The reliability indicator for the Chinese Non-GAAP information

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Abstract

The information quality embedded in financial reports disclosure by the Chinese listed companies is very important. However, the lack of the detecting mechanism on accounting information reliability leads not to increase the agency cost, but also to affect the development of the Chinese capital market. Therefore, the purpose of this study is to build an effective indicator to measure the reliability of accounting information, specialized in the earnings releases of the firm. Because the enterprises announce both the GAAP earnings and non-GAAP numeral information, this study applies the accounting conservatism to the mediator of my detecting model. My empirical results show that the indicator calculated by the absolute value of the average correlated coefficients among the GAAP diluted EPS, the non-GAAP numbers and the accounting conservatism is statistically significant. Instead, by the standardization of the Pearson correlated coefficient, my indicator holds the comparability in one firm among different period or in one period among different firms. At last, in robustness I divide my samples into the profitable and the loss firms, and find that the level of the information reliability detected from the profitable firms is significantly larger rather than that from the loss firms. My empirical results contribute to the non-GAAP literature dispute in monitoring earnings quality. Thus, this study could make contributions on the firm's internal control, the security valuation from outside investors, and the monitoring costs paid by the regulators.

1. Introduction

Even though the Chinese securities market has been progressive, the accounting earnings and the non-GAAP (i.e. Outside of the General Accepted Accounting Principles, generally abbreviated as "non-GAAP" or "pro forma") information is still pose challenges for investors and regulatory authorities. While literature has

extensively discussed the informative value released from non-GAAP information (Bhattacharya, Black, Christensen, & Mergenthaler, 2007; Lougee & Marquardt, 2004) and from regulatory frameworks (Black et al., 2017; Chan et al., 2016) the question of whether GAAP earnings or non-GAAP information holds more predictive value for a company remains unresolved (Gomez et al., 2023). The reliability of corporate disclosures not only affects agency issues between investors and management, but also has a significant impact on the sound development of the securities market. Therefore, developing a streamlined and scientific method to detect the reliability of information voluntarily disclosed by companies, will help reduce agency costs and improve market pricing efficiency.

The objective of this study is to establish an effective information detection mechanism that can serve as a reference for investors and regulators. Based on Perols (2011) findings that simple statistical methods can detect financial statement fraud, this study employs the accounting conservatism measure developed by Khan and Watts (2009) in conjunction with accounting earnings and non-GAAP information. By exploring the statistical correlations between these three variables, I construct a relatively simple, numerically standardized model that can be applied to assess the reliability of financial information. By my framework, both accounting earnings and non-GAAP information could be analyzed across different periods for the same company (Longitudinal comparison), or across different companies during the same period (Cross-sectional comparison).

To validate the innovative detection indicators proposed in this study, I use financial report data from the Chinese listed healthcare companies from 2015 to 2019. The reasons I select this dataset are that at first the healthcare industry contains many intangible resources measured by GAAP but might be more valuable for the industry's future prospects by the non-GAAP. And the second is that with the outbreak of the COVID-19 pandemic starting in 2020, the healthcare industry has been more important, further emphasizing the need for a reliable method to assess the trustworthiness of its financial disclosures. My finding reveals significant information reliability decreases when firms report "free cash flow" as non-GAAP earnings. Accounting conservatism serves as a mediating variable that emerges statistical significance between GAAP earnings and non-GAAP information. Thus, I could represent the correlation coefficient among these three variables as the application value of accounting reliability. My robustness tests also distinguish profitable from loss firms. The mean absolute correlation coefficients show significant differences. This proposed that the detection indicators reveal different reporting motives based on firm's financial conditions.

This research offers three primary academic and practical contributions. First, my finding is partially inconsistent with that from Leung and Veenman (2018) which identified the different non-GAAP meaning between profitable and loss firms. However, my input to identify this difference is much lower rather than text analysis used by Leung and Veenman (2018) and is much easier to be understood and applied. In addition, compared with Zadeh, Askarany, and Asl (2022) who used adopted models and complex corporate governance metrics, my approach is not only easier to understand but it also builds the standardized comparability. Second, this reliability indicator ensures comparability, continuity, and numerical standardization. It reflects "real" reporting levels across industries and firms. The model successfully captures specific industry and corporate characteristics. Finally, my findings provide developing the measurement metrics and oversight directions for regulators. By emphasizing my indicator for corporate reporting behaviour, the regulators could decrease monitoring cost for the non-GAAP information effectively.

The remainder of this study is structured as follows: I first review and compare relevant literature and controversies. Then, I conduct empirical analysis and robustness tests by my model. Finally, I summarize the value of the innovative detection indicators presented in this study.

2. Literature Reviews

Since the 1990s, there has been much academic and practical discussion on the motivations for reporting the non-GAAP earnings, as well as the effect from the outside regulations. Until now, it has not been concluded whether the non-GAAP earnings news reported voluntarily provides a reliable assessment of corporate value, or whether it is caused by the opportunism from the managers. To introduce the literature dispute of the non-GAAP information, I distribute the literatures into three parts: the supporters that regard the non-GAAP reporting as informative, the opponents that hold the non-GAAP reporting as managerial opportunism, and others that consider the mechanism improving the informative quality of the non-GAAP reporting.

Based on the hand-collected difficulty of the non-GAAP information from the firm's financial reporting, many literatures argued why managers embedded the non-GAAP reporting. As what mentioned by Alpert (2001) the non-GAAP disclosures serve as a voluntary communication tool, enabling managers to present a clearer picture of the company's future performance. Further like Halsey and Soybel (2002) and Kyung, Ng, and Yang (2021) the non-GAAP information is reported particularly in terms of mitigating agency problems and facilitating long-term shareholder value. Especially, Leung and Veenman (2018) found that non-GAAP earnings disclosures are especially useful for loss firms. And Cheng, Tavakolifar, and Ullah (2024) suggested that the voluntarily disclose of non-GAAP earnings might provide different meanings among industries.

However, as the Enron scandal occurred that hurt lots of uninformed investors, more literatures argued if the non-GAAP information might mislead investors to make decisions based on insufficient information

(Krantz, 2001; Weil, 2001). Some literatures (Black et al., 2017; Brown, Christensen, Elliott, & Mergenthaler, 2012; Doyle, Lundholm, & Soliman, 2003) identified that these non-GAAP disclosures may be opportunistically used by management to shape investor perceptions and manipulate stock prices, particularly when focusing on short-term performance or avoiding regulatory scrutiny. Hogan et al. (2017) thus encouraged the presentation of a comprehensive non-GAAP earnings reconciliation table that can highlight the influence of non-GAAP information on investor decision-making. Adams and Meckfessel (2021) also provided insights into how companies can avoid receiving negative feedback or a "comment letter" from the SEC regarding their non-GAAP earnings disclosures. Hallman (2024) further demonstrated that non-GAAP earnings disclosures might reduce the rigor of financial statement audits, potentially undermining the accuracy of investor decisions. Cazier and Johnson (2025) continued that the regulation has not fully eliminated the use of aggressive non-GAAP earnings reporting. Instead, Regulation G has led to more standardized expressions of non-GAAP earnings, which paradoxically may reduce the litigation risks faced by companies.

Because that the managerial motivation to report the non-GAAP information is undetermined, other literatures began discuss how to decline investors' misunderstanding from the non-GAAP information. There are three topics sustaining to reply the question mentioned above. One is improving the information quality in the market. For example, Regulatory restrictions, as well as the broader information environment, such as media influence, also shape managerial incentives for reporting (Cheng, Chou, & Shiah-Hou, 2012; Elshafie, Yen, & Yu, 2010; Richardson, Tuna, & Wysocki, 2010). Thielemann, Kasparik, König, Unterhitzenberger, and Rosner (2022) introduced to increase investor trust in non-GAAP earnings by setting clearer rules for the firm's financial disclosure. Further, Chan et al. (2016) provided evidence that non-compliance with these regulations may signal a form of informational asymmetry, the external auditing is therefore important to promise the information accuracy from the financial reporting. This is the second topic discussed that when non-GAAP earnings are audited, investors are more likely to incorporate these figures into their decision-making processes (DeBoskey, Wang, & Wang, 2025; Vivancos et al., 2022). Thus, Feng et al. (2023) found that clients of high-quality auditors are more likely to voluntarily disclose non-GAAP earnings. This may be due to the positive correlation between the quality of audits on GAAP reports and the quality of voluntarily disclosed non-GAAP earnings metrics. However, it is Barth, Gow, and Taylor (2012) illustrated that analysts' expertise plays a significant role in correctly disclosing information, especially in a fluctuating market environment. Chernikova et al. (2020) further found that managers might be to exceed analyst earnings forecasts and to avoid external audit constraints on GAAP earnings, ultimately achieving non-GAAP information reporting. Gomez et al. (2023) also found that companies are more likely to voluntarily disclose non-GAAP profits when their financial reports are more complex and receive greater analyst attention and institutional ownership. That is, analysts should play another important role to decrease the market information asymmetry.

In evaluating the disclosure of non-GAAP earnings, various studies have provided insights that influence management's decision to report such metrics (Brosnan, Duncan, Hasso, & Hollindale, 2024). To detect the truthfulness of accounting information, this study introduces accounting conservatism as the mediation effect to link the managers' motivation. I could thus advance the literature by integrating accounting conservatism with non-GAAP earnings and presenting a simpler, more standardized model for assessing the reliability of corporate disclosures.

3. Research Hypotheses

This study aims to determine the reliability of management's non-GAAP earnings statements by examining the correlation between accounting earnings and non-GAAP information. Many scholars have emphasized the importance of accounting information quality for corporate development management and external users' decision-making. The embellished accounting information can mask a company's actual operating conditions, increased information asymmetry disadvantages and negatively affecting both companies and users (Entwistle, Feltham, & Mbagwu, 2010). The special nature of non-GAAP information makes quality control particularly critical.

This study considers accounting information as a vehicle for users to understand companies—a crucial information source affecting corporate development and decision-making. Most existing research addresses problems in Chinese corporate financial disclosures and proposes internal governance measures. However, few testing methods exist for voluntary disclosure quality, and none use accounting conservatism as a core indicator to examine accounting information quality. Therefore, this study introduces accounting conservatism as a key evaluation metric to test accounting information quality through correlation analysis. This approach enhances research on corporate information quality assessment, resolves user confusion about disclosure judgments, reminds companies to maintain information authenticity and completeness, and provides evidence for regulatory supervision. The study's purpose is to provide uninformed investors with detection indicators to address this conflict. The indicator assumes consistency among corporate earnings, accounting conservatism, and non-GAAP information.

Based on this assumption, this study establishes an empirical model shown in Figure 1. Accounting conservatism serves as a mediating variable, which not only has strong measurement capability in the literature but also represents management's information disclosure authenticity. The study uses diluted earnings per share as the dependent variable to represent accounting earnings. Following Wieland, Dawkins, and Dugan (2013) selection criteria for non-GAAP information indicators, this study selects Core Earnings, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and Free Cash Flow as non-GAAP adjustment indicators. Additionally, based on Khan and Watts (2009) C-score (Accounting conservatism) serves as the measurement standard. Control variables include asset size (Representing corporate resource availability), debt ratio (Representing capital cost), and sales growth rate (Representing operational efficiency).
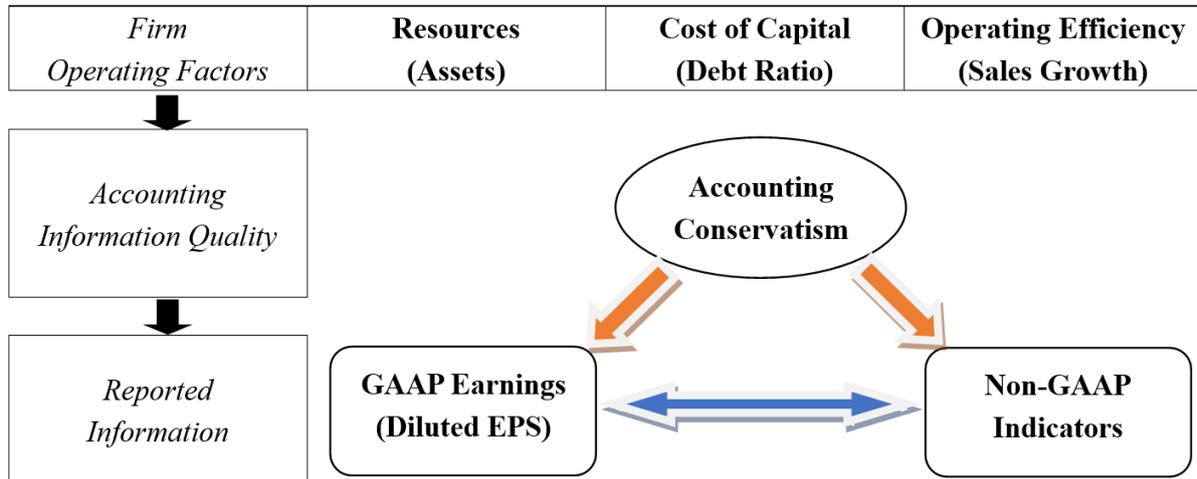

Figure 1. The Relationship among GAAP Earnings, non-GAAP Indicators and Accounting Conservatism.

For accounting conservatism estimation, this study primarily adopts Khan and Watts (2009) year-by-year regression approach, decomposing accounting information's response to stock returns into C Score and G Score. C Score represents the incremental response effect of bad news, also known as the accounting conservatism variable. The indicators represent: X as company net profit divided by previous year's equity market value; R as the company's stock return over the past year; D as a dummy variable, valued at 1 when R is less than 0, otherwise 0; MKV as the natural logarithm of company equity market value; MB as the market-to-book ratio; LEV as debt divided by equity. After completing regression Equation 1 coefficient values are substituted with company data into regression Equation 3.

$$X_{jt} = \beta_{1t} + \beta_{2t}D_{jt} + R_{jt}(\mu_{1t} + \mu_{2t}MKV_{jt} + \mu_{3t}MB_{jt} + \mu_{4t}LEV_{jt}) + D_{jt} * R_{jt}(\gamma_{1t} + \gamma_{2t}MKV_{jt} + \gamma_{3t}MB_{jt} + \gamma_{4t}LEV_{jt}) +$$
$$(\delta_{1t} + \delta_{2t}MKV_{jt} + \delta_{3t}MB_{jt} + \delta_{4t}LEV_{jt} + \delta_{5t}D_{jt}MB_{jt} + \delta_{6t}D_{jt}LEV_{jt}) + \varepsilon_{jt} \quad (1)$$

$$CSCORE = \gamma_{1t} + \gamma_{2t}MKV_{jt} + \gamma_{3t}MB_{jt} + \gamma_{4t}LEV_{jt} \quad (2)$$

Therefore, this study constructs an empirical model of corporate earnings, non-GAAP data, and accounting conservatism, as shown in model (3). The dependent variable is the company's diluted earnings per share (Diluted EPS) for the current year, as non-GAAP data (three items: CE, EBITDA, FCF) are often derived from accounting data. Accounting conservatism helps understand relationships and correlations among these variables. Since much literature suggests non-GAAP data may result from management's standard abuse to meet specific targets, weak or insignificant correlations between dependent and independent variables would indicate management's underlying negative motives. Therefore, the correlation coefficients among corporate earnings, accounting conservatism, and non-GAAP data are summed and their absolute values taken. If these three variables are consistent, the absolute value will be larger, reflecting their reliability.

$$DEPS_t = \alpha_0 + [\alpha_1 * CE_t + \alpha_2 * EBITDA_t + \alpha_3 * FCF_t] + \alpha_4 * CS_t + \eta_t \quad (3)$$

$$DEPS_t = \kappa_0 + [\kappa_1 * CE_t + \kappa_2 * EBITDA_t + \kappa_3 * FCF_t] + \kappa_4 * CS_t + \kappa_5 * LA_t + \kappa_6 * DR_t + \kappa_7 * SG_t + \theta_t \quad (4)$$

4. Empirical Analysis and Results

4.1. Sample Selection

This study examines 636 initial annual reports from Chinese listed companies. Since avoiding to potential interference from the 2020 pandemic, and the necessary for the calculation of the C-score (Kim & Zhang, 2016) spanning five years, the sample period is finally restricted to 2015–2019. After excluding ST, *ST, and incomplete data, the final sample comprises 460 annual samples in Table 1.

Table 1. Sample selection.

Descriptions	Sample sizes
Raw Data (Including 237 from Specialized equipment manufacturing industry, and 399 from Computer and communications manufacturing industry)	636
*ST/ST firms identified by the Chinese regulators	153
Missing Data from the calculation of Accounting Conservatism	23
Empirical Sample	460

The samples I collected are based on two reasons. First, there are many intangible resources that are not objectively measured in the medical industry, such as product technology and vaccine cultivation. This condition might push the medical company to report the non-GAAP information. In addition, the COVID-19 pandemic starting in 2020 might be another factor to affect my models. I thus choose my samples ended in 2019.

I value the non-GAAP numbers by scaling 1 billion CNY to prevent minimizing regression coefficients. However, there are three primary reasons for selecting the healthcare industry. First, this industry reflects advancements in Chinese technology and efforts in pandemic control. Second, the four-year longitudinal observations help mitigate external market noise. Third, the prevalence of intangible assets in the healthcare industry underscores the importance of non-GAAP information. Therefore, Table 2 provides definitions for all study variables.

Table 2. Variable codes and descriptions.

Attribute	Variable name	Variable code (t-th year)	Descriptions
Dependent Variable	Diluted EPS	$DEPS_t$	Net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding for the t-th year
Independent Variable	Core Earnings	CE_t	Based on the calculations of Wieland et al. (2013) on the company's main operating results for the t-th year, divided by 1 billion.
	Earnings before Interest, Taxes, Depreciation and Amortization	$EBITDA_t$	The company's net profit for the t-th year plus interest expenses paid plus income tax, that is divided by 1 billion.
	Free Cash Flow	FCF_t	The sum of Net profit and Depreciation and amortization, minus the sum of Capital expenditures and Additional working capital).The result is divided by 1 billion.
	Accounting Conservatism	CS_t	The C-score for the t-th year was calculated by Khan and Watts (2009).
Controlled Variable	Total Assets	LA_t	The company's total assets at the end of the t-th year, taking the natural logarithm.
	Liabilities Ratio	DR_t	Percentage of total liabilities to total assets at the end of the t-th year
	Sales Growth	SG_t	Percentage increase in sales revenue between the current and following year

4.2. Empirical Analysis

Table 3 presents the descriptive statistics of the samples. Since 1st quartile of Free Cash Flow (FCF)is opposite with accounting earnings, it might infer that the FCF reporting could potentially mislead investors. Except for firm resources (LA) and capital costs (DR), other variable standard deviations exceed their mean values. It means that the sample dispersion benefits the robust reliability test.

Table 3. Descriptive statistics for variables.

Var.	MEAN	Std.	MIN	Q1	MEDIAN	Q3	MAX
DEPS	0.33	0.72	-2.93	0.07	0.25	0.58	4.99
CE	0.25	1.33	-3.04	0.00	0.07	0.26	17.89
EBITDA	0.36	1.10	-1.16	0.04	0.12	0.33	13.36
FCF	0.27	1.36	-11.34	-0.04	0.10	0.39	8.52
CS	0.01	0.02	-0.22	-0.01	0.00	0.02	0.12
LA	21.98	1.12	19.97	21.18	21.78	22.63	26.05
DR	0.39	0.18	0.06	0.25	0.39	0.53	0.94
SG	0.15	0.60	-0.91	-0.03	0.09	0.24	10.62

Table 4 reports the Pearson correlation coefficients. FCF is still negatively correlated with accounting earnings. It highlights the significant disagreement between FCF and GAAP reporting. Conversely, the C-score and other variables showed significant positive correlations with accounting earnings. Therefore, to measure the absolute mean correlation coefficients could provide the standardized result for accounting reliability metrics. These indicators also ensure longitudinal consistency and cross-sectional comparability among the sample firms.

Table 4. Peason correlation coefficients matrix.

Var.	DEPS	CE	EBITDA	FCF	CS	LA	DR	SG
DEPS	1.00							
CE	0.35 ***	1.00						
EBITDA	0.36 ***	0.70 ***	1.00					
FCF	-0.03	-0.22 ***	0.02	1.00				
CS	0.22 ***	0.27 ***	0.40 ***	0.15 ***	1.00			
LA	0.17 ***	0.34 ***	0.53 ***	0.24 ***	0.50 ***	1.00		
DR	-0.18 ***	-0.02	0.09 **	0.09 *	0.18 ***	0.47 ***	1.00	
SG	0.22 ***	0.03	0.03	-0.08	0.05	0.04	0.02	1.00

Note: Levels of significance are indicated by ***, **, and * for p<0.01, p<0.05, p<0.1, respectively.

To assesses the relationship between non-GAAP information, accounting conservatism, and GAAP earnings, this study focuses on how to measure the information reliability from the firm's financial reporting. I thus build the Models 3 (single-factor) and 4 (multi-factor) to evaluate these links. In addition, Model 5 incorporates the mediating effects between accounting conservatism and non-GAAP signals. Table 5 summarizes these results.

$$DEPS_t = \lambda_0 + [\ \lambda_1 * CE_t + \lambda_2 * EBITDA_t + \lambda_3 * FCF_t + \lambda_4 * CS_t\ ] + [\ \lambda_5 * CE_t * CS_t + \lambda_6 * EBITDA_t * CS_t + \lambda_7 * FCF_t * CS_t\ ] + \lambda_8 * LA_t + \lambda_9 * DR_t + \lambda_{10} * SG_t + \xi_t \qquad (5)$$

Table 5. The relationship among accounting earnings, non-GAAP information and accounting conservatism.

Model	(3)	(4)	(5)
Intercept	0.242 ***	-0.446	0.302
	(7.30)	(-0.54)	(0.44)
CE	0.106 ***	0.088 ***	0.659 ***
	(3.05)	(2.64)	(6.44)
EBITDA	0.119 ***	0.118 ***	0.743 ***
	(2.80)	(2.79)	(7.19)
FCF	-0.001 *	0.005	-0.151 ***
	(-0.03)	(0.2)	(-3.42)
CS	2.827 **	2.959 **	3.264 **
	(1.96)	(2.02)	(2.63)
CE*CS			-10.075 ***
			(-5.07)
EBITDA*CS			-12.445 ***
			(-6.15)
FCF*CS			1.565
			(1.57)
LA		0.047	0.001 ***
		(1.21)	(0001)
DR		-0.987 ***	-0.424 ***
		(-5.17)	(-2.60)
SG		0.245 ***	0.145 ***

		(4.96)	(3.47)
Adjusted R²	14.64%	23.09%	47.60%

Note: Levels of significance are indicated by ***, **, and * for p<0.01, p<0.05, p<0.1, respectively.

5. Robustness Test

5.1. Firm Status and Reporting Incentives

Leung and Veenman (2018) identify incentives for misreporting by loss firms by dividing samples into profitable and loss firms. I thus calculate the correlation coefficients among accounting earnings, non-GAAP information, and accounting conservatism. The mean absolute correlation coefficient is represented as the information reliability indicator. The absolute values provide standardized metrics (from 0 to 1), and thus avoid to interpretational confusion. When the value approach to 1, it signals stronger variable relationships and thus infers high information reliability, vice versa. Based on Leung and Veenman (2018) I hypothesize that there are higher correlation values for profitable firms. This rubusted test could confirm the effectiveness of my indicator.

Table 6 presents the correlation of information disclosure between profitable and loss firms. The findings reveal that profitable firms demonstrate greater statistical significance compared to their loss counterparts. Specifically, the profitable firms exhibit 12 correlations at the 99% significance level, while the loss firms are observed only 8 correlations at the same significance level. Instead of significance, the 4 negative correlation coefficients in the profitable firm group are much less the 14 negative numbers in the loss firm group. These differences suggest that managers in the profitable firms might report more reliable information while accountants adhere strictly to conservatism. Consequently, these weaker relationships imply that managers in loss-making firms might use non-GAAP information to artificially enhance business prospects, a practice that goes against conservatism and could potentially mislead uninformed investors.

Table 6. The correlation coefficient comparisons with profitable firms and loss firms.

Profitable Firms

Var.	DEPS	CE	EBITDA	FCF	CS	LA	DR	SG
DEPS	1.00							
CE	0.32 *	1.00						
EBITDA	0.29	0.69 ***	1.00					
FCF	−0.02	−0.21 ***	0.03	1.00				
CS	0.11	0.26 ***	0.39 ***	0.15 ***	1.00			
LA	0.18 *	0.37 ***	0.57 ***	0.23 ***	0.53 ***	1.00		
DR	−0.07	0.02	0.15 ***	0.08	0.26 ***	0.52 ***	1.00	
SG	0.19	0.01	0.01	−0.07	0.03	0.04	0.06	1.00

Loss Firms

Var.	DEPS	CE	EBITDA	FCF	CS	LA	DR	SG
DEPS	1.00							
CE	0.30	1.00						
EBITDA	0.60 *	0.62 ***	1.00					
FCF	−0.05	−0.66 ***	−0.31 **	1.00				
CS	−0.29	−0.41 ***	−0.39 ***	0.51 ***	1.00			
LA	0.08	−0.63 ***	−0.31 **	0.60 ***	0.26 **	1.00		
DR	−0.20	−0.08	−0.05	0.18	0.17	0.23 *	1.00	
SG	0.17	0.18	0.19	−0.33 ***	−0.29 **	0.01	−0.15	1.00

Note: Levels of significance are indicated by ***, **, and * for p<0.01, p<0.05, p<0.1, respectively.

5.2. Comparative Hypothesis Testing

To confirm the correlation differences of the variables used in my models, I conducted two-sample t-tests used the 28 correlation coefficients across the profitable and loss firm groups. Table 7 summarizes these two-tailed test results. The upper panel reveals that the reliability indicator (taken absolute value) for the profitable firm group (0.152) significantly exceeds that of the loss group (0.005). Furthermore, profitable firms demonstrate lower variance (0.04) than loss firms (0.10) by tighter variable integration. At last, the lower panel confirms the significant inter-group differences by two-tailed t-test. It validates that the mean absolute correlation coefficients serve as effective indicators of financial information reliability.

Table 7. Difference examination of the correlation coefficient between profitable firms and loss firms.

t-two tailed test	Profitable firms	Loss firms
Mean	0.152	-0.005
Variance	0.04	0.10
Num. of Sample	28	28
Null Hypothesis	$Correl_{pi} - Correl_{li} = 0$, i = from 1 to 8	
Critical Value	2.987	
Significant Level	0.0059	

6. Conclusion

As Chinese security market involves more information diversification, the corporate disclosure seems not easy to be explained. Given that accounting information guides user decisions, market participants increasingly more demand to non-GAAP information. However, even though differentiating information remains challenging, the debate still persists regarding whether non-GAAP reporting reflects the firm's operational prospects or opportunistic abuse. Following the regulator's concerns and corporate practice advancements, this research identifies accounting conservatism as a mediating link between accounting earnings and non-GAAP reporting. By establishing absolute mean correlation coefficients as information reliability metrics, this study ensures longitudinal consistency and cross-sectional comparability.

My study holds three differences compared with Zadeh et al. (2022) in monitoring earnings quality. First, it incorporates non-GAAP earnings, a concept that remains inconclusive in both academic and regulatory discussions. Second, it moves beyond complex academic structures by introducing accounting conservatism as a practical indicator of disclosure quality. Finally, this study utilizes standardized correlation coefficients based on externally received earnings information, aligning with societal governance needs and providing greater transparency for practical application.

To enhance the information environment for Chinese listed companies, several policy implications emerge from this study. By adopting my reliability indicator, firms can mitigate agency conflicts and managers' opportunism through increased internal accountant vigilance. Furthermore, the standardization of this metric ensures industry-wide comparability, particularly for those industries which hold intangible assets. Finally, my finding could recommend regulators to monitor the market information environment. By providing my key measurement metrics for regulatory oversight, regulators could improve inspection systems in the security market, especially for the reliability and consistency of the non-GAAP information.

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