, 2010; Thomas et al., 2011; Nagata, 2013; Lizińska and Czapiewski, 2018; Yu et al., 2019; Aurora and Sing, 2019). Therefore, in order to achieve the objectives of the research and based on the theoretical and empirical backgrounds presented, the second main hypothesis and four sub-hypotheses have been formulated as follows:

H2: High-quality audit strengthens the relationship between Conservatism and initial public offerings (IPOs) underpricing.

H2-1: Audit firm size reinforces the relationship between conservatism and initial public offerings (IPOs) underpricing.

H2-2: The auditor's expertise in the industry reinforces the relationship between conservatism and initial public offerings (IPOs) underpricing.

H2-3: The auditor's tenure reinforces the relationship between conservatism and initial public offerings (IPOs) underpricing.

H2-4: The type of auditor's opinion reinforces the relationship between conservatism and initial public offerings (IPOs) underpricing.

Research variables and models

Our sample consists of all firms listed (230 firms) on the Tehran Stock Exchange (TSE) between 2008 and 2017. These firms include 23 industries. The data is derived mainly from audited financial statements and annual board reports of the TSE, and Rahavard Novin software, excluding utilities and financial firms (See Table 1). It should be noted that since the data of each firm has been checked in the form of a time slice in the same year of IPO, then the data is not a time series and there is no need to calculate the firm year.

In this research, sample companies were selected by applying the following limitations.

Table 1. Panel A: Sample selection procedure

Total sample	
Initial observations (2008-2017)	264
Less: For similarity, the companies whose fiscal year does not match the 29th of Esfand in the Iranian calendar (March 19 th) were excluded;	9
Less: Banks and insurance companies were excluded from the study due to the different conditions governing investment companies;	10
Less: Companies with trading interruptions of over three months were excluded to ensure balanced business transactions of companies during a fiscal year;	7
Less: Companies having incomplete data were excluded from the study.	8
Final sample	230
Panel B: Industries	
Medical tools	1
Coal mining	3
Extraction of metal ores	5
Extraction of non-metallic ores	1
Oil and gas extraction except for exploration	1
Information and communication	1
Mass real estate	10
Wholesale and retail of motor vehicles	1
Warehousing, transportation, and communications	16
Retail	2
Car and parts	10
Medicinal	19
Electrical devices	6
Computer	6
Agriculture and related services	10
Cement, lime, and gypsum	21
Chemical	25
Electricity, gas, steam, and hot water supply	4
Wholesale	1
Food other than sugar	17
Oil products	13
Basic metals	22
Engineering	3
Sugar	1
Ceramic Tile	3
Nonmetallic mineral	6
Rubber and plastic	4
Equipment and machinery	6
Metal products	2
Paper products	2
Telecommunications	1
Textiles	1
Hotel and restaurant	3
Communication equipment's	2
Total	230

In the present study, the first research model was fitted to examine the effect of conservatism in preventing underpricing of initial public offerings as in equation 1:

$$IPOU_{i,t} = a + b_1 Cons_{i,t} + b_2 CP_{i,t} + b_3 N_{i,t} + b_4 ROA_{i,t} + b_5 LEV_{i,t} + b_6 Size_{i,t} + b_7 Age_{i,t} + e_{i,t} \quad (1)$$

To investigate the second main hypothesis and its sub-hypotheses about the impact of audit quality on the relationship between conservatism and underpricing of the initial public offering, the second research model was fitted as equation (2).

$$IPOU_{i,t} = a + b_1 Cons_{i,t} + b_2 AudSize_{i,t} + b_3 AudSize_{i,t} * Cons_{i,t} + b_4 AudIS_{i,t} + b_5 AudIS_{i,t} * Cons_{i,t} + b_6 AudTenure_{i,t} + b_7 AudTenure_{i,t} * Cons_{i,t} + b_8 AudOp_{i,t} + b_9 AudOp_{i,t} * Cons_{i,t} + b_{10} CP_{i,t} + b_{11} N_{i,t} + b_{12} ROA_{i,t} + b_{13} LEV_{i,t} + b_{14} Size_{i,t} + b_{15} Age_{i,t} + e_{i,t} \quad (2)$$

Initial public offerings (IPOs) underpricing: Most studies use the concept of initial returns (returns generated on the first trading day) to calculate underpricing in developed countries. However, given the limitations of the daily price fluctuation range as well as the different mechanisms of the initial offerings in the Tehran Stock Exchange, the first trading day returns do not accurately reflect the underpricing. For this reason, it may take days or weeks for the stock price to reach its intrinsic price. Therefore, following the study of Aggarwal et al. (1993) and Kooli et al. (2004), to minimize these effects, anomalous returns (positive and negative) on stocks adjusted for market returns for the first trading month were calculated as a measure of underpricing of the initial offering. Return on equity at the end of the first trading month is calculated as equation (3):

$$R_{I1} = \left(\frac{P_{I1}}{P_{I0}} \right) - 1 \quad (3)$$

Where P_{i1} is the closing price of the stock at the end of the first month; P_{i0} is the offered price, and R_{i1} is the return on the first month? The market index returns at the end of the first month are calculated as follows (4):

$$R_{m1} = \left(\frac{P_{m1}}{P_{m0}} \right) - 1 \quad (4)$$

Where P_{m1} is the market index at the end of the first month; P_{m0} is the market index at the end of the initial offering day, and R_{m1} is the market index returns in the first month? Then, using company returns and market returns, anomalous returns are calculated for each initial offering, which is calculated according to equation (5):

$$MAAR_{it} = 100 * \left[\left(\frac{1 + R_{i1}}{1 + R_{m1}} \right) - 1 \right] \quad (5)$$

This study uses the conditional conservative accounting measurement model by Ball and Shivakumar (2005), namely Asymmetric Accrual to Cash-Flow.

$$ACC_{i,t} = \beta_0 + \beta_1 DCFO_{i,t} + \beta_2 CFO_{i,t} + \beta_3 DCFO_{i,t} * CFO_{i,t} + \varepsilon_{i,t} \quad (6)$$

Where:

ACC: is the total accruals in year *t* defined:

$$ACC = (EBIT - CFO)$$

EBIT: Earnings before extraordinary items and discontinued operations of the company *i* in year *t*;

CFO: Cash flow from the operation of the company *i* in year *t*;

DCFO: Dummy cash flow from operation, if 0, $CFO_{it} \geq 0$, and if 1, $CFO_{it} < 0$;

The control variables in the present study are as follows

Corporate Profitability ($CP_{i,t}$): It is calculated by dividing net profit after tax by the total assets of the company (Bagat et al., 2003; Nagata, 2013). Bagat et al. (2003) found that accounting variables such as net profit also play an important role in underpricing new stocks.

Percentage of initial offering ($N_{i,t}$): It is the number of shares offered divided by the total number of shares in the company. Aghasi et al. (2012) believed that as fewer stocks are issued, the trade will increase, and therefore cheaper sales will follow. The findings of Lee et al. (2005) indicated that initial offering returns are positively and significantly correlated with volume ratios and negatively and significantly with stocks.

Rate of Return on Assets ($ROA_{i,t}$): It is defined as earnings before interest

and taxes deflated by total assets (Aghasi et al., 2012). Chang et al. (2008), Aghasi et al. (2012) and Gonzalez et al. (2018) argued that high return on assets is synonymous with high profitability and that high returns reduce investor concerns and uncertainties. The IPO underpricing is expected to decline as well.

Financial Leverage ($LEV_{i,t}$): Total liabilities divided by total assets. Obviously, with the increase in financial leverage, the risk of the company is higher and consequently, the shareholders of the company have higher expectations for returns. Therefore, high leverage is expected to elevate underpricing initial public offering to create a balance between risk and return for new investors (Chang et al., 2008; Aghasi et al., 2012; Yu et al., 2019).

Company Size ($Size_{i,t}$): The size of the company is equal to the logarithm of the market value of the stock, which is obtained by multiplying the number of shares issued by the stock market price.

According to Ritter (2002) and Gonzalez et al. (2018), small companies have more information about risk and asymmetry than larger companies because of more uncertainties about their intrinsic value and future. They are more exposed to the trading goals of investors, so the underpricing level of IPOs for small companies is higher.

Company Life ($Age_{i,t}$): it is the logarithm of the number of months that companies are established (Nagata, 2013). The life cycle of a company reflects the evolution of an organization due to changes such as the choice of strategy and the competitive pressures that the company faces. It is expected that by increasing the life of the company, the evolution of the organization will reduce uncertainty about the company, attracting the attention of more investors and lowering information asymmetry, thereby decreasing the pressure for underpricing initial public offering (Agassi et al. 2012; Nagata, 2013; Gonzales et al., 2018).

Audit quality

The audit quality structure is multidimensional but invisible, so it is extremely difficult to measure. Since many factors influence audit quality, determining a framework for determining audit quality is an important issue. Therefore, the following observational measures are used in this study to measure audit quality:

Audit Firm Size ($AudSize_{i,t}$): Large auditing firms have more financial and

human resources, which can affect the auditor's competence. On the other hand, because of their high workload and reputation, they do not worry about losing their owners; hence, they are more independent than other institutions. The size of the audit firm is a virtual variable. If the financial statements of the company are audited by the auditing organization, the value is one, otherwise, it is zero.

Industry Auditor expertise ($AudIS_{i,t}$): Auditor expertise in an industry is creating constructive ideas to help business owners create new insights and solutions to some of the issues that they face in their respective industries (Wang and Wilkins, 2007). The auditor's expertise in the industry is calculated based on the ratio of total sales that an auditor audits in a given industry to the total sales of firms in that industry over a given year using the following equation (Krishnan, 2003).

$$AudIS_{i,t} = \frac{\sum_{j=1}^m ClientSale s_{ijk}}{\sum_{j=1}^n ClientSale s_{jk}}$$

Where:

$ClientSale s_{ijk}$ is Sale of the client company, j audit firm, i in industry k :

$ClientSale s_{jk}$ are sales of company j in the industry k

M : number of companies audited by audit firm i in industry k

N : Number of companies in the industry k .

Auditor's tenure ($AudTenure_{i,t}$): The complexity of the corporate environment has made it impossible for the auditor to become fully acquainted with the activities of the company in a short time. Continuity of auditor selection allows the auditor to gain more specific knowledge, which increases the professional competence of the auditor and enhances audit quality. For this variable, if the auditor has been an auditor for more than 3 years, the company will have code 1 and otherwise, code zero.

Auditor's opinion type ($AudOpi_{i,t}$): One of the criteria for audit quality introduced by auditors is the auditor's type of opinion. Hermanson et al. (2007) and Dilwit (2010) have used the unpublished report as an indicator of audit quality and auditor independence. This variable holds code 1 for years where the company has an adjusted report and for other years code zero.

Result

Tables 2 and 5 present the summary statistics of the variables, ANOVA, and Kruskal–Wallis of variables across the Twenty-three industrial sectors. As can be seen in Table 2, an average of 25% of initial public offerings (IPOs) underpricing occurs in Iran. Such a rate may look attractive to investors in securities in a working month and lead them towards investing in IPOs of emergent, albeit less-known companies. Furthermore, correlation analysis is documented in Table 3.

We performed parametric and nonparametric analyses, utilizing the one-way analysis of the variance test and Kruskal–Wallis test. The reason for running these tests was to analyze a possible difference between industrial segments in explanatory and control variables. Since the applied regression method is ordinary data, the Levin, Lin, and Chu (LLC) Unit Root Test were employed. Results are shown in Table 4.

Since the data of the present research are purely cross-sectional, the pooling method (Pool) should be used to estimate the research model using cross-sectional data, and there is no need to use Chow's test. The reason for the cross-sectional nature of the data is that there is data related to the pricing below the initial public offering of shares in each firm (observation) only in one year (the same year of the initial offering) between 2008 and 2017. has it. The combined method indicates that there are no individual effects and the width from the origin of all the investigated firms is the same.

Table 2. Descriptive statistics

Variables	Obs.	Mean	Median	Std. Dev.	Min.	Max.
IPOU	230	24.684	16.268	41.747	-58.530	169.974
CONS	230	-0.002	-0.006	0.080	-0.206	0.328
CP	230	0.180	0.150	0.236	-0.190	3.093
N	230	0.098	0.100	0.046	0.010	0.345
ROA	230	0.203	0.167	0.246	-0.190	3.093
LEV	230	0.551	0.553	0.228	1.782	0.000
SIZE	230	13.843	13.686	1.978	9.428	19.818
AGE	230	5.165	5.147	0.759	0.693	6.567
AudIS	230	0.312	0.143	0.462	0.000	4.209
AudSize	160				0	1
	70					
AudTenure	196				0	1
	34					
AudOpi	119				0	1
	111					

Table 3. Correlation matrix

	IPOU	CONS	CP	N	ROA	LEV	SIZE	AGE	AUDIS
IPOU	1.000								
CONS	0.058	1.000							
CP	-0.071	-0.112	1.000						
N	-0.011	0.040	-0.056	1.000					
ROA	-0.066	-0.103	0.992	-0.055	1.000				
LEV	0.077	-0.029	-0.228	0.114	-0.226	1.000			
SIZE	-0.003	0.027	0.131	-0.099	0.116	-0.090	1.000		
AGE	0.092	0.032	-0.056	0.082	-0.051	0.220	0.029	1.000	
AudIS	-0.011	-0.023	-0.074	0.015	-0.089	0.093	0.201	0.087	1.000

Table 4. Levin, Lin & Chu t, Null: Unit root (assumes common unit root process)

Variables	t- statistics	Prob*
IPOU	-13.884	0.000
CONS	-12.023	0.000
CP	-14.274	0.000
N	-15.916	0.000
ROA	-14.235	0.000
LEV	-13.496	0.000
SIZE	-7.989	0.000
AGE	-12.965	0.000
AudIS	-14.023	0.000
*Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.		

As evident in Table 6, there is a negative significant between conservatism and IPOs underpricing, i.e., it reduces IPOs underpricing. The reason is that conservative accounting requires more verifiability in determining profits than losses (Ball, 2001; Chaney, Faccio, and Parsley, 2011). Therefore, the net incomes and assets reported conservatively are more reliable and verifiable. Conservative accounting also restricts the managers' opportunistic behavior of income overstatement and loss understatement (Bushman and Piotroski, 2006; Boulton, Smart, and Zutter, 2017). This will reduce information asymmetry in the initial offerings among stock-issuing companies and other stakeholders (Lara, Osma, and Penalva, 2007), and consequently lessen the IPO's underpricing (Lin and Tian, 2012; Boulton et al., 2017). The first research hypothesis is therefore confirmed.

Table 5. ANOVA and Kruskal–Wallis of variables across the Twenty-three industrial sectors.

Variables	ANOVA (F)	Kruskal–Wallis (χ^2)
IPOU	8.067**	114.480**
CONS	14.599**	216.193**
CP	9.154**	227.967**
N	0.2146	36.6423*
ROA	13.436**	402.455**
LEV	15.130**	239.165**
SIZE	6.451**	166.383**
AGE	14.653**	228.616**
AudIS	28.795**	597.049**
AudSize	12.032**	316.794**
AudTenure	10.947**	357.669**
AudOpi	9.161**	270.041**
** $p < 0.001$.		
* $p < 0.01$.		

Table 6. Regression result for specified hypotheses

Variable	H (1)	H (2)	H (3)	H (4)	H (5)	Overall
CONS	- 117.181** (52.192)	-106.760* (61.146)	-118.154* (69.252)	-74.280* (40.848)	-130.431* (72.003)	-7.515** (3.771)
AudSize		-14.372 (9.401)				-8.931 (6.736)
CONS* AudSize		45.053 (117.578)				-16.816 (90.402)
AudIS			-1.875 (10.765)			-2.188 (7.762)
CONS* AudIS			-3.266 (117.360)			-5.726 (88.357)
AudTenure				12.604 (12.175)		7.080 (8.792)
CONS* AudTenure				286.003** (140.381)		57.323 (108.209)
AudOpi					2.360 (8.518)	4.826 (5.733)
CONS* AudOpi					-26.943 (106.073)	77.535 (75.920)
CP	-18.064 (143.512)	-29.918 (143.567)	-15.447 (144.872)	-8.552 (142.787)	-15.942 (144.228)	-49.335 (97.222)
N	3.095 (12.621)	2.121 (12.624)	3.190 (12.691)	2.540 (12.556)	2.636 (12.733)	-22.741 (61.220)
ROA	7.374	18.951	4.596	-2.830	6.393	38.092

	(137.511)	(137.579)	(138.941)	(136.797)	(138.116)	(93.244)
LEV	20.817* (11.501)	21.809 (19.307)	21.179* (11.893)	20.150* (10.949)	22.148 (19.695)	11.539** (5.767)
SIZE	0.930** (0.465)	1.527* (0.853)	1.024** (0.518)	0.707** (0.348)	0.865* (0.477)	0.459** (0.231)
AGE	2.698 (5.640)	4.460 (5.748)	2.764 (5.678)	1.716 (5.687)	2.609 (5.704)	4.109 (3.938)
Adjusted R-squared	0.447	0.468	0.441	0.516	0.506	0.526
F-statistics	7.155***	9.175***	10.894***	10.934***	8.906***	9.599***
Durbin Watson	1.976	1.802	1.878	1.842	1.776	1.884
*** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$						

Although high-quality auditors were expected, according to previous studies (Rahimah and Arifin, 2010; Clinch, Stokes and Zhu, 2012; Agyei-Mensah and Yeboah, 2019), to play an informative role in IPOs and present more accurate data to financial statement users and moderate the relationship between conservatism and underpricing by reducing future uncertainty for uninformed investors, the research results indicated that the auditing quality cannot moderate the relationship between conservatism and IPOs underpricing in Iran's stock market. This conclusion may be explained under the winner's curse theory. Accordingly, informed investors do not request to purchase unattractive stocks, and uninformed investors demand and obtain all the unattractive stocks since there is no competition between informed and uninformed investors. In such a situation that results from information asymmetry among investors, uninformed investors become worried about their purchase and do not participate in the next offerings. Such concern about convenient purchases makes the stock-issuing companies underprice their stocks so as to encourage all investors and deemphasize the role of information asymmetry (Rock, 1986; Su and Fleisher, 1999, Yong, 2007).

The main purpose of IPOs in Iran's market is to attract the erratic liquidity of the market, while this liquidity is mostly at the disposal of uninformed investors and the purchase requests made by the informed investors do not cover all IPOs. As a result, Tehran Stock Exchange Organization has to underprice the IPOs to create more attractiveness. Such obligatory underpricing can lower the auditing quality since underestimating the auditing quality paves the way for underpricing. Therefore, the role of auditing quality in informing and signaling is downgraded. Moreover, in developing countries, including Iran, the auditing quality is low and cannot play its part adequately due to less transparency of information and the newfangled status of auditing. Hence, the

three auditing quality components (size, industry specialization, and type of audit opinion) were not able to enhance the relationship between conservatism and IPOs underpricing, the auditor tenure being an exception. Therefore, the second main hypothesis and the first, second, and fourth sub-hypotheses are not confirmed; only the third sub-hypothesis is confirmed.

As the auditing tenure is prolonged, the auditing quality is enhanced and information uncertainty is reduced. If the auditing operations of an employer are conducted by a specific auditing institution for a long duration, the process can be more efficient due to the familiarity of the auditing team with the employer's auditing operations. Provided that the auditing institution performs the employer's auditing operations for several years, not only does the auditing team become more familiar with the employer's manners, but also the auditing operations are facilitated, its costs are reduced, and its quality is improved (Myers, Myers and Omer, 2003). Therefore, a prolonged auditing tenure with lower information uncertainty can enhance the relationship between conservatism and IPOs underpricing.

The present research also investigated the relationship between auditor tenure and conservatism. The long-term relationship between auditor and employer leads to establishing special relationships, declining public trust, and decreasing autonomy as well as strengthening the auditor's familiarity with the employer's internal control structure and its operations, making the auditing process more effective. Given the theories available in the accounting literature, the present research attempted to examine this relationship in the working conditions of Iran.

The results show that a long-term relationship between auditor and employer (prolonged tenure) enhances the auditor's familiarity with the organization's activities. In other words, the auditor's knowledge about the employer is enriched, information asymmetry between the auditor and the employer is lowered, and the auditor requests the manager to employ more conservative procedures, consequently. Based on the results of the research hypothesis, financial statement users are recommended to pay attention to positive relationships between auditor tenure and conservatism since a prolonged tenure leads to the use of more conservative procedures by the management. Given the fact that conservatism can restrict the managers' opportunistic and biased behavior through the requirement of its self-verifiability, the financial statement users can take the auditor's tenure into account to control such behavior. Moreover, the interaction between auditor tenure and conservatism enhances the reverse relationship between conservatism and IPOs underpricing.

Conclusion

The present research first examined the effect of conservatism on IPOs underpricing, and then, investigated the role of auditing quality — as a moderating variable — in the relationship between conservatism and IPOs underpricing. As was expected, the results indicated that there is a negative significant relationship between conservatism and IPOs underpricing. It was found that by providing more verifiable information for shareholders and restricting the managers' opportunistic motivations, conservatism reduces information asymmetry among all IPOs stakeholders and the IPO's underpricing. The research results quite conform to those of Lin and Tian's study (2012) conducted on the Chinese capital market. They concluded that conservatism reduces IPOs underpricing, and the higher the information asymmetry among the IPOs stakeholders, the stronger the effect of conservatism on IPOs underpricing.

Since auditors aim at protecting the shareholders' interests against material misstatements in financial statements, auditors attempt to enhance the auditing quality so as to protect their professional credibility and reputation and avoid legal claims against themselves. By improving the auditing quality, auditors can discover the reduced conservatism by managers and put them to enforce conservatism. Financial analysts, managers, and investors pay particular attention to reported earnings. Earnings forecasts are quickly published among users and any revision is closely followed up; companies that are having their initial offering are particularly sensitive to earnings forecasts since managers' entrenchment in the organization, and in some cases, part of their bonuses, depending on the earnings amount. Therefore, they endeavor to keep earnings at a good level. If it is announced that the company has failed to achieve the expected return, the stock price quickly drops.

Companies fulfilling their expectations are welcomed by investors. Paying excessive attention to the net income value has made the users overlook the fact that final earnings result from a long accounting process in which the manager can show partial views at any stage. On the other hand, accounting standards allow managers to render personal judgments in scheduling and measuring earnings and expenses. In order to upgrade the company value and decrease the capital cost, managers tend to boost their reported earnings by reducing conservatism.

Given the role of important corporate governance factors in the pricing of IPOs, future studies are suggested to consider the adjustment effect of other corporate governance components (including ownership structure and board

structure) on the relationship between accounting conservatism and underpricing of IPOs. In addition, considering the effect of political relationships on the economic environment in developing countries, the undeniable effects of this key factor on the relationship between accounting conservatism and underpricing can be investigated.

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