

The moderating impact of information asymmetry on the association between conservatism and cash holding

Mohamed Ibrahim Srour

Lecturer of Accounting, Accounting Department, Faculty of Commerce, Tanta University,

Heba Mohamed Srour

Associate Professor, Business Department, Faculty of Commerce, Tanta University,

Abstract:

Research Objective: The research seeks to investigate the moderating power of information asymmetry on the connection between conservatism practices and cash holding ratio in Egyptian enterprises registered in the Egyptian capital market.

Research Hypotheses: There are two hypotheses in this study **H₀₁:** No significant statistical association between conservatism practices and cash holding in Egyptian public firms

H₀₂: Information Assymetry as a moderating variable has no impact on the association between conservatism practices and cash holding in Egyptian public firms

Research Approaches: This study employs deductive methodologies. Between the years 2003 and 2023, a statistical study was conducted utilizing annual financial statement data obtained from a sample of 22 companies listed in the EGX 30 index of the Egyptian Stock Exchange.

Research Results: The research revealed that the presence of asymmetric information has a favorable influence on the relationship between conservatism practices and cash holding ratio, specifically in the context of Egyptian enterprises registered in the Egyptian capital market.

Keywords: conservatism, information asymmetry, cash holding.

المستخلص:

هدف البحث: يسعى البحث إلى دراسة الدور المعدل لمتغير عدم تماثل المعلومات للعلاقة بين ممارسات التحفظ ونسبة السيولة النقدية في الشركات المصرية المسجلة في سوق رأس المال المصري.

فرضيات البحث: يقوم البحث على فرضان رئيسيان هما: H_{01} : لا توجد علاقة معنوية ذات دلالة إحصائية بين ممارسات التحفظ المالي ونسبة النقد في الشركات المصرية، H_{02} : عدم تناسق المعلومات كمتغير معدل ليس له تأثير على العلاقة بين الممارسات المحافظة ونسبة النقد في الشركات المصرية

مناهج البحث: تستخدم هذه الدراسة المنهج الاستنباطي بالتطبيق في الفترة بين ٢٠٠٣ و٢٠٢٣، قامت الدراسة الإحصائية باستخدام بيانات القوائم المالية السنوية التي تم الحصول عليها من عينة مكونة من ٢٢ شركة مدرجة في مؤشر EGX 30 بالبورصة المصرية.

نتائج البحث: كشف البحث أن وجود معلومات غير متماثلة له تأثير إيجابي على العلاقة بين ممارسات التحفظ ونسبة الاحتفاظ بالنقدية، وتحديدًا في سياق الشركات المصرية المسجلة في سوق رأس المال المصري.

الكلمات المفتاحية: سياسة التحفظ، عدم تماثل المعلومات، نسبة النقدية.

Introduction:

The examination of the worth of accounting information has brought attention to financial reporting processes. The factors

impacting the financial reporting processes have become a matter of significant concern. In the context of the need for accounting information, it is crucial for users to make predictions about past, present, and future outcomes, confirm and correct expectations, and ultimately make informed decisions (Scott, William, 2000). Accounting conservatism involves anticipating potential losses and delaying the recognition of profits until they can be realized. It enables accountants to exercise a reasonable level of caution when recognizing transactions that are affected by genuine economic uncertainty. Conservatism practices can be a challenge in financial reporting. Nevertheless, according to Zhe Wang (2009), contemporary conservatism does not allow for intentional manipulation of financial records to decrease income in one period and increase income in a subsequent period, unless there is minimal or no economic uncertainty associated with the transactions.

In economics, information asymmetry refers to a circumstance in which one party to a transaction possesses superior or more information than the other. This knowledge disparity may result in one party having a competitive benefit over the other, thereby placing the latter at a potential disadvantage. This may manifest itself in insurance, the sale of products or services, or in the course of borrowing and lending. Asymmetric information has the potential to result in market failure, incomplete markets, and adverse selection. A market inefficiency may result from one

party taking advantage of the other due to their greater access to information (Akerlof, 1970).

Investing in cash assets results in a negative net present value. Capital is consistently available to support positive net present value (NPV) ventures in sectors with excellent capital, as there are no data fluctuations, duties, or exchange costs. There are subsequently no benefits to retaining cash. Additionally, holding cash does not incur any expenditures due to the absence of organizational costs, which allows free funds to be invested in projects with negative net present value (NPV) for the director's confidential benefit. Neither exchange rates nor mispricing contribute to the exorbitant cost of holding currency. A comprehensive analysis of the factors influencing capital design beyond the realm of M&M has been conducted; nevertheless, numerous analogous declines are notable enough to warrant attention in terms of their implications for liquid assets. Additional works by Opler et al. (1999) and Harrison (1999).

Research Problem:

The relationship between information asymmetry, conservatism, and cash holdings can be intricate. One potential consequence of conservatism is an increase in financial reserves. Due to the fact that managers might be reluctant to acknowledge losses, they might retain additional cash as a precautionary measure. Conversely, information asymmetry may result in decreased levels of financial reserves. This is due to the fact that managers

may invest in opportunistic endeavors, such as acquiring other businesses or investing in hazardous projects, with excess cash. In general, a multitude of variables influence the relationship between cash holding, information asymmetry, and conservatism (Shehata & Rashed, 2021). These variables include the industry in which the company operates, its financial state, and the efficacy of its corporate governance. Therefore, the present study aims to investigate the subsequent inquiry: To what extent does information asymmetry strength the association between conservatism and cash holding?

Research objectives:

Examining and assessing the impact of information asymmetry on the association between the practice of conservatism and cash holding is the purpose of this research. The following sub-objectives are established as a result of this principal objective:

1. To Elucidate the significance and constituent elements of conservatism in practice
2. To accomplish the objective of the present inquiry, a metric for conservatism practice is implemented, which is based on the information divulged in the financial statements. This metric was originally introduced by Givoly and Hayn (2000) and is known as the accruals-based measure.
3. To Reveal the moderating influence of information asymmetry on the association between conservatism practices and cash holding

Research scope and limitation:

The research adopts a quantitative approach and relies on secondary data sourced from published financial statements and the official website of the Egyptian Stock Exchange. The study sample consists of Egyptian companies that are listed on the EGX 30, not include banks and financial organizations. The time frame encompasses the years 2003 to 2023, and the ultimate sample consists of 22 companies.

Variable difinitions and literature reviews

Conservatism Practice

Conservatism, as it pertains to accounting, is the approach of foreseeing and recording all possible losses, while postponing the acknowledgment of gains. This implies that losses are anticipated prior to their realization, whereas profits are recognized solely upon their actual acquisition. Additionally, it may be characterized as a principle that yields diminished mean expectations regarding the attainment of objectives in comparison to alternative approaches to evaluation and communication. Although the definition presented is more formal, there remains some uncertainty regarding the objectives of organizations and the number of individuals who utilize accounting information (Devine, 1963). The assessment of conservatism is contingent upon the consequences of inconsistent profit and loss recognition on disclosed financial statements, with a particular focus on net assets, earnings, and accruals. To assess

conservatism in accounting, three classifications of metrics are employed: net asset measures, earnings and accrual measures, and earnings-stock return relationship measures (Felix & Umanhonien, 2015). Despite the considerable body of empirical research dedicated to conservative accounting, a persistent dispute persists regarding the economic implications of conservatism. The literature indicates that conservative reporting can effectively mitigate agency challenges, enhance contractual agreements, reduce litigation expenses, facilitate sound decision making, and diminish information asymmetry (El-Habashy, 2019). Some authorities define conservatism as the condition over the long term in which the book value is less than the market value. Whether one considers this reservation conditional or unconditional would depend on their standpoint. The degree of dependence on news is an area where these two varieties of conservatism diverge significantly (Penman & Zhang, 2002). The fundamental differentiation between the two manifestations of conservatism lies in whether they are implemented while taking into account economic news or not. Conditional conservatism is applied in response to developments in economic news, whereas unconditional conservatism is applied in the absence of economic news. In recent times, an effort has been made to bolster investor protection by implementing stricter accounting maintenance requirements. (Basu, 1997). Nevertheless, management's involvement in assessing the

performance of the organization is equally vital. The autonomy of conservatism permits the utilization of both prudent and sanguine criteria in the compilation of financial reports. The organization showcases its scrupulous approach to financial report preparation through its steadfast adherence to the tenet that enterprises will inevitably confront economic uncertainty in the coming years. As a result, the organization prioritizes the execution of calculations, measurements, and future recognition that are considered appropriate under the specific conditions. This strategy empowers the organization to proactively predict volatile economic circumstances. (Angel & Diane, 2023)

Information Asymmetry

The primary function of financial statements is to provide stakeholders, both internal and external to the organization, with a comprehensive and comprehensible synopsis of the business's financial condition. The fundamental elements of these yearly reports, including financial and non-financial and accounting earnings disclosures, are subjected to rigorous scrutiny and frequently become a subject of discourse. Significant determinations concerning investment allocation, debt covenants, executive compensation, and capital raising are substantially impacted by the data contained in these reports. To facilitate effective decision-making within an organization, it is vital that the financial status of the company is faithfully reflected in its reported profits. However, due to the inherent information

imbalance, management has the ability to manipulate earnings strategically in order to achieve their desired financial reporting outcomes. This occurrence, which is frequently deliberated upon by experts and academicians, has garnered significant interest and remains a topic of investigation and discourse. (1978, Watts & Zimmerman). A perfect market is one in which financial disclosures are unnecessary, and consequently, accounting discretion is unnecessary as well. (1983, Holthausen and Leftwich). The significance of financial reporting in guaranteeing efficient contract enforcement is heightened by market imperfections such as information asymmetry. However, wealth transfer from stakeholders to managers is still possible as a result of the flexibility provided by reporting and the benefit of asymmetric information. (1986, Watts & Zimmerman). Information asymmetries can significantly affect the applicability and scope of theories. As stated by Bacharach (1989). In theoretical frameworks, it assumes a pivotal function as an accountant by regulating the actions of focal actors in accordance with fluctuations in levels of information asymmetry. As a result of information asymmetry, the relationship between the acquisition of expertise services and firm performance may be altered. This may influence the way in which purchasers make purchases. As stated by Nayyar (1993). A greater informational imbalance within a group may provide that group with an advantage over individual decision-makers and social vote

combinations. According to Brodbeck et al. (2007). A dearth of information equilibrium between purchasers and vendors of businesses can result in complications such as adverse selection and trading frictions within the marketplace. In light of the significance attributed to supplementary information, it is imperative that organizations divulge pertinent particulars. This practice aids in the reduction of information imbalances and guarantees the optimal operation of the capital market. As stated by Bhatia and Kaur (2024).

Cash holding and Conservatism practices

Companies often choose to hold cash for three main reasons: risk management, business operations, and potential investment opportunities. To ensure operational continuity and handle emergencies, companies often maintain cash reserves as a precautionary measure. While business motives involve companies maintaining cash reserves for day-to-day operations and transactions. Finally, the speculative motivation primarily indicates that companies aim to maintain cash and ensure sufficient liquidity to capitalize on profitable investment opportunities, such as interest rate fluctuations or potential increases in the value of purchases. In his work published in 1936, Keynes made a significant contribution. After studying Keynes' work, researchers have delved deeper into understanding why companies practice cash conservatism. Several studies have highlighted the factors that drive companies to adopt cash

conservatism practices, including motives related to transactions, agency, taxes, reserves, and predation. (Opler et al,1999). Managing cash flow is crucial for companies to ensure smooth operations and meet financial obligations such as wages, salaries, taxes, and other accounts payable. It is important to maintain an optimal level of cash to avoid any cash deficits and efficiently transfer non-cash assets to cash assets when needed. In 1952, Baumol published a study on this topic. Driven by agency concerns, managers may pursue projects, regardless of their impact on the company's value, that require maintaining sufficient cash reserves. This inclination towards internal funding arises from the decreased scrutiny linked to internally generated resources in contrast to financing through external markets. (Mikkelsen, Partch, 2003).

In this scenario, a company will prioritize using its cash reserves rather than seeking external financing when its cash flow is lower than its investment. Therefore, practicing financial conservatism and maintaining a significant amount of cash on hand can be advantageous for investors as it helps to reduce the cost of obtaining external financing. Typically, having outstanding debt is seen as a financial liability. Put simply, a company's cash conservatism practices would fluctuate depending on its profitability. (Dalwai, T., Mohammadi, 2024)

Conservatism and Information symmetry

LaFond and Watts (2008) established a correlation between formation asymmetry (IA) and conservatism in their study. They found that fluctuations in IA among equity investors can have an effect on the degree of conservatism that is observed. Moreover, they contend that an escalation in information asymmetry among investors may ensue if the Financial Accounting Standards Board effectively eradicates conservatism in its intended manner. The research conducted by Shehata and Rashed (2021) revealed that internal audit is an essential factor in amplifying the effect of conservatism on the performance of an organization. From 2004 to 2013, the research was centred on a subset of manufacturing firms that were publicly traded on the Singapore International Monetary Exchange (SIMEX) and Indonesia Stock Exchange (IDX). Further investigations have yielded findings that support an adverse correlation. They demonstrate how the implementation of conservatism can alleviate the adverse effects of information asymmetry, consequently impacting the returns of established equity offerings upon their announcement. (2013, Kim et al.).

Information Asymmetry and Cash holding

The decision to maintain currency on hand is significant due to the costs and benefits that arise from the existence of information asymmetry. A function of financial conservatism practices has been proposed in light of the firm-market cognitive asymmetry. (1984, Myers and Majluf). In their analysis of the relationship

between information asymmetry and cash conservatism practices, Chung et al. (2015) found that companies with greater information asymmetry engage in less cash conservatism. In contrast, projects with positive net present value are exclusively secured for funding when the organization possesses readily available cash, as these asymmetries may lead to mispricing. Consequently, cash conservatism practices increase the company's value by pursuing positive net present value (NPV) initiatives despite potential project rejections due to mispricing. Given the potential positive correlation between information asymmetry and the degree of mispricing encountered by businesses in their capital procurement efforts, it is reasonable to expect an increase in the adoption of cash conservatism practices as information asymmetry further expands. As stated by Faulkender (2002). Shin et al. (2017) identified, through the selection of a sample of Korean public companies, that those with below-average earnings quality exhibit a greater inclination to stockpile capital and employ countermeasures against information asymmetry-related challenges.

The impact of Information asymmetry on the association between conservatism practice and cash holding

The study conducted by Lin et al. (2018) examines the impact of controlling shareholders on the correlation between the value of conservative accounting practices and liquidity conservatism practices. The study demonstrates, using data from Taiwanese firms, that regardless of the presence of controlling shareholders, currency conservatism practice value is enhanced by conservatism practice. The level of accounting disclosure and market liquidity, as measured by the bid-ask spread, are inversely correlated. This implies that enhanced disclosure practices may facilitate the mitigation of information asymmetry among participants in the market. Moreover, according to Odia et al. (2018), the implementation of conservative accounting policies has the potential to improve financial disclosures' transparency and overall quality. Consequently, this can facilitate the reduction of information asymmetry and promote the production of earnings reports of superior quality. Additionally, the currency on hand of a company serves as a critical metric in assessing its long-term viability. Indeed, enterprises that maintain adequate cash reserves are considerably more resilient during economic downturns and, consequently, exhibit a reduced inclination to seek external financing in the shape of debt or equity infusions. On the contrary, Al-Amri et al. (2015) contend that in situations where enterprises lack sufficient liquid assets, they are more

prone to seeking external funding options. comparable to debt or equity offerings, which increase the cost of capital. Nevertheless, cash conservatism practice is influenced by accounting practices and regulations, including conservatism practice. Exercise of prudence in one's actions expedites the acknowledgment of losses and postpones the recognition of income, thereby influencing the cash balance through the restriction of revenues or the escalation of expenses.

Based on the former debates, the subsequent hypotheses can be formulated as follow:

H₀₁: No significant statistical association between conservatism practices and cash holding in Egyptian public firms

H₀₂: Information Assymetry as a moderating variable has no impact on the association between conservatism practices and cash holding in Egyptian public firms

Research Variables:

Table(1): Research Variables abbreviations and measures

Variable Type	Variable Name	Abbr.	Rule
Dependent	Cash Holdings	CASH	Total cash & Cash equivalent / Total Assets
Independent	Conservatism	CONSEV	(Net profit before extraordinary + Depreciation - Operating cash flows / Total assets)X -1
Moderating	Information Asymmetry	IA	Bid-ask spread
Control	Firm Size	SIZE	Log. total assets.
Control	Firm Age	AGE	Log. firm age.
Control	Gearing	GER	total liabilities / total assets
Control	Growth Rate	GR	Yearly sales change
Control	Dividends Payments	DIV	Dummy 0,1
Control	Noncah working capital	NWC	(Current Assets - Current Liabilities minus cash and cash equivalents) / total assets

Source: Prepared by authors

Data Analysis:

Two models were applied to measure the relationship, First measures the association between conservatism practices and cash holding in Egyptian public firms as follow:

$$\text{Cash}_{it} = \beta 0 + \beta 1 \text{ Consev}_{it} + \beta 2 \text{ Size}_{it} + \beta 3 \text{ AGE}_{it} + \beta 4 \text{ GER}_{it} + \beta 5 \text{ GR}_{it} + \beta 6 \text{ DIV}_{it} + \beta 7 \text{ NWC}_{it} + e \dots (1)$$

The second model measures the impact of information asymmetry on the association between conservatism practices and cash holdings in Egyptian public firms. Through the following equation:

$$\text{Cash}_{it} = \beta 0 + \beta 1 \text{ Consev}_{it} + \beta 2 \text{ IA}_{it} + \beta 3 \text{ Consev} * \text{IA}_{it} + \beta 4 \text{ Size}_{it} + \beta 5 \text{ AGE}_{it} + \beta 6 \text{ GER}_{it} + \beta 7 \text{ GR}_{it} + \beta 8 \text{ DIV}_{it} + \beta 9 \text{ NWC}_{it} + e \dots (2)$$

Table (2) shows normal distribution test was conducted for the residuals of the study models using the Doornik-Hansen test. The results indicate that the chi-square is 3.87 and 3.88, with a significant level of prob chi-square 0.214 and 0.238, suggesting that the residuals of the study models follow a normal distribution.

Table 2: heteroskedasticity and Multivariate normality test

Test	Model 1		Model 2	
	Chi2	prob	Chi2	prob
Multivariate normality Test – Doornik-Hansen	3.877	0.214	3.88	0.2382

Source: based on Stata v14 output.

The value of the variance inflation factor, as shown in the results of Table (3) , ranges between 1 and less than 5 for study Models, indicating that the residual for regression models does not have a multicollinearity problem. Additionally, the mean variance inflation factor for Model 1 and 2 is 1.15 and 1,24 , which is less than 5, indicating that the model is suitable for regression analysis.

Table 3: Multicollinearity test for Model 1 and 2

Variable	VIF	1/VIF	Variable	VIF	1/VIF
GER	1.44	0.695832	CONSEV	1.45	0.689233
SIZE	1.32	0.756077	Consev*IA	1.44	0.694180
NWC	1.09	0.920532	GER	1.44	0.694445
GR	1.07	0.936129	SIZE	1.40	0.712820
DIV	1.05	0.949543	IA	1.15	0.868651
AGE	1.04	0.964717	NWC	1.12	0.895335
CONSEV	1.03	0.972428	GR	1.07	0.931727
Mean VIF	1.15		DIV	1.06	0.941108
			AGE	1.04	0.963212
			Mean VIF	1.24	

Source: Stata V14 Output.

To test the study models, OLS Regression results using Robust were used are shown in Table 4, which examines the relationship between cash holdings and a set of factors, including company

size, age, conservatism, information asymmetry, Growth Rate, dividend payments, and Non-Cash working capital.

Table 4. OLS Regression results using Robust

CASH	Model (1)			Model (2)		
	Coef.	t-value	p-value	Coef.	t-value	p-value
CONSEV	0.0750	5.700	0.000*	0.0104	7.100	0.001**
SIZE	-0.0920	-6.930	0.000**	-0.014	-6.220	0.000**
AGE	-0.0941	-4.200	0.000***	0.1045	6.870	0.006*
GER	0.0403	6.640	0.021**	0.0926	7.160	0.000**
GR	-0.0246	-8.060	0.000***	-0.0935	-4.220	0.000***
DIV	-0.020	5.130	0.007**	-0.0392	-5.630	0.000**
NWC	0.0192	3.090	0.005*	-0.0244	-7.940	0.000**
IA	-	-	-	-0.031	-5.200	0.008**
Consev*IA	-	-	-	0.0197	6.130	0.007**
_cons	0.0939	6.270	0.000**	0.0934	6.300	0.000**
R-squared	0.6146	-	-	0.6688	-	-
F-test	13.38	-	-	8.71	-	-
Prob > F	0.000	-	-	0.000	-	-
RMSE	0.2154	-	-	0.2674	-	-
Akaike crit. (AIC)	-474.39	-	-	-473.36	-	-
Bayesian crit. (BIC)	-439.93	-	-	-430.28	-	-

*** p<0.01, ** p<0.05, * p<0.1

Source: based on Stata v14 output.

The Ramsey RESET test indicates that the model is appropriate and that there are no neglected variables, as the significance value for the first study model was 0.21, while for the second model it was 0.26, which is greater than 0.05, which confirms the previous result according to what was reported in the results of Table (4). The results of Akaike (AIC) and Bayesian crit. (BIC), are shown that the current study's models have smaller values for the Akaike and Bayesian information criteria, indicating that the models are better for describing the data in this study.

Discussing Result For Model (1): A negative coefficient for firm size (SIZE) indicates that larger firms tend to hold less cash to total assets. This may be due to their ability to access alternative sources of financing or their need to invest in growth opportunities. Likewise, A negative coefficient for firm age (AGE) indicates that older firms may have established firm financial structures and reduced cash holdings due to the maturity of their operations. A positive coefficient on conservatism (CONSEV) indicates that firms that adopt more conservative accounting practices tend to hold higher cash levels, which reflect a cautious approach to financial risk management.that is confirm of what Mikkelson, Partch, 2003& Dalwai, T., Mohammadi, 2024 found ealier.

Additionally, A negative coefficient Growth Rate (GR) indicates that higher profitability may lead to lower cash holdings, as companies may distribute profits to shareholders or reinvest them in operations. Moreover, A negative coefficient on Dividends Payments (DIV) indicates that companies with higher dividends may hold less cash, which may reflect a preference for distributing dividends to shareholders rather than accumulating reserves.

Contrasting, A positive coefficient on Non-Cash working capital (NWC) indicates that firms with higher Non-Cash working capital tend to hold more cash. This may be due to the need to maintain liquidity for working capital requirements.

On the whole, R-squared value of 0.6146 indicates that the model explains a significant portion of the variance in cash holdings. This result is supported by the statistical significance value of the F test and its probability value. Therefore, we can reject the null hypothesis H_{01} and accept the alternative *There is a significant statistical relationship between conservatism practices and cash holding in Egyptian public firms.*" As per previous results, the first study model can be measured based on the following regression equation:

$$\text{Cash}_{it} = 0.093 + 0.075 \text{ Consev}_{it} - 0.092 \text{ Size}_{it} - 0.094 \text{ AGE}_{it} + 0.04 \text{ GER}_{it} - 0.024 \text{ GR}_{it} - 0.02 \text{ DIV}_{it} + 0.019 \text{ NWC}_{it}$$

Discussing Result For Model (2):

The coefficient of determination indicates that 66.88% of the variance in Cash Holdings is elucidated by the independent variables, and the significance value of the F-test specifies that the linear regression model is generally suitable for clarifying Cash Holdings. Therefore, the following regression equation can be derived and its results can be relied upon:

$$\begin{aligned} \text{Cash}_{it} = & 0.093 + 0.0104 \text{ Consev}_{it} - 0.031 \text{ IA}_{it} + 0.019 \\ & \text{Consev} * \text{IA}_{it} - 0.014 \text{ Size}_{it} + 0.10 \text{ AGE}_{it} + 0.09 \text{ GER}_{it} - 0.093 \\ & \text{GR}_{it} - 0.03 \text{ DIV}_{it} - 0.024 \text{ NWC}_{it} \end{aligned}$$

The figures of the multiple regression adjustment indicate that each increase in Conservatism by one unit results in an increase in Cash Holdings by 0.0104. This is confirmed by Partch, 2003& Dalwai, T., Mohammadi, 2024. While every increase in

information asymmetry by one unit leads to a decrease in Cash Holdings by 0.031 as supported by Chung et al. (2015)

Moreover, the results indicate that there is a positive interaction between conservatism and information asymmetry, This means that the effect of conservatism on Cash Holdings is greater when information asymmetry is high. so we reject the second hypothesis and accept the alternative one indicating "Information Assymetry as a moderating variable has a positive impact on the association between conservatism practices and cash holding in Egyptian public firm".

Conclusion:

The study pursues to explore the moderating function of information asymmetry on the association between conservatism practices and cash holding ratio in Egyptian enterprises registered in the Egyptian capital market during the years 2003 and 2023, a statistical study was conducted utilizing a sample of 22 companies listed in the EGX 30 index of the Egyptian Stock Exchange, and applying

two hypotheses in this study **H₀₁**: No significant statistical association between conservatism practices and cash holding in Egyptian public firms, **H₀₂**: Information Assymetry as a moderating variable has no impact on the association between conservatism practices and cash holding in Egyptian public firms.

The research revealed that the presence of asymmetric information has a favorable influence on the relationship between conservatism

practices and cash holding ratio, specifically in the context of Egyptian enterprises registered in the Egyptian capital market which confirmed with previous researchers work (Lin et al. 2018, Odia et al. 2018, Dalwai, T., Krema 2022, Mohammadi 2024).

Inclusive, research results indicate that conservatism, firm age, pricing, and information asymmetry are the main factors influencing Cash Holdings.

References:

- Abdelalim Krema, D. (2022). The Effect Of The Relationship Between Conservatism practice and Cost Of Debts On Cash Conservatism practice: Evidence From Egyptian Listed Companies. *Scientific Journal of Accounting Studies*, 4(2) ,274-310.
- Al-Amri, K., Al-Busaidi, M., & Akguc, S. (2015). Conservatism And Corporate Cash Conservatism practices: A Risk Prospective. *Investment Management And Financial Innovations*, (12, № 1), 101-113.
- Atwa, R., Bsoul, R., Kharabsheh, B., & Azzam, M. (2022). The Association Between Conservatism practice And Cash Conservatism practice, Dividends And Leverage.
- Basu, S. (1997). The Conservatism Principle And The Asymmetric Timeliness Of Earnings¹. *Journal Of Accounting And Economics*, 24(1), 3-37.
- Bhatia, A., & Kaur, A. (2024). The Influence Of Information Asymmetry On The Interaction Between Voluntary Corporate Disclosure And Cost Of Equity: Evidence From Publicly Traded Indian Enterprises. *International Journal Of Law And Management*, 66(1), 23-43.

- Chung, H. K., Liu, J. Y., & Hsiao, J. H. (2017). How Does Reading Direction Modulate Perceptual Asymmetry Effects? *Quarterly Journal Of Experimental Psychology*, 70(8), 1559-1574.
- Dalwai, T., Mohammadi, S. S., & Satrovic, E. (2024). Intellectual Capital Efficiency, Institutional Ownership And Cash Conservatism practices: A Cross-Country Study. *Review Of Accounting And Finance*, 23(1), 104-129.
- Devine, C. T. (1963). The Rule Of Conservatism Reexamined. *Journal Of Accounting Research*, 127-138.
- El-Habashy, H. A. (2019). The Effect Of Corporate Governance Attributes on Conservatism practice In Egypt. *Academy Of Accounting And Financial Studies Journal*, 23(3), 1-18.
- Faulkender, M. W. (2002). Cash Conservatism practices Among Small Businesses. Available At SSRN 305179.
- Felix, U. O., & Umanhonien, R. (2015). Theory of Conservatism And Value Relevance of Accounting Information. *Journal Of Accounting And Marketing*, 49(1), 1-8.
- Givoly, D., & Hayn, C. (2000). The changing time-series properties of earnings, cash flows & accruals: Has financial reporting become more conservative?. *Journal of accounting & economics*, 29(3), 287-320.
- Han, S., & Qiu, J. (2007). Corporate Precautionary Cash Conservatism practices. *Journal of Corporate Finance*, 13(1), 43-57.
- Holthausen, R. W. (1990). Accounting Method Choice: Opportunistic Behavior, Efficient Contracting, And Information Perspectives. *Journal of Accounting And Economics*, 12(1-3), 207-218.
- Kim, Y., Li, S., Pan, C., & Zuo, L. (2013). The Role of Conservatism practice In The Equity Market: Evidence From Seasoned Equity Offerings. *The Accounting Review*, 88(4), 1327-1356.

- Lafond, R., & Watts, R. L. (2008). The Information Role of Conservatism. *The Accounting Review*, 83(2), 447-478.
- Lin, C. M., Chan, M. L., Chien, I. H., & Li, K. H. (2018). The Relationship Between Cash Value And Conservatism practice: The Role of Controlling Shareholders. *International Review of Economics & Finance*, 55, 233-245
- Löfgren, K. G., Persson, T., & Weibull, J. W. (2002). Markets With Asymmetric Information: The Contributions of George Akerlof, Michael Spence, and Joseph Stiglitz. *The Scandinavian Journal Of Economics*, 195-211.
- Mccabe, G. M., & Yook, K. C. (1997). Jensen, Myers-Majluf, Free Cash Flow and The Returns To Bidders. *The Quarterly Review of Economics and Finance*, 37(3), 697-707.
- Mikkelson, W. H., & Partch, M. M. (2003). Do Persistent Large Cash Reserves Hinder Performance? *Journal Of Financial And Quantitative Analysis*, 38(2), 275-294.
- Morris, S., Shim, I., & Shin, H. S. (2017). Redemption Risk and Cash Hoarding by Asset Managers. *Journal of Monetary Economics*, 89, 71-87.
- Nayyar, P. R. (1993). Performance Effects Of Information Asymmetry And Economies of Scope In Diversified Service Firms. *Academy of Management Journal*, 36(1), 28-57.
- Ndjetcheu, L. (2012). An African Critical Interpretation of The Positive Theory of Accounting of Watts And Zimmerman (1978, 1980, 1986). *African Journal of Accounting, Auditing And Finance*, 1(1), 25-39.
- Odia, O. J., & Osazevbaru, H. O. (2018). Conservatism practice and Information Asymmetry. *Accounting And Taxation Review*, 2(1), 72-91.
- Opler, T., Pinkowitz, L., Stulz, R., & Williamson, R. (1999). The Determinants and Implications Of Corporate Cash Conservatism practices. *Journal Of Financial Economics*, 52(1), 3-46.

- Penman, S. H., & Zhang, X. J. (2002). Conservatism practice, The Quality of Earnings, and Stock Returns. *The Accounting Review*, 77(2), 237-264.
- Purnamasari, D. I., & Tashya, A. (2023). Empirical Evidence of Managerial Ownership, Leverage, Financial Distress, and Profitability on Conservatism practice In Mining Companies Listed on The Indonesian Stock Exchange During The Period Of 2018-2021
- Shehata, W., & Rashed, A. (2021). Conservatism practice, Information Asymmetry and Cash Conservatism practices. *Journal Of Accounting, Business and Management (JABM)*, 28(1), 63-72.
- Wang, Z. (2009). Conservatism practice (Doctoral Dissertation, Open Access Te Herenga Waka-Victoria University Of Wellington).