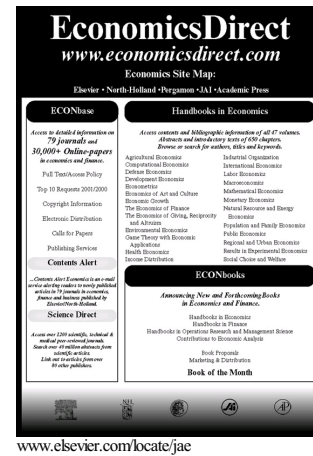


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Measurements

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Stephen Ryan



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Conditionally Conservative Fair Value Measurements

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ABSTRACT

Firms measure fair values using Level 2 or 3 inputs when items do not trade in liquid markets, limiting market discipline over the measurements. We provide evidence that firms holding higher proportions of financial instruments measured at Level 2 and 3 fair values report more conditionally conservative comprehensive income attributable to fair value measurements, consistent with firms trying to mitigate investors' discounting of the measurements. We further predict and find that this conditional conservatism (1) increases with governance mechanisms that increase the strength and persistence of firms' incentives to report conservatively and (2) decreases with firms' earnings management incentives.

Keywords: Conditional Conservatism, Fair Value Measurement, Disclosure

JEL Classifications: C23, D21, G32, M41

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