

Behavior of companies' accounting conservatism in the scenario of economic crisis caused by the covid-19 pandemic

Comportamento do conservadorismo contábil das companhias no cenário de crise econômica causada pela pandemia da covid-19

Comportamiento del conservadurismo contable de las empresas ante el escenario de crisis económica provocado por la pandemia covid-19

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Abstract

The study aimed to identify the behavior of conservatism in companies in Latin America (LA) before and during the economic crisis resulting from the COVID-19 pandemic. Agency Theory suggests that conservatism can serve to mitigate conflicts between agents, reducing informational asymmetry. However, there is no consensus on the increase or decrease in conservatism during periods of economic recession. The research, quantitative and descriptive in nature, adopted an empirical approach with secondary data. For this, there was a selection of the countries that have the largest and main Stock Exchanges in LA: Argentina, Brazil, Chile, Colombia, Mexico and Peru. The period adopted was from 2014 to 2019 (before the crisis) and from 2020 to 2021 (during the crisis), with data obtained from the Thomson Reuters Eikon® platform, obtaining a sample of 492 companies and 2,573 observations. Using the Ball and Shivakumar (2005) model, through multilevel regression from three levels on unbalanced panel data, the results indicate a conservative stance of Latin American companies both before and during the crisis period. The hypothesis that conservatism would increase during the crisis was accepted, with the results showing that there was an increase in conservatism, followed by a reversal in subsequent periods, suggesting accounting strategies to deal with the uncertainty of the pandemic.

Keywords: Information Quality; Accounting Conservatism; Economic crisis; Pandemic; COVID-19

Resumo

O estudo objetivou identificar o comportamento do conservadorismo nas empresas da América Latina (AL) antes e durante a crise econômica decorrente da pandemia da COVID-19. A Teoria da Agência sugere que o conservadorismo pode servir para mitigar conflitos entre os agentes, reduzindo a assimetria informacional. No entanto, não há consenso sobre o aumento ou diminuição do conservadorismo em períodos de recessão econômica. A pesquisa, de natureza quantitativa e descritiva, adotou uma abordagem empírica com dados secundários. Para isso, houve um recorte dos países que possuem as maiores e principais Bolsas de Valores da AL: Argentina, Brasil, Chile, Colômbia, México e Peru. O período adotado foi de 2014 a 2019 (antes da crise) e de 2020 a 2021 (durante a crise), com dados obtidos na plataforma *Thomson Reuters Eikon®*, obtendo

uma amostra de 492 empresas e 2.573 observações. Utilizando o modelo de Ball e Shivakumar (2005), através da regressão multinível a partir de três níveis em dados em painel desbalanceado, os resultados indicam uma postura conservadora das empresas latino-americanas tanto antes quanto durante o período de crise. A hipótese de que o conservadorismo aumentaria durante a crise não foi rejeitada, com os resultados mostrando que houve um aumento no conservadorismo, seguido por uma reversão nos períodos seguintes, sugerindo estratégias contábeis para lidar com a incerteza da pandemia.

Palavras-chave: Qualidade da Informação; Conservadorismo Contábil; Crise Econômica; Pandemia; COVID-19

Resumen

El estudio tuvo como objetivo identificar el comportamiento del conservadurismo en las empresas de América Latina (AL) antes y durante la crisis económica derivada de la pandemia de COVID-19. La teoría de la agencia sugiere que el conservadurismo puede servir para mitigar los conflictos entre agentes, reduciendo la asimetría informativa. Sin embargo, no hay consenso sobre el aumento o disminución del conservadurismo durante los períodos de recesión económica. La investigación, de carácter cuantitativo y descriptivo, adoptó un enfoque empírico con datos secundarios. Para ello, se hizo una selección de los países que cuentan con las mayores y principales Bolsas de Valores de AL: Argentina, Brasil, Chile, Colombia, México y Perú. El periodo adoptado fue de 2014 a 2019 (antes de la crisis) y de 2020 a 2021 (durante la crisis), con datos obtenidos de la plataforma Thomson Reuters Eikon®, obteniendo una muestra de 492 empresas y 2.573 observaciones. Utilizando el modelo de Ball y Shivakumar (2005), mediante regresión multinivel a partir de tres niveles sobre datos de panel no balanceados, los resultados indican una postura conservadora de las empresas latinoamericanas tanto antes como durante el período de crisis. Se aceptó la hipótesis de que el conservadurismo aumentaría durante la crisis, y los resultados mostraron que hubo un aumento del conservadurismo, seguido de una reversión en períodos posteriores, lo que sugiere estrategias contables para hacer frente a la incertidumbre de la pandemia.

Palabras clave: Calidad de la Información; Conservadurismo contable; Crisis económica; Pandemia; COVID-19

1 Introduction

In the context of high uncertainty resulting from an economic crisis, especially in relation to its recovery, it is important to elaborate financial statements in such a way as to present the effects of the crisis on entities, both in quantitative and qualitative terms (Pires & Silveira, 2008). In adverse scenarios such as these, the quality of the accounting information provided by companies becomes crucial, since the recessionary environment favors the occurrence of losses, due to the greater volatility and unpredictability of the markets (Eugenio et al., 2019).

Therefore, the quality of accounting information is a concept that can be measured using various variables, such as relevance, timeliness, conservatism and earnings management (Almeida et al., 2012; Wang, 2006; Dechow et al., 2010). In periods of crisis, the measure of conservatism stands out, which consists of a practice capable of softening the effects of the crisis on the company's investments in capital goods, as it tends not to anticipate profits, but all losses (Duarte et al., 2019).

Conservatism involves exercising caution in the recognition and measurement of the entity's assets and revenues; in addition, it can act as a potential mechanism to solve agency problems, as it can mitigate conflicts of interest between agent and principal (Givoly & Hayn, 2000; Lafond & Roychowdhury, 2008; Cullinan et al., 2012). Therefore, it can provide more quality information, since the prediction of the entity's future performance tends to become closer to reality, meaning that in the end there will be greater performance for investments (Ferris et al., 2013).

Balakrishnan et al. (2016) and Ha and Feng (2018) found evidence that companies considered more conservative suffer smaller reductions in the investment levels of their activities compared to less conservative ones. In adverse situations, such as periods of economic crisis, it is to be expected that entities are more prudent and do not have convenient circumstances to invest more intensely in their projects (Duarte et al., 2019). Hence, the effects of negative macroeconomic indicators, indicating a time of economic crisis, are incorporated into the entities' accounting in an attempt to dissolve the negative results that would be absorbed in future periods, by anticipating the recognition of future losses (Duarte et al., 2019). That being so, the impact of economic crises on the level of entities' investments is less pronounced in those with more conservative accounting figures (Balakrishnan et al., 2016; Ha & Feng, 2018).

On the other hand, there is evidence that organizations, by anticipating bad news and postponing good news, generate market inefficiency, as they do not publish real accounting statements, thus reducing current profit (Lopes, 2001). This excessive interference in results ends up not representing the true economic reality of the business to shareholders, who may be misled, or even not letting profits grow very much. In addition, investors may acquire shares at prices far from their fair value (Almeida, 2006).

In view of this, there is no consensus in the literature as to whether periods of economic downturn are associated with an increase (Jenkins et al., 2009; Duarte et al., 2019; Cui et al., 2021) or decrease (Sodan et al., 2013; Gul et al., 2002) in accounting conservatism. Vichitsarawong et al. (2010) and Cerqueira and Pereira (2020) state that there is a decrease in conservatism in the periods before and during the crisis, and an increase in the post-crisis period.

In the global recession scenario, which occurred between 2020 and 2021, there is the SARS-CoV-2 virus pandemic, which causes the COVID-19 respiratory infection, which began in December 2019 in China (Brazil, 2020) and, within a few months, caused political, social, educational and economic adversity around the world (Shams et al., 2020). On March 31, the Director General of the World Health Organization (WHO) (PAHO, 2020) declared that emerging countries, especially in Latin America, would be the most affected by the pandemic.

During this period, there has been a sharp drop in Gross Domestic Product (GDP), rising unemployment and worsening poverty and inequality (ECLAC, 2020). In addition, there has been a direct impact on the global economy, especially on exports, remittances from Latin Americans abroad and the tourism sector (Thomas, 2020). This scenario of risks and doubts has generated a need for organizations to adapt to the market, requiring the implementation of creative strategies and solutions to survive this new reality.

As a result, organizations can be led to adopt more conservative accounting practices, seeking to protect shareholders' interests, mitigate risks and ensure long-term sustainability (Lafond & Roychowdhury, 2008; Kothari, et al., 2009; Cullinan et al., 2012). On the other hand, they can choose to be less conservative, presenting more optimistic financial results to attract investors (Almeida, 2006; Costa et al., 2006).

In view of the above, and considering that the effects of the crisis caused by the COVID-19 pandemic on companies may reflect an increase or decrease in conservative accounting practices, we seek to answer the following question: What was the behavior of conservatism in Latin American companies during the economic crisis caused by the COVID-19 pandemic? In order to answer the problem, the research aims to identify the behavior of conservatism in Latin American companies before and during the economic crisis resulting from the COVID-19 pandemic.

The research is justified for three reasons. Firstly, the COVID-19 pandemic has had asymmetrical, trans-scalar and intertemporal negative impacts, causing sequelae in the world economy that affect the macroeconomic sensitivity and vulnerability of countries to varying degrees, as well as the microeconomic vulnerability of global production and consumption chains. In addition, there has been a fall in aggregate demand and a decline in credit (Silber, 2020; Khan et al., 2020). Given this scenario, it is essential to carry out studies that examine the impact of the pandemic on the stock markets, with a special focus on the behavior of accounting conservatism, since this is one of the most important qualitative characteristics of accounting.

Secondly, so far there is a scarcity of studies that specifically investigate the level of conservatism in companies in Latin American countries during the economic downturn. Most research focuses on data from developed countries (Jenkins et al., 2009; Gul et al., 2002; Sodan et al., 2013; Vichitsarawong et al., 2010; Cerqueira & Pereira, 2020; Cui et al., 2021).

Latin American countries, however, have characteristics that stand out on the global stage, such as growth in the domestic and foreign markets, economic and technological development, and important economic agreements (Rattner, 2011; Sarlo Neto et al., 2011). The lack of studies addressing these aspects in times of crisis, especially in emerging economies, reinforces the relevance and originality of this research, which aims to fill this gap.

Finally, the study brings practical benefits to stakeholders, as they will make more accurate and informed assessments of company performance, allowing for an improved understanding of conservative accounting practices in times of crisis. This understanding translates into tangible advantages, enabling more strategic financial management and correct decisions that result in safer and more effective navigation in challenging economic environments. By examining the behavior of accounting conservatism in the midst of the crisis, the research adds valuable insights to the area of accounting information quality, offering a unique perspective focused on the Latin American reality.

2 Literature review and hypothesis development

2.1 Accounting conservatism

Conservatism can be defined as the adoption of a cautious approach to measuring future events, as a form of risk prevention (Gray, 1988). It is an asymmetric recognition of losses in relation to gains, where losses are recognized in a timelier manner than gains, which means that companies' economic results reflect bad news more quickly than good news (Basu, 1997). Watts (2003) summarizes that its traditional definition is expressed by the saying: "don't expect profit but anticipate all losses". Lemos et al. (2019) reinforce this by saying that it is a promotional device for maintaining legitimacy.

According to Beaver and Ryan (2005), accounting conservatism can be distinguished into unconditional and conditional. Unconditional conservatism, *ex-ante* to the economic event, is when it does not depend on news and there is an undervaluation of assets. Conditional conservatism, *ex-post* to the economic event, refers to the early accounting recognition of economic losses based on estimates and historical accounting figures (Coelho, 2007).

While conditional conservatism increases the quality of accounting information, since it requires the verification of gains and losses, which generates greater certainty for users and prevents the natural optimism of managers, since it induces greater persistence of results (Basu, 1997; Basu, 2009; Dechow et al., 2010). The unconditional approach has a negative effect on the quality of information because it does not provide timely recognition of losses (Ball et al., 2013). This early recognition would provoke reflection and questions from managers about the reasons for these losses (Watts, 2003). For this reason, most studies on the subject are focused on conditional conservatism, linked to the asymmetry of gains (good news) and losses (bad news), in which it depends on management action to recognize the losses, in advance or not (Degenhart et al., 2018).

For Lafond and Roychowdhury (2008) and Cullinan et al. (2012), conservatism acts as a potential mechanism to solve agency problems, since it can equalize the interests of users, as well as reduce the effects of information asymmetry. In addition, conservatism reduces the opportunistic behavior of managers and improves the quality of accounting information (Xu & Lu, 2008; Yunos et al., 2014).

Kothari et al. (2009) point out the three most important aspects of conservatism in reducing agency problems between shareholders and managers. Firstly, as managers' remuneration is linked to current performance, they are reluctant to report bad news. However, conservatism induces the obligation for management to recognize bad news as it becomes available, even if it does not meet the qualitative characteristics of objectivity and verifiability that, in one way or another, apply.

Secondly, the timely recognition of losses mitigates the agency problems associated with managers' investment decisions. The ability to defer the recognition of losses provides managers with an incentive to continue operating investments with negative net present values to avoid reported losses on sale or abandonment. Thus, this agency problem is reduced by conservatism. In addition, the third point highlights that by delaying bad news, managers can overcompensate themselves, which implies significant costs for shareholders. However, the application of conservatism limits undue management payments.

It can then be observed that conservatism can provide better quality information, since the forecast of the entity's future performance tends to be more in line with reality. This suggests that, in the end, there will be greater performance for investments (Ferris et al., 2013).

Various practices can characterize the presence of conservatism in the generation of accounting information (Basu et al., 2005; Paulo, 2007; Paulo et al., 2008). Such practices include strategies such as the accelerated depreciation of intangible assets, the accelerated amortization of intangible assets, the underestimation of net receivable assets, lease receivables and impairment values, and the overestimation of liabilities related to pension plans, retirement plans and product guarantees.

In addition, we highlight the overestimation of provisions for restructuring, other future events and deferred income, the measurement based on historical cost (which does not recognize the increase in value, but requires impairment in the event of a decline, adopting the lowest value between cost and market), and the non-recognition of many intangible assets. If recognized, these assets follow the same measurement and disclosure criteria as tangible assets, not considering their potential future benefits. In addition, expected losses are recognized when they become known, while gains are not recognized until they are realized, and in cases of doubt, greater weight is given to loss estimates.

These conservative practices are justified, since the accountant's tendency towards pessimism is considered necessary to balance out the over-optimism of managers and owners (Hendriksen & Van Breda, 2009). For the authors, overestimation of profits and valuation is more dangerous for the company and its users than underestimation, as the consequences of losses are more serious than those of gains. In addition, they emphasize that the penalties for disclosure are greater than the penalties for non-disclosure; thus, the practice of prudence becomes acceptable.

However, there is a downside to conservatism: its excessive use can lead to the disclosure of information with false signals to its most diverse users (Costa et al., 2006). Watts (2003) corroborates this view, pointing out that this situation can cause assets to be undervalued.

On that account, Lin et al. (2018) points out that organizations that promote accounting conservatism are less likely to engage in overinvestment activities, because the timely recognition of losses limits the amount of cash available to managers. With this, companies that have a cash surplus and adopt accounting conservatism can mitigate negative factors, from the investor's point of view, related to the destination of the high cash resources involved in these issues (Canton et al., 2019). This means that when a company has a lot of cash and decides to follow a conservative accounting approach, it is taking steps to avoid or reduce possible concerns or negative effects that investors may have regarding how this cash will be used by the company.

Ahmed and Duellman (2013) state that the overconfidence of an organization's managers is negatively related to its conservatism, since managers are less likely to manipulate information. Thus, an increase in the degree of conservatism increases the organization's motivation to provide information that would potentially be more accurate, as there would ultimately be greater demand for investments (Fan & Zhang, 2012).

2.2 Research hypothesis

Accounting information reflects both the specific activities of an organization and general macroeconomic conditions, varying throughout the business cycle, which involves expansions and recessions

(Jenkins et al., 2009). During periods of crisis, such as recessions, profits tend to be less persistent, generating the need to increase the relevance of accounting information to support investor decisions (Cui et al., 2021). Furthermore, organizations may feel pressured to adjust their accounting practices to reflect adverse conditions (Duarte et al., 2019).

One way of increasing the quality of accounting information in financial reports is through conservatism, since the forecast of the organization's future performance tends to be closer to reality (Xu & Lu, 2008; Ferris et al., 2013). According to Jenkins et al. (2009), there are several reasons to believe that accounting conservatism is more pronounced during periods of economic recession.

Firstly, securities litigation tends to occur after economic downturns, when events such as sharp falls in share prices are more likely. Secondly, the threat of greater regulatory investigation, resulting from more public uncertainty about the existence and impact of hidden bad news, is likely to motivate the disclosure of conservative accounting figures.

Finally, entities usually prefer internal sources of financing to external sources. As for external sources, they opt for debt as a means of financing capital. However, the author argues that in times of recession, reduced profitability usually points to the possibility that internal financing may be more restricted. As a result, more companies will seek external finance; therefore, finance providers tend to demand more conservative accounting, as it provides better information about the risk of default.

From this perspective, several empirical evidence points to an increase in conservatism during periods of recession. The study by Watts and Zuo (2012), for example, showed that companies with more conservative financial reports during the 2008 crisis in the United States had less negative stock returns and greater capacity to issue debt and invest. In addition, the effect of conservatism was even stronger in companies with high agency costs, suggesting that it also helps to mitigate underinvestment and managerial opportunism, increasing the value of companies.

In a similar context, Balakrishnan et al. (2014) showed that, during the 2008 crisis, more conservative companies suffered a smaller decline in the value of their shares than less conservative ones, confirming that the adoption of conservative practices in recognizing expected losses better aligns with market information. Similarly, Duarte et al. (2019) observed that during the 2014-2017 recession in Brazil, publicly traded companies adopted greater accounting conservatism, anticipating future losses and, as a result, significantly reducing their investment levels. During the COVID-19 pandemic, Cui et al. (2021) also found that the most conservative companies on the Shanghai and Shenzhen stock exchanges showed lower declines in their stock return performance.

However, a contrary perspective suggests that, during these periods of recession, conservatism tends to decrease. Gul et al. (2002), for example, analyzed the behavior of Hong Kong company managers regarding the disclosure of results during the Asian crisis (1996 - 1997) and compared it with the previous period (1990 - 1995). The results indicated that managers were less conservative in periods of economic crisis. This result was corroborated by Sodan et al. (2013), who investigated the level of conservatism before and during crises in Eastern and Central European countries, identifying that it decreased during periods of crisis.

These results suggest that, in times of recession, managers tend to be more aggressive in reporting good news and delay acknowledging bad news, resulting in less conservatism and less punctuality in financial reports (Almeida, 2006; Costa et al., 2006). This may be due to the pressure to transmit more positive information to investors in order to mitigate the negative impact of the crisis (Kodres & Pritsker, 1998; Kaminsky & Schmukler, 1999).

However, this reduction in conservatism does not seem to be maintained in the post-crisis period. Vichitsarawong et al. (2010), in their study of Asian countries during the 1997 crisis, observed that accounting conservatism was lower during the recession when compared to normal economic periods. For the authors, this may be related to the improvement in corporate governance, which focused on transparency after the crisis.

From a more recent perspective, Cerqueira and Pereira (2020) showed that during the 2007-2008 financial crisis in Europe, conservatism decreased as managers tried to avoid reporting bad news to stakeholders. However, in the post-crisis period, conservatism increased, being used as a tool to help companies recover.

The literature is not unanimous about the relationship between periods of economic recession and accounting conservatism. Nevertheless, there is more empirical evidence pointing to an increase in conservatism during economic crises (Watts & Zuo, 2012; Jenkins, Gregory & Velury, 2009; Balakrishnan et al., 2014; Duarte et al., 2019; Cui et al., 2021).

Thus, it is believed that in the context of Latin America, regulatory particularities (code law) tend to encourage more conservative practices due to less flexibility in accounting practices, in order to minimize the risks of litigation and meet stricter regulatory requirements (La Porta et al., 1998), ensure greater control and predictability (Ball et al., 2000), and improve governance, avoiding opportunistic practices by managers (Bushman & Piotroski, 2006).

Furthermore, from the perspective of Agency Theory, companies may be encouraged to recognize losses more immediately during crises, as they seek to align their accounting practices with the expectations of investors and regulators (Lafond & Roychowdhury, 2008; Cullinan et al., 2012). This helps to reduce

information asymmetry and agency problems, promoting greater transparency in financial practices (Jensen & Meckling, 1976; Kothari et al., 2009). Based on this evidence, we postulate the following hypothesis: The level of conservatism of Latin American companies is higher during the COVID-19 pandemic.

3 Methodology

3.1 Population, period and sample

The population of this study was made up of listed companies in Latin American countries. As a first cut of the population, we chose the 6 countries that have the largest and main stock exchanges in Latin America, which are: Argentina, Brazil, Chile, Colombia, Mexico and Peru (Tavares et al., 2020). In addition, these countries are part of the Latin American Financial Reporting Standards Issuing Group (GLENIF) and have been included in other studies, such as Brunozi et al. (2015) and Marques et al. (2017), as they have a greater share of the group's Gross Domestic Product (GDP), as well as greater availability of data and population.

The period selected for data collection was from 2014 to 2021. The interval from 2014 onwards was chosen because, in that year, most Latin American countries had already adopted the International Financial Reporting Standards (IFRS) (IFRS, 2021). The final period of 2021 was chosen because, from that year onwards, the pandemic began to slow down, given that by January 2022, 10 million vaccines had been applied to the population, i.e. it would be as if everyone on the planet had received the first dose, causing the number of people contaminated by COVID-19 to gradually decrease (CNN Brasil, 2022). To analyze the pre-pandemic period, the interval from 2014 to 2019 was defined, and for the pandemic period, the interval from 2020 to 2021.

The criteria for selecting the companies in the sample were: (1) having their shares listed on the stock exchanges of some of the countries surveyed; (2) not belonging to the financial sector; and (3) having complete financial data published on the Thomson Reuters Eikon® platform. The sample data was obtained without including companies from the financial sector, due to their different equity and operating characteristics from the others, which could lead to distortions in the definition of some variables and compromise the results (Dalcero & Meurer, 2022).

In addition, companies that did not have the data needed to calculate the variables used in this study, as well as those with duplicate or insufficient data, were excluded. This resulted in a final figure of 492 companies and 2,573 observations, as shown in Table 1, in which the data was downloaded in a single currency, the dollar, in order to reduce the asymmetry caused by inflation in each country.

Table 1
Sample composition

	Total	7.984
(-)	Duplicate data	(168)
(-)	Insufficient data	(5.243)
(=)	Final sample	2.573

3.2 Metrics of conservatism

To measure conservatism, we opted for the conditional conservatism model, because according to Beaver and Ryan (2005), it provides accurate information on uncertain events, as is the case with the pandemic phenomenon. Ball and Shivakumar's (2005) model were used, which measures the asymmetry of recognition between good news (gains) and bad news (losses). This model uses the variation in profit as a variable and offers a means of assessing conservatism through the reversal of accounting results.

According to Ball and Shivakumar (2005) and Paulo et al. (2008), the use of the profit variable as the dependent variable offers a means of assessing conservatism, since it provides an adequate specification for identifying the transitory components of the result. In this context, it can be seen that the lower frequency of recognizing timely losses is associated with a lower quality of financial statements (Wronski & Klann, 2020).

$$\Delta NI_{it} = \alpha_0 + \alpha_1 \Delta \Delta NI_{it-1} + \alpha_2 \Delta NI_{it-1} + \alpha_3 \Delta \Delta NI_{it-1} \times \Delta NI_{it-1} + \varepsilon_{it} \quad (1)$$

In which:

ΔNI_{it} = change in accounting net income of company i from year t-1 to t weighted by the value of total assets at the beginning of year t;

ΔNI_{it-1} = change in accounting net income of company i from year t-2 to t-1 weighted by the value of total assets at the beginning of year t-1;

$\Delta \Delta NI_{it-1}$ = dummy variable taking value 1 if $\Delta NI_{it-1} < 0$, and 0 otherwise;

ε_{it} = regression error.

The coefficient α_2 is expected to be statistically equal to 0, since it results from deferring the recognition of earnings until their cash flow is realized, causing the positive results to become a persistent component of accounting profit, which tends not to be reversed (Ball & Shivakumar, 2005). However, when $\alpha_2 < 0$, this shows

that earnings are recognized in a timely manner and come to be seen as an increasing factor in the transitory component of profit, which tends to be reversed in the future. In other words, it indicates that there is no conservatism (Ball & Shivakumar, 2005; Marques et al., 2017).

If the coefficient α_3 is significantly lower than 0, there is evidence of timely recognition of losses, indicating that the gains are transitory components of the current period's results and tend to reverse later. Thus, the regression parameters α_2 and α_3 are coefficients that reflect conservatism, as they determine the asymmetric recognition of economic return by accounting profit (Paulo et al., 2008). Thus, the following coefficient signs are expected, as shown in Table 2.

Table 2
Indicator of model alphas and expected sign

Coefficients	Indicator
$\alpha_2 < 0$	Opportunistic recognition of gains, making them transitory components of results that will be reversed later.
$\alpha_2 = 0$	Deferral of the recognition of gains until their cash flow is realized, making them persistent components of accounting profit.
$\alpha_3 < 0$	More timely recognition of losses than gains.
$\alpha_2 + \alpha_3 < 0$	Opportunistic recognition of losses that results in transitory decreases in the result and, consequently, must be reversed in subsequent periods.
α_0, α_1	There are no indicators for the coefficients.

Source: Coelho et al. (2019)

To measure the effect of the economic crisis caused by the COVID-19 pandemic on accounting conservatism, the Ball and Shivakumar (2005) model was adjusted by the pandemic dummy variable, which takes on the value of 1 for the period over 2019 and 0 for the remaining years, represented in equation 2 by the acronym PAN.

$$\Delta NI_{it} = \alpha_0 + \alpha_1 \Delta NI_{it-1} + \alpha_2 \Delta NI_{it-1} + \alpha_3 \Delta NI_{it-1} \times \Delta NI_{it-1} + \alpha_4 PAN_{it} + \alpha_5 PAN_{it} \times \Delta NI_{it-1} + \alpha_6 PAN_{it} \times \Delta NI_{it-1} + \alpha_7 PAN_{it} \times \Delta NI_{it-1} \times \Delta NI_{it-1} + \sum \text{CONTROL VARIABLES} + \varepsilon_{it} \quad (2)$$

In this equation, the identification of the timely recognition of negative returns related to the pandemic implies that they are recognized with a decrease in transitory profits, analyzed in α_6 and $\alpha_7 < 0$. α_6 refers to the early recognition of earnings, and α_7 , the relationship between accounting conservatism and the economic crisis to the detriment of the pandemic. In this case, the variables of interest in equation 2 are α_2 , α_3 , α_6 e α_7 .

The control variables used were size (logarithm of Total Assets), indebtedness, fluctuations in Gross Domestic Product (GDP) and the sector of the organizations. GDP, being a macro variable, according to Lassoued and Khanchel (2021), makes it possible to ascertain economic variations in the environment. Size and indebtedness are control variables commonly used in studies on accounting conservatism. Regarding the sectors in which organizations operate, they may represent instigating elements for conservatism, given that during the pandemic period, each sector was impacted differently. The control variables that make up this study are shown in Table 3.

Table 3
Control variables

Variables	Metric	Expected signal	References
Size (SIZ)	Logarithm of company <i>i</i> 's net revenue at <i>t</i> and total assets at <i>t-1</i>	Uncertain - There are different views on the effect of size on conservatism.	Watts and Zimmerman (1978); Lafond and Watts (2008)
Indebtedness (DEBT)	Long-term debt plus short-term debt divided by total assets	Positive - The higher the percentage of third-party capital in the capital structure the higher the level of conservatism	Watts (2003); Guo et al., 2020
GDP per capita (GDP)	Corresponds to the macroeconomic conditions in which the company operates	Uncertain	Lassoued and Khanchel (2021)

In order to avoid problems related to extreme values (outliers), the variables were subjected to a 1% winsorization process, in which the most extreme values were replaced by values close to the sample limit. This approach made it possible to verify the robustness of the estimation results, both with and without winsorization, guaranteeing the consistency of the findings.

3.4 Data analysis

Due to the absence of data from certain companies, the panel will be unbalanced. According to Cameron and Trivedi (2005), the greatest advantage of panel data analysis is the increased accuracy of parameter estimation. In addition, for Baltagi and Baltagi (2008), Greene (2018) and Hsiao (2014), panel data also provides other advantages, such as the observation of dynamic relationships between individuals, less collinearity and greater control of the impact of omitted variables and heterogeneity.

Considering the characteristics of the data set collected and to achieve the proposed objective, it was decided to use the multilevel regression model for panel data, also known as the hierarchical model or mixed model, based on three levels (country, year and sector). This model is appropriate for analyses in which the data has a nested structure, allowing the variation of a phenomenon to be explained at different levels of analysis. It captures the particularities of the random components at each level (Fávero & Belfiore, 2017).

This model incorporates a combination of fixed and random effects for the independent variables, presenting linearity in relation to the parameters (West et al., 2007). This characteristic gives it flexibility, making it adaptable to different types of data sets. In addition, after analyzing other models, such as Pooled, Fixed-Effects Model and Random Effects Model, it was found that the multilevel model was the most appropriate, as evidenced by the likelihood ratio test (LR test) (Fávero & Belfiore, 2017).

4 Results and discussions

4.1 Descriptive Statistics

The descriptive statistics of the variables contained in Ball and Shivakumar's (2005) model are presented first, with the insertion of the dummy variable Pandemic and the control variables (SIZ, DEBT and GDP), as shown in Table 4.

Table 4
Descriptive statistics of the study variables

Variables	N	Average	Standard Deviation	Minimum	Maximum	Shapiro-Francia Coef.	p-value
ΔNI_{it}	2.573	0.0018837	0.0577557	-0.2125547	0.2309642	0.89287	0.00001
$D\Delta NI_{it-1}$ (dummy)	2.573	0.5064127	0.5000561	0	1	1	1
ΔNI_{it-1}	2.573	-0.0013759	0.0521307	-0.1945062	0.1920286	0.90396	0.00001
$\Delta NI_{it-1} \times D\Delta NI_{it-1}$	2.573	-0.017415	0.0330231	-0.1945062	0	0.64391	0.00001
PAN (dummy)	2.573	0.2973183	0.4571667	0	1	1	0.00001
SIZ	2.573	20.84834	1.676975	16.68609	24.82157	0.99608	0.00001
DEBT	2.573	4.348668	5.869187	0.0097226	39.99588	0.57145	0.00001
GDP	2.573	1.092989	3.511155	-6.415193	12.56484	0.88289	0.00001

Note: the variables are described in the text.

There was a positive variation in net profit, represented by the variable ΔNI_{it} over the period analyzed, indicating that the companies' profitability has been improving over the period, although there is a slight discrepancy between the companies, with a standard deviation higher than the average. This dispersion can be explained by the fact that the data comes from organizations in six different countries and nine different sectors (Wronski & Klann, 2019).

The variable $D\Delta NI_{it-1}$ variable indicates that around 51% of companies show a change in reported profit over the previous period. This proportion is in line with the positive average found for the change in profit (ΔNI_{it}), revealing that almost half of the companies experienced falls in their profits. This means that, on average, half of the companies analyzed had negative variations in their profits in previous periods.

Recognition of earning opportunities, represented by the variable $\Delta NI_{it-1}(\alpha_2)$ has an average of -0.0013759, suggesting that, on average, earnings are recognized in a timelier manner. The standard deviation of this variable indicates that the data is concentrated around the mean, with little dispersion.

The variable $\Delta NI_{it-1} \times D\Delta NI_{it-1}$ reflects the degree of conservatism adopted by the companies analyzed, observed through the coefficient α_3 . The average value of the variable was -0.017415, indicating that, in general, companies record losses in a timelier manner. In addition, the low standard deviation in relation to the average suggests that the data is relatively close to the average, reducing the consistency in recognizing the opportunity for losses among the companies.

Given that not all the variables had a normal distribution, as shown by the Shapiro Francia normality test (Table 4), we opted to use Spearman's correlation, a non-parametric technique appropriate for these situations, as shown in Table 5 (Levin & Fox, 2004).

When examining the correlation between the study variables, a significant correlation was found between $\Delta NI_{it-1} \times D\Delta NI_{it-1}$ and the variables ΔNI_{it-1} and $D\Delta NI_{it-1}$. This strong association suggests multicollinearity between the independent variables; however, it should be noted that this strong correlation was already expected, given the nature of both variables to represent the interaction between them.

Table 5
Spearman Correlation Analysis

	ΔNI_{it}	$D\Delta NI_{it-1}$	$it-1$	$\frac{D\Delta NI_{it-1}}{\Delta NI_{it-1}} \times$	PAN	SIZ	$DEBT$	GDP
ΔNI_{it}	1							
$D\Delta NI_{it-1}$	0.0862	1						
$it-1$	-0.1228	-0.8660	1					
$\frac{D\Delta NI_{it-1}}{\Delta NI_{it-1}} \times \Delta NI_{it-1}$	-0.1087	-0.9232	0.9379	1				
PAN	0.1138	0.1014	-0.1034	-0.1101	1			
SIZ	-0.0000	0.0189	-0.0302	0.0370	0.0120	1		
$DEBT$	-0.1565	0.1236	-0.1647	-0.0978	-0.0039	0.1626	1	
GDP	0.2236	-0.0154	0.0322	0.0471	-0.0430	-0.0183	-0.0735	1

Note: values in bold are significant at 95%.

The negative value (-0.1228) of the correlation ΔNI_{it-1} e ΔNI_{it} suggests a trend in the level of reversal of profits from one period to the next. This can be interpreted as a possible adjustment in the financial reports, such as the recognition of provisions or prior year adjustments, which is typical of conservative practices. This result can be explained as a cautious approach to measuring profits, where losses are recognized in a timelier manner than gains (Basu, 1997).

Similarly, the significant correlation between ΔNI_{it-1} and $D\Delta NI_{it-1}$ (-0.8660), indicates that when there was an increase in profit in the previous period, there was a smaller increase in accounting earnings. According to O'Callaghan et al. (2018), managers can adopt more prudent practices in earnings management to protect the interests of the company and shareholders.

The PAN variable was correlated with all the variables in Ball and Shivakumar's (2005) model. The negative relationship between PAN and $\Delta NI_{it-1} \times D\Delta NI_{it-1}$ (-0.1101), as well as with ΔNI_{it-1} (-0.1034), shows that the pandemic has affected the effect of past financial gains on current profits. This effect can be attributed to increased economic uncertainty, which ended up affecting revenue generation and making profits more volatile (Baldwin & Di Mauro, 2020), causing organizations to adopt more conservative practices to mitigate these effects.

4.2 Analysis of the relationship between conservatism and the pandemic period

To verify the significance of the variables, unbalanced panel data analysis was carried out. When analyzing the OLS Pooled and multivariate models (using multilevel regression), it was found that the multilevel model was the most appropriate, as evidenced by the likelihood ratio test (LR test) (Fávero & Belfiore, 2017).

If we consider that $\text{Prob} > \chi^2 = 0.000$, according to Fávero and Belfiore (2017), we can reject the null hypothesis that the random intercepts are equal to zero ($H_0: u_{0j} = 0$). This implies rejecting the estimation of a traditional linear regression model for grouped data. Table 6 shows the descriptive statistics of the multilevel regression from three levels (country, year and sector), considering a significance level of 1, 5 and 10%.

Initially, the coefficient ΔNI_{it-1} is different from zero and statistically significant in both models (-0.364, -0.379 and -0.445, respectively). This indicates that there is evidence of opportunistic recognition of gains, which are considered temporary components in financial results and are reversed in subsequent periods (Marques et al., 2017). Brito et al. (2012) explain that this may indicate extraordinary revenues in certain periods that are not repeated over the years.

According to Knudsen (2013) and Conti et al. (2015), companies' revenues are influenced by the specific characteristics of each company and their economic cycles. During the COVID-19 pandemic, for example, companies in the retail, hospitality, accommodation and tourism, restaurants and food services and arts and entertainment and education sectors experienced direct impacts on their revenues (Koren & Peto, 2020). As a result of this situation, many of them have been compelled to extend the deadlines for both payments and receipts.

Regarding the recognition of losses, the interaction of the variables $D\Delta NI_{it-1} \times \Delta NI_{it-1}$ reflects the relationship with realized economic gains and the asymmetry of good and bad news. When this coefficient is negative, it indicates the presence of accounting conservatism, presenting a more cautious approach to expense recognition (Ball and Shivakumar, 2005). Santiago et al. (2015) point out that, in a scenario of economic recession, expenses tend to be considered transitory and are reversed in the following period.

In the analysis of all the models, it can be seen that the coefficient of the variable $D\Delta NI_{it-1} \times \Delta NI_{it-1}$ was positive and statistically significant in all of them (0.147, 0.164 and 0.289), indicating that there is no tendency for companies to recognize losses in advance of gains before or during the COVID-19 pandemic. However, when considering the sums of the coefficients $\Delta NI_{it-1} + D\Delta NI_{it-1} \times \Delta NI_{it-1}$ where it is expected to be < 0 , they showed a value of -0.217 (model 1), -0.215 (model 2) and -0.156 (model 3), inferring that there is timely recognition of losses, which are reversed in subsequent periods.

So, it is understood that the opportunistic recognition of losses results in transitory decreases in results, which are subsequently reversed. In this context, the analysis of data for the period 2014 to 2021 for Latin American companies shows the presence of conditional conservatism. This result is noted in both Model 1 and

Model 2, which points to a general trend towards conservative behavior in the accounting practices adopted by companies.

Table 6

Relationship between conservatism and the pandemic

Variables	Model 1	Model 2	Model 3
$\Delta \Delta NI_{it-1}$	-0.009* (0.003)	-0.008* (0.003)	-0.009* (0.003)
ΔNI_{it-1}	-0.364* (0.038)	-0.379* (0.039)	-0.445* (0.043)
$\Delta \Delta NI_{it-1} \times \Delta NI_{it-1}$	0.147* (0.547)	0.164* (0.056)	0.2889* (0.067)
PAN			-0.002 (0.007)
$PAN \times \Delta \Delta NI_{it-1}$			0.005 (0.006)
$PAN \times \Delta NI_{it-1}$			0.402* (0.12)
$PAN \times \Delta \Delta NI_{it-1} \times \Delta NI_{it-1}$			-0.578** (0.151)
SIZ		0.001*** (0.001)	-0.001 (0.001)
DEBT		-0.006* (0.001)	-0.001* (0.000)
GDP		0.002* (0.001)	0.002* (0.001)
cons	0.010* (0.003)	0.0332** (0.144)	0.312** (0.145)
Observations (n)	2.573	2.573	2.573
Companies (n)	492	492	492
Prob > chi 2	0.000	0.000	0.000

Standard errors in brackets. *, **, *** = significant at 1%, 5% and 10%, respectively.

Legend: Model 1 - Original; Model 2 - With control variables company size, indebtedness and GDP; Model 3 - With dummy variable Pandemic and controls.

When comparing the models, the third model shows a significantly smaller reversal of the negative results (-0.156), which can be explained by the inclusion of the PAN dummy variable, which refers to the period of economic crisis from 2020 to 2021, caused by the COVID-19 pandemic. This variable was negative and statistically significant (< 0) with a value of -0.002, indicating that the pandemic is associated with a reduction in company profits. This result corroborates the findings of Jenkins et al. (2009), who state that, in periods of crisis, companies tend to adopt a more cautious approach in their financial disclosure, which ends up having a negative impact on profits.

By focusing on the analysis of conservatism in the period of economic recession, in which the interaction of the PAN variable with $\Delta \Delta NI_{it-1} \times \Delta NI_{it-1}$ (α_7), has a negative coefficient (-0.578) and is statistically significant at 5%, it can be inferred that the asymmetric recognition of losses was more pronounced during the COVID-19 pandemic. According to Ball and Shivakumar (2005), the identification of the timely recognition of negative returns related to the pandemic implies that these are recognized with a decrease in transitional profits, analyzed at α_6 and $\alpha_7 < 0$. The α_6 refers to the early recognition of earnings, and α_7 , the relationship between accounting conservatism and the economic crisis to the detriment of the pandemic.

About the control variables in models 2 and 3, the only variable that was not statistically significant in both models was size (SIZ). In model 2, it was negative and significant at a 10% level (-0.001), indicating that companies with smaller assets had a negative variation in profits in the period from 2014 to 2021 compared to companies with larger assets. As for the variable DEBT (indebtedness), it was negative and significant at 1%, indicating that more indebted companies have a lower change in profits. The variable GDP was positive and significant, which may indicate that the higher the GDP, the more companies have a variation in profit.

Given this context and considering the results presented, hypothesis H1 is not rejected (or corroborated), indicating that the level of conservatism of Latin American companies was higher during the period of economic crisis caused by the COVID-19 pandemic. This finding is in line with the conclusions of several researchers, such as Jenkins (2009), Watts and Zuo (2012), Jenkins et al. (2009) and Duarte et al. (2019), which indicate an increase in the conservatism of companies in times of recession.

This conservative stance provides companies with greater resilience to the effects of crises on their value, while avoiding the risks of litigation and regulatory scrutiny. Furthermore, the demand for more conservative accounting information is likely to increase as there is a transition from internal to external sources of financing.

It is also evident that the finding corroborates the study by Cui et al. (2021), which reported that companies that opted for a more conservative stance during the period of the COVID-19 pandemic showed

lower drops in stock return performance. Thus, organizations use accounting conservatism in periods of economic uncertainty as an effective strategy.

In addition, it should be noted that the results obtained contrast with the conclusions presented by Sodan et al. (2013) and Gul et al. (2002), which indicated a reduction in conservatism in organizations during periods of economic crisis. In addition, the study by Cerqueira and Pereira (2020) also goes against these findings, since the authors showed that companies tend to adopt a more conservative stance both in the pre-crisis period and during the crisis. Contrary to these studies, the results of this study, as presented in the models, show that companies maintained a conservative stance both before and during the crisis.

4.3 Robustness test

It is important to note that there is no single metric that captures all the possible situations in which conservative practices can be adopted (Brito, 2010). For the author, the use of multiple measures allows for a more comprehensive view, especially if the results are dissimilar or provide the same result between each metric. In view of this, a robustness test was carried out using Basu's (1997) widely consolidated model, which aims to verify the relationship between the variables of accounting profit and economic return, in the judgment of the recognition of good and bad news through accounting profit.

Basu's (1997) model is represented by:

$$LPA_{i,t} / P_{i,t-1} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 D_{it} * R_{it} + \varepsilon_{it} \quad (3)$$

In which:

$LPA_{i,t}$ = Accounting result for the year (profit/loss) per share;

$P_{i,t-1}$ = Average share price of the company in period t-1;

R_{it} = Logarithmic return on the company's shares;

D_{it} = Dummy that assumes 1 when the stock's return is negative and 0 if it is positive;

$D_{it} * R_{it}$ = Interaction variable that expresses the difference between the impact of negative and positive returns.

$\varepsilon_{i,t}$ = regression error.

According to Basu (1997), the coefficient β_2 represents both positive and negative returns, while the coefficient β_3 represents only the negative return. If the β_3 is significant and positive, there is evidence of accounting conservatism through the timely recognition of negative returns, i.e. a negative return will be reflected in profit to a greater extent than a positive return.

To measure the effect of the economic crisis generated by the COVID-19 pandemic on accounting conservatism, an adjustment was made to the model by introducing the pandemic (PAN) dummy moderator variable, which assumes 1 for the period after 2019 and 0 for previous years, as shown in equation 4. In addition, to ensure consistency with the approach adopted in Ball and Shivakumar's (2005) model, the multilevel regression model for panel data was used, structured into three levels (country, year and sector).

$$\frac{LPA_{i,t}}{P_{i,t-1}} = \beta_0 + \beta_1 R_{it} + \beta_2 D_{it} + \beta_3 D_{it} \times R_{it} + \beta_4 PAN + \beta_5 PAN \times R_{it} + \beta_6 PAN \times D_{it} + \beta_7 PAN \times D_{it} \times R_{it} + \sum CONTROL\ VARIABLES + \varepsilon_{it} \quad (4)$$

From the data shown, it can be seen that the variable R_{it} is positive (0.001) and significant in all three models. According to Sampaio et al. (2015) and Cella et al. (2019), if there is a direct and positive relationship, it can be said that a positive return reflects a positive profit, and a negative return reflects a negative profit. Thus, by analyzing only the respective variable, profits are being recognized in proportion to positive returns. In a more conservative scenario, losses are expected to be recognized more quickly than gains (Basu, 1997).

However, Latin American organizations were conservative between 2014 and 2021. This evidence is supported by the variable $D_{it} \times R_{it}$ variable, which showed positive and statistically significant coefficients in the three models (0.002, 0.001 and 0.002, respectively). This means that managers generally recognized economic losses in advance, following the bad news reflected in share prices. This conservative behavior in Latin American companies can be explained not only by the regulatory particularities of the region, where countries follow the code law model (La Porta et al., 1998), but also by the unstable economic context (Rattner, 2011; Sarlo Neto et al., 2011), since companies recognize losses in advance, seeking to avoid financial surprises in an environment subject to crises and uncertainties.

Regarding the PAN dummy variable included in model 3, it showed a positive and significant coefficient at the 5% level (0.002), which shows that the pandemic had an impact on accounting recognition, with companies showing a greater response to returns during this period of crisis. The interaction $PAN \times R_{it}$, which measures the relationship between the pandemic and returns, is positive and significant at the 5% level (0.001), inferring that the pandemic has increased the impact of returns on organizations' profits. On the other

hand, Cui et al. (2021) found that companies that recognized losses more quickly experienced smaller declines in stock return performance.

Table 7

Robustness Test - Relationship between conservatism and the Pandemic

You will vary	Model 1	Model 2	Model 3
R_{it}	0.001* (0.000)	0.001* (0.000)	0.001* (0.000)
D_{it}	0.009 (0.136)	0.009 (0.014)	0.019 (0.016)
$D_{it} \times R_{it}$	0.002* (0.000)	0.001* (0.000)	0.002* (0.001)
PAN			0.002 (0.026)
$PAN \times R_{it}$			0.001** (0.000)
$PAN \times D_{it}$			-0.027 (0.029)
$PAN \times D_{it} \times R_{it}$			-0.001 (0.001)
SIZ		-0.001 (0.001)	-0.001 (0.003)
$DEBT$		-0.005* (0.001)	-0.005* (0.001)
GDP		0.004 (0.001)	0.004 (0.003)
$cons$	0.078* (0.013)	0.107*** (0.055)	0.103*** (0.056)
Observations (n)	2.573	2.573	2.573
Companies (n)	492	492	492
Prob > chi 2	0.000	0.000	0.000

Standard errors in brackets.

*, **, *** = significant at 1%, 5% and 10%, respectively.

Legend: Model 1 - Original; Model 2 - With control variables company size, indebtedness and GDP; Model 3 - With dummy variable Pandemic and controls.

On the other hand, the interaction $PAN \times D_{it}$, which represents negative returns during the pandemic, showed a negative coefficient (-0.027), but was not statistically significant, suggesting that although the pandemic influenced accounting recognition, it did not generate substantial early recognition of negative returns. Similarly, the variable $PAN \times R_{it} \times D_{it}$ is also negative, but not significant (-0.001), indicating that the pandemic has not significantly reinforced conditional conservatism in the recognition of losses.

Finally, as for the control variables, only the $DEBT$ (indebtedness) variable proved to be significant and negative, suggesting that more indebted companies may adopt a more conservative stance. This may be because companies with high levels of debt tend to face greater financial restrictions, which ends up limiting the variation in profits and encourages them to adopt more prudent accounting practices.

The results suggest that there is evidence of conditional accounting conservatism in all models. However, the introduction of the pandemic (dummy variable PAN) in Model 3 reveals that the impact of this crisis was more evident in the relationship with overall returns, but had no significant effect on the asymmetric recognition of losses. In other words, based on the results presented, it can be said that companies already had conservative practices before the pandemic. However, during the pandemic, this practice was not intensified (Francis & Martin, 2010).

As for the difference in results between the models by Ball and Shivakumar (2005) and Basu (1997) in model 3, which seek to identify the behavior of conservatism during the pandemic, this can be attributed to the way in which both models estimate conservatism, given that they use different approaches to capture conservatism. Basu's (1997) focuses on the relationship between negative returns and profits, which may limit its effectiveness in times of crisis, since the accounting response may not be just a question of asymmetry in the recognition of gains and losses. Ball and Shivakumar's (2005), on the other hand, takes a broader approach, including indicators that better capture the behavior of companies in times of uncertainty, such as the pandemic, making it more sensitive to changes in accounting conservatism in these times.

5 Final Considerations

Although the literature does not reach a consensus on the increase or decrease in accounting conservatism during periods of economic recession, most of the evidence suggests an increase during these periods. However, most studies focus on data from developed countries, disregarding emerging countries. In the context of the global recession, caused in the period from 2020 to 2021, there is the COVID-19 pandemic,

which has had a significant impact on emerging Latin American countries, resulting in direct repercussions on the economy.

In view of this, the study aimed to identify the behavior of conservatism in Latin American companies before and during the economic crisis resulting from the COVID-19 pandemic, for which the period from 2014 to 2019 (before the crisis) and from 2020 to 2021 (during the crisis) was adopted. The survey only included the largest and main stock exchanges in Latin American countries, including Argentina, Brazil, Colombia, Chile, Mexico and Peru, and had a sample of 492 companies and 2,573 observations.

The results show that organizations in Latin America have adopted a more conservative stance during the economic crisis caused by the COVID-19 pandemic. However, the results also show that companies were already conservative before the crisis, and during the recession, this level of conservatism tended to increase.

The opportunistic recognition of gains before and during the recession period, followed by their reversal in subsequent periods, signals accounting strategies aimed at dealing with the uncertainties and volatilities associated with the particularities of emerging Latin American countries. These countries are characterized by having diversified economies, facing specific economic challenges and a wide range of business practices. This behavior suggests an adaptive response by companies to the uncertain context, especially in periods of recession, which allow them to cope more resiliently with economic adversity.

Furthermore, after inserting the dummy variable *PAN*, associated with the period of the recession from 2020 to 2021, it was observed that it had a significant impact on reversing negative results. This result was consistent with the findings of previous studies, which reinforce the understanding that economic crises have considerable implications for companies' accounting practices, just as they did during the COVID-19 pandemic.

Thus, when considering hypothesis H1, the results only fail to validate it but are also in line with studies by various researchers, who suggest an increase in conservatism during periods of economic recessions. This conservative stance emerges as an effective strategy, since it gives companies greater resilience in the face of adverse economic impacts. Furthermore, it provides results that contrast with the study by Cerqueira and Pereira (2020), as well as bringing new evidence to academia, given that the research provided evidence that companies had a conservative stance both before and during the crisis.

Considering the particularities of emerging Latin American countries, this study provides valuable insights for accounting practice. By guiding professionals to deal with the specific demands of these countries in times of crisis and economic uncertainty, it highlights the importance of companies adopting more conservative practices, since it mitigates risks, reduces asymmetry and agency conflicts, protects the financial health of organizations and meets the expectations of investors.

Therefore, regulators could consider revisions to the accounting guidelines for crises, encouraging the proper recognition of risks and losses, without excessively penalizing companies that adopt conservative practices. This could involve creating incentives for companies to clearly disclose the impacts of crises on their operations and extending specific audits in periods of economic turmoil.

In the academic context, the study offers a substantial contribution by filling existing and controversial knowledge gaps, especially by addressing the particularities of accounting conservatism in Latin American countries during the COVID-19 crisis. This research expands the understanding of how companies in the region respond to exceptional economic challenges, providing a solid basis for future research in this specific context.

It should be noted that this study has some limitations, such as the sample being made up of companies listed on the largest stock exchanges, excluding smaller or unlisted companies, which may end up impacting on the generalizability of the results, since smaller organizations may respond differently to crises. Another limitation is related to the use of a specific sample of Latin American countries, excluding other emerging nations.

It is therefore suggested that future research should analyze sectors, given that they are impacted in different ways during times of crisis. The inclusion of other variables, such as government measures or the level of restriction in each country, is important, because as each nation has had different degrees of restriction aimed at combating or mitigating the pandemic, companies may have reacted differently to these circumstances. Furthermore, a comparison with other emerging regions or developed economies offers a global perspective on how economic and regulatory contexts impact accounting practices. Finally, considering a comparison with previous crises would help to verify whether the patterns observed are specific to the pandemic or whether they can be generalized to other crises.

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