Impact of Shared Analyst Coverage on Financial Statement Comparability

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Abstract

This study presents novel evidence that managers increase comparability of financial statements with other firms that share analyst coverage. This increase in comparability is to cater to shared analyst information expectations. The findings are robust to instrumental variable tests and two exogenous shocks, namely brokerage closures and regulation fair disclosure. The increase in comparability is achieved by modifying accounting policies related to depreciation, acquisition/sales, inventory, investment tax credit, and PP&E. The effect is concentrated among firms characterized by better corporate governance, poor information environment, and firms that employ principle-based accounting. Additionally, the increase in comparability is stronger when the shared analysts are industry experts, experienced, well-connected with the buy-side of the capital market, quick to issue forecasts, accurate, optimistic, and are affiliated with larger brokerage houses. Overall, this study documents the role of analyst expectations in shaping financial reporting choices and comparability of financial statements.

Keywords: Shared Analysts; Financial Statement Comparability; Analyst Networks; Analyst Influence

JEL Classifications: D82; D83; G24; M41; G34; L14; L21

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*"[…] is there **any comparability** between Renault and other companies?"* (emphasis added) Renault Conference Call for Q2 2007, Avaneesh Acquilla (analyst at UBS) questions the comparability of Renaults financial statements

"[…] *In order to achieve **greater comparability** with the accounting practices of other companies in the industry, the Company changed its method of accounting* […]" *(emphasis added)* Hesston Corporation stated that the reason for changes to their accounting characteristics is to achieve comparability (see Foster 1986, p. 138)

I. INTRODUCTION

Financial statement comparability (FSC) is one of the four essential characteristics of financial statements (FASB 2010), as it allows users of financial statements to benchmark and compare firms against each other. *FSC* refers to the similarity in accounting methods used to prepare financial statements across firms.[1] Given the importance of *FSC* in financial reporting, it is invariably emphasized by regulators (FASB 2010), academics (Simmons 1967), and financial statement analysis textbooks (Revsine et al. 2012). FSC is affected by both economic agents and accounting standards (Leuz et al. 2003; Francis et al. 2014). Accordingly, research documents several determinants of *FSC*, such as shared accounting standards (Lang et al. 2010; Barth et al. 2012), shared institutional owners (Jang et al. 2019; Peng et al. 2022), and shared auditors (Francis et al. 2014; Chen et al. 2020). However, research has yet to examine whether *FSC* is driven by one of the primary consumers of financial statements and gatekeepers of the capital market – *Sell-Side Analysts*.[2] Analyst coverage affects firms' corporate, financial, and disclosure policies (Degeorge et al. 2013; Derrien and Kecskés 2013; He and Tian 2013; Balakrishnan et al. 2014; Chapman and Green 2018; Huang et al. 2020). I extend this stream of literature by evaluating analysts' role in shaping the comparability of financial statements. Specifically, I examine whether shared analyst coverage impacts financial statement comparability among firms.[3]

[1] I use the terms "*Financial Statement Comparability*", "*FSC*" and "*Comparability*" interchangeably.
[2] Analysts in this study typically refers to sell-side analysts, unless explicitly stated otherwise.
[3] Shared analyst coverage between two firms implies that one or more analysts forecast for both firms in a particular time-period.

Analysts are prone to accounting method fixation as they develop familiarity with a set of accounting methods over time (Hopkins et al. 2000; Bradshaw et al. 2001; Bae et al. 2008; Bradshaw et al. 2009). This fixation results in analysts' inability to fully incorporate the variations in reported firm performance driven by differences in accounting methods and their underlying assumptions. Consequently, lower FSC, due to differences in accounting methods and their underlying assumptions, diminishes analysts' ability to benchmark firms against each other and thereby impairs their forecast accuracy. It is therefore interesting to examine whether managers cater to analyst expectations by increasing the comparability of their financial statements with other firms in the analysts' portfolio.[4]

There are several reasons for managers to cater to analysts' expectations by increasing comparability and thereby assist in forecasting. First, comparability lowers analyst information processing costs that elicits favorable recommendations from analysts (Lang and Lundholm, 1993). Second, it is crucial for managers to meet analyst expectations as sell-side analyst research serves the buy-side of the capital market (Bradshaw 2009). Third, higher comparability leads to better analyst retention (Tan et al. 2011). Consequently, increasing comparability is important as analyst coverage entails capital market benefits for a firm, such as higher liquidity (Kelly and Ljungqvist, 2012), lower cost of capital (Derrien and Kecskés, 2013), and stronger investor recognition (Li and You, 2015). Moreover, analysts assist managers by providing competitive insights as well as feedback on managerial decisions (Langberg and Sivaramakrishnan 2010; Muslu et al. 2014). Overall, given the wide range of benefits of analyst coverage and higher comparability, I predict that managers will increase comparability of their financial statements with other firms in analyst portfolio.

[4] Managers can increase comparability in two ways: (1) managers can align their accounting methods with other firms in analyst portfolio. For example, managers can switch from straight line to accelerated method of depreciation to align with other firms in the shared analyst portfolio. (2) managers can modify the underlying accounting method assumptions to align with those of other firms in the shared analyst portfolio. For example, managers can adopt similar useful life expectations as other firms in the shared analyst portfolio.

Despite the arguments presented above, there are several reasons why managers will not increase comparability due to shared analysts. First, unique accounting methods and assumptions, that result in lower comparability, allow managers to convey private information and it is costly to modify these policies (Hann et al. 2007). Second, managers can choose specific accounting methods to self-serve (such as higher compensations or build reputation) instead of catering to analysts (DeFond and Jiambalvo, 1994; Chen and Lee, 1995). Third, managers can cater to analyst expectations via non-GAAP reporting wherein managers provide tailored information to analysts that assists them in processing firm information and forecasting (Bradshaw and Sloan, 2002). This diminishes the need to modify comparability due to shared analysts. Fourth, managers may not increase comparability to retain analyst coverage, as analyst coverage is not ubiquitously beneficial: managers are subject to excessive pressure to meet analyst forecasts (Matsunaga and Park, 2001), analysts impose their preferred strategies on managers (Benner, 2010), and analyst myopia forces managers to sacrifice long term value creation in lieu of short term performance (Bhojraj et al., 2009). Consequently, the impact of shared analyst coverage on FSC is unclear ex-ante, and it is an open empirical question.

Following the research designs used in prior literature that examines the impact of economic agents on comparability (Francis et al. 2014; Chen et al. 2020; Martens and Sextroh 2021), I create a sample of 4,776,821 unique firm-pair observations within each Fama-French 48 industry and year of US public companies for the period 1988 to 2019. FASB defines comparability as the "quality of information that enables users to identify similarities in and differences between two sets of economic phenomena" (FASB 2010). Accordingly, FASB states that financial statement users do not benefit from comparable financial statements when the economic realities are dissimilar (FASB 1980). Lang et al. (2010) state that *comparability* is to account similar events similarly and dissimilar events dissimilarly. In line with these definitions, I measure comparability as the similarity in mapping of economic events to

financial statements based on De Franco et al. (2011). This metric captures how well the returns map into earnings when two firms are exposed to similar economic phenomena. There are several other well-accepted measures of comparability such as (a) earnings covariation (De Franco et al. 2011), (b) textual similarity of accounting method footnotes in annual reports (Peterson et al. 2015), and (c) overlap in income statement and balance sheet line items (Hoitash et al. 2018). However, I adopt the mapping of economic events to financial statements measure as it explicitly controls for underlying economic realities.[5] Nevertheless, the baseline results are robust to the alternate measures of comparability.

In the main analysis, following the empirical model of Francis et al. (2014) and Chen et al. (2020), I document a robust increase in comparability due to shared analyst coverage. Specifically, FSC for firm-pairs with shared analyst coverage is 11.23 percent above the mean (using industry and year fixed effects) vis-à-vis firm pairs without shared analyst coverage. I address endogeneity concerns stemming from observable variables in base sample using entropy balancing. I document qualitatively similar results after reweighing firm-pairs with shared analyst to match covariates up to third moment for firm-pairs without shared analysts.

I undertake several tests using exogenous shocks, instrumental variables, and impact threshold of confounding variables tests (ITCV) to mitigate endogeneity concerns further. I employ two exogenous shocks: (1) Brokerage closures: Brokerage closures lead to exogenous drop of shared analysts (Martens and Sextroh, 2021). I predict that if shared analysts are driving FSC, the loss of shared analysts should lower the increase in FSC. Using a difference-in-difference-in-difference model, I document a drop in FSC among firm-pairs that lose shared analysts due to brokerage closures. (2) Regulation Fair Disclosure (Reg-FD): Reg FD constrains preferential disclosures to analysts that forces analysts to rely on alternate

[5] Lang et al. (2010) document poor analyst forecast accuracy when mapping based measure of earnings comparability is low, even if firms have high earnings covariation. Moreover, Luo and Nagarajan (2015) employ the mapping of economic events to financial statements measure of comparability to capture supply chain information complementarities for analysts.

information channels in the post-Reg-FD era (Mohanram and Sunder, 2006). Accordingly, I predict that analyst demand for comparability will be stronger in the post-Reg FD period. Using an event study model, I document a stronger increase in comparability post-Reg FD due to shared analyst coverage. I next employ 2SLS instrumental variable (IV) regression approach to mitigate endogeneity further. Based on Yu (2008), He and Tian (2013), and Guo et al. (2019), I create two distinct instruments of analyst coverage, namely expected analyst coverage and S&P 500 membership. The results are robust to these IV regressions.[6] Lastly, ITCV tests indicate that the impact of any correlated omitted variable should be at least nine times as large as that of the included variable with the largest impact to overturn the inferences. Overall, these results mitigate endogeneity and omitted variable bias concerns in the baseline results.

I next proceed to open the black box of comparable financial statements to examine for drivers of higher comparability. Herein, I examine for changes in specific accounting policies due to shared analysts. To keep this analysis tractable, I focus on the five policies used by DeFond and Hung (2003) to measure accounting heterogeneity. I document shared analyst coverage leads to adoption of similar accounting methods for policies related to (1) Depreciation, (2) Contribution of Acquisition/Sale, (3) Plant, Property, and Equipment, (4) Investment tax credit, and (5) Inventory.

I next proceed to empirically validate the underlying mechanism by examining cross sectional settings when the impact of shared analyst coverage on FSC should be stronger or weaker. The three steps underlying the mechanism are: (i) Shared analysts express a preference for comparability. (ii) Managers evaluate the feasibility to cater to shared analysts. (iii) Managers cater to the most prominent shared analysts. The mechanism is discussed further in Section II and empirical validation tests of underlying steps are presented in Section VII.

[6] Note that I don't argue for no impact of comparability on analyst coverage, rather I focus on the impact of shared analyst coverage post coverage initiation on financial statement comparability.

The findings of this paper are relevant to researchers and regulators examining financial statement characteristics, and future research should consider the impact of shared analysts before drawing inferences. The results contribute to the literature in several ways. First, literature on analyst impact on firm behavior has witnessed a surge in recent times. Analysts impact corporate investment policies (Derrien and Kecskés 2013; He and Tian 2013) and disclosure policies (Balakrishnan et al. 2014; Huang et al. 2020). I extend this literature by documenting the impact of shared analysts on the comparability of financial statements. This finding is crucial as capital market participants rely on financial statements for investment and financing decisions. Moreover, unlike corporate policies examined in prior literature that focus on value creation for investors, this paper examines comparability of financial statements that shapes the information environment for intermediaries, specifically analysts. Second, I respond to Fields et al. (2001) call for research on determinants of accounting methods. I identify and fill an essential gap by documenting the impact of shared analyst coverage on comparability and diffusion of accounting methods. Third, the literature on analyst information expectations documents that managers cater to analyst demands for specific information (Chapman and Green, 2018). I provide evidence that managers respond by increasing financial statement comparability to cater analyst-portfolio-driven expectations. I also respond to Bradshaw et al.'s (2017) call for examining analysts' implications beyond their primary role of forecasting. Fourth, prior research documents implications of comparability (De Franco et al., 2011; Kim et al., 2016), while research on its determinants is limited. This paper identifies shared analyst coverage as an essential determinant of financial statement comparability. Fifth, Bianchi et al. (2020) state that the literature can "benefit greatly" by examining the role of interfirm relationships in managerial decisions. Accordingly, I document analyst-driven interfirm relationships as a channel that affects managers' decisions – this furthers our understanding of the mechanism that determine managers decision choices in preparing financial statements.

II. MECHANISM

The premise of this study is that analysts influence managers' decisions. This assumption is motivated by prior literature that documents the impact of analysts on firm investment, financing, and corporate decisions (Yu 2008; Derrien and Kecskés 2013; He and Tian 2013; Irani and Oesch 2013; Irani and Oesch 2016). The mechanism envisioned in this study is that managers are affected by analysts' information expectations and try to cater to them. In this context, managers observe analysts that follow them (Chapman and Green 2018), and analysts express their preferences for comparable financial statements as it assists analysts in benchmarking firms against each other.[7] To cater to these analyst expectations, the manager modifies accounting methods and their underlying assumptions that results in financial statements that are more comparable with other firms in the analyst portfolio. Several anecdotes support the argument that managers adjust their policies to achieve comparability. Foster (1986, p. 138) reports that Alexander and Baldwin firm stated the following after they modified their accounting policies: "The change was made principally to conform with the predominant depreciation method used by other companies in the industries."[8]

Catering to analyst expectations is motivated by stakeholder theory, which dictates managers to cater to the expectations of external stakeholders, including analysts. FASB also recommends firms to adopt accounting methods that concur with peers as it increases comparability that benefits the firm in form of higher credibility in eyes of stakeholders.[9]

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[7] Analysts ability to express preferences is not affected by Reg-FD as analysts continue to communicate privately with managers in the post-Reg FD period (Soltes 2014). Brown et al. (2015) document that analysts privately communicate with managers four to five times a year, on average. Moreover, the Securities and Exchange Commission allows private communication between managers and analysts without breaching Reg FD clauses (https://www.sec.gov/divisions/corpfin/guidance/regfd-interp.htm).

[8] Hesston corporation explained the changes in their accounting policies to be designed to achieve greater comparability with other firms as reflected in their statement reported in "Introduction" section of this paper.

[9] "*Left to themselves, business enterprises, even in the same industry, would probably choose to adopt different reporting methods for similar circumstances. But in return for the sacrifice of some of that freedom, there is a gain from the* ***greater comparability*** *and consistency that adherence to externally imposed standards brings with it. There also is a gain in credibility*." (emphasis added) (FASB 1980).

A question that remains to be addressed above is, given that each firm has several analysts following it and each analyst has a different portfolio of firms – which firm should the manager choose to increase the comparability with? In this context, I expect managers to cater to influential shared analysts as their coverage retention and favorable recommendations are most valuable to the firm. I state the underlying steps and empirically validate the above mechanism in section VII.

III. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

3.1. Role of analysts in Capital Market and Shared Analyst Coverage

Financial analysts are known as gatekeepers of capital market as they provide essential information to investors that lowers information asymmetry (Roychowdhury and Srinivasan, 2019). This information directly affects stock prices (Womack 1996) and investment strategies (Barber et al. 2001). Degeorge et al. (2013) argue that analyst generated information spans beyond their primary audience, i.e., investors. Analysts exercise significant discretion over the set of firms to follow (Harford et al., 2019). Career Concern Theory dictates that analysts strategically structure the portfolio of firms to follow for positive career outcomes (Hong and Kubik, 2003). Since, forecast accuracy is the primary evaluation metric of analyst performance (Hong et al. 2004) and firm information environment assists analysts forecast, information environment affects analyst coverage decisions (Lehavy et al. 2011). Accordingly, Kini et al. (2009) document analyst coverage across industries due to information spillover incentives, and Guan et al. (2015) find evidence of analysts' decision to pursue firms in the supply chain to benefit from information in supplier-customer links. Overall, firm information environment impacts analyst coverage decisions.

Analysts follow several firms simultaneously that results in shared analyst coverage (Kini et al., 2009; Harford et al., 2019). Shared analyst coverage has a significant bearing on

firm behavior. Gomes et al. (2017) document, within analyst portfolio, a systematic diffusion of financial policies related to leverage, debt, and equity. Huang et al. (2020) document similarity in disclosure readability among firms in analyst portfolio. These implications are driven by analyst preferences and managers catering to analyst expectations. Overall, this discussion highlights impact of shared analyst coverage impact on managerial decisions.

3.2. Financial Statement Comparability (Comparability)

Financial Statement Comparability is one of the fundamental qualities of accounting information. The concept of comparability has been of significant academic interest for a long time (Simmons 1967), and financial accounting standards board (FASB) states that quantitative reports are meaningless when they lack comparability.[10] Financial statement comparability captures similarity in accounting methods among firms when firms are exposed to similar economic events (De Franco et al., 2011).[11] Comparability reduces information asymmetry as it makes it easier to compare firms. Consequently, comparability lowers crash risk (Kim et al., 2016) and cost of capital (Imhof et al., 2017). In context of determinants of comparability, Barth et al. (2012) document higher comparability due to accounting method harmonization due to IFRS adoption. Francis et al. (2014) demonstrate higher comparability among firms that share common auditor due to similar accounting methods across firms. Chen et al. (2020) document higher comparability among firms with a common audit signing partner. They attribute the increase in comparability to individual auditor preferences in enforcing accounting standards that leads to similar accounting methods. Lastly, Jang et al. (2019) document higher comparability among co-owned firms due to similar investor information expectations.

[10] http://www.fasb.org/pdf/con2.pdf
[11] Accounting methods are used to classify and quantify various transactions into revenues and expenses, such as depreciation valuation method, inventory valuation method etc.

3.3. Relevance of Financial Statement Comparability for Analysts

Analyst expectations of firm performance is affected by comparability as analysts evaluate firms relative to other firms. Analysts voice concerns when firms pursue incomparable accounting methods. For instance, Scotia bank analyst report of TD Bank for Q1 of 2021 titled "Accounting Noise Muddies the Message" states: "… the **accounting peculiarities** of TD's strategic cards portfolio in the US which effectively understates expenses" (emphasis added). Similarly, analyst report for Envestnet issued on 25th February 2021 prepared by analysts affiliated to RBC Capital markets stated: "we are decreasing our FY21 adj EPS estimate to […] The multiple is in line with the software **peer group** and adjusted for the $0.20 headwind from **change in convertible debt accounting**. " (emphasis added)

Accounting methods and their comparability is relevant for analysts. Hopkins et al. (2000) alter the method of recording a previous stock-for-stock business combination and document its impact on analyst valuations. Bradshaw et al. (2009) document lower analyst forecast accuracy for firms that adopt unique accounting methods. Bae et al. (2008) document lower analyst following and forecast accuracy by foreign analysts due to lower comparability. This finding is attributed to higher costs associated with processing information based on different accounting methods. Horton et al. (2013) document improvement in analysts' forecast accuracy due to IFRS-induced homogenization of accounting methods. De Franco et al. (2011) document higher analyst following and forecast accuracy for firms with higher comparability due to reduced information acquisition costs. In sum, comparability among firms in analyst portfolio is desirable and bears significant impact on analyst forecast capabilities.

3.4. Hypothesis Development

The discussion thus far establishes the importance and relevance of the information environment and the comparability of financial statements for analysts. The following two

subsections present arguments as to why the impact of shared analyst coverage on financial statement comparability is not obvious ex-ante.

3.4.1. Why comparability should increase due to shared analyst coverage

Analysts structure their coverage portfolios to take advantage of information spillovers across the portfolio firms (Kini et al., 2009). Since comparability contributes to information spillovers and analysts' preferences play a significant role in moderating managerial decisions (Gomes et al., 2017), I predict an increase in comparability due to shared analyst coverage. This prediction is driven by managers' catering incentives to retain analyst coverage and elicit favorable recommendations, as analyst coverage entails several benefits as discussed below.

Analysts Role in Information Dissemination: Analyst disseminate information about the firm that lowers information asymmetry. This benefits firm in form of higher liquidity (Kelly and Ljungqvist, 2012), lower stock price momentum (Hong et al., 2000), and better access to capital (Derrien and Kecskés 2013). Overall, the information asymmetry mitigation role played by analysts is has positive implications for the firm. Consequently, analyst coverage is critical for the firm, and managers would cater to analyst demands of comparability to retain them.

Analysts Monitoring Role: Analysts play a critical role of monitoring firm agents. This governance manifests via disseminating information to external entities such as media that elicits closer evaluation of managerial decisions (Miller, 2006). Accordingly, analyst monitoring restrains market timing, opportunism, and earnings management (Chang et al., 2006; Chen et al., 2015; Ellul and Panayides, 2018). Since, stakeholders value analyst coverage for monitoring benefits (Jensen and Meckling, 1976), managers should cater to analysts demand of comparability to retain analyst coverage and thereby contain shareholder concerns.

Analysts Assist Managers in Decision Making and Provide Competitive Insights: Analysts are crucial in the feedback mechanism as analyst-generated information elicits capital market

response. Herein, managers disclose information about future decisions to the market via analysts to gauge market perception before long-term commitments (Langberg and Sivaramakrishnan, 2010). Additionally, analysts provide managers with industry-level insights and competitive information about other firms (Martens and Sextroh 2021).

Overall, analysts yield several critical advantages to firms. Accordingly, incumbent shareholders expect managers to strategically attract and retain analysts, while external parties rely on these information intermediaries for investment-related decisions. Consequently, I predict that managers will increase comparability due to shared analyst coverage - to elicit favorable recommendations and retain/attract analyst coverage.

3.4.2. Why comparability should NOT increase due to shared analyst coverage

Although analyst expectations dictate managers to increase comparability with other firms in the analyst portfolio, the decision to modify comparability is not obvious. The decision to alter accounting methods and its assumptions, that drive comparability, involves excessive costs related to compliance and management (Meeks and Swann, 2009). Moreover, managers can adopt alternate channels to convey firm related information instead of modifying comparability, and other managerial incentives also affect the decision to alter comparability.

Non-GAAP Earnings: Non-GAAP Earnings is used by managers to inform external stakeholders about firm performance after adjusting for unusual transactions. Bradshaw and Sloan (2002) identify that security analysts rely heavily on the adjusted numbers. Accordingly, non-GAAP earnings provide an alternate channel for managers to convey firm performance based on alternate accounting methods and assumptions instead of modifying comparability. Consequently, non-GAAP reporting channel allows managers to cater to analyst comparable information demand without modifying comparability of financial statements.

Role of Atypical Accounting Methods that Results in Lower Comparability: Unique accounting choices permit managers to achieve specific goals. Managers choice of specific accounting characteristics can be driven by intent to extract compensation benefits and meet expected benchmarks (Chen and Lee, 1995; Gaver et al., 1995), opportunistically build reputation (Francis et al., 1996), ease tax burden and avert regulatory oversight (Jones, 1991; Dhaliwal and Wang, 1992), ensure that the reported ratios and performance metrics are within the stipulated range of debt covenants (DeFond and Jiambalvo, 1994), and to manage analyst inferences (Hopkins 1996). Moreover, unconventional accounting characteristics can assist in conveying private information and lends credibility to the firm as it indicates that managers are adopting the applicable accounting irrespective of other firms (Subramanyam, 1996; Hann et al., 2007). These alternate incentives can drive accounting characteristics and thus the decision to cater analysts by increasing comparability with other firms in analyst portfolio is not certain.

Dark Side of Analyst Following: Literature documents several negative implications of analyst coverage that can dissuade managers from increasing comparability due to shared analyst coverage and thereby avoid analyst coverage. First, boards tend to rely excessively on analyst forecasts to evaluate manager performance, known as the board fixation theory. Boards impose severe penalties in form of compensation cuts and turnover if managers fail to meet analyst consensus (Matsunaga and Park, 2001), forcing managers to misreport earnings (Levitt Jr, 1998). Second, expectation error theory identifies systematic optimism in analyst forecasts (La Porta, 1996) that results in equity mis-valuations (Bradshaw et al., 2006) and imposes excessive pressure on managers to meet unrealistic targets (He and Huang, 2017). Third, myopic expectation theory indicates that analysts are severely myopic (Graham et al., 2005). This myopia forces managers to sacrifice long-term value in lieu of short-term performance (Bhojraj et al., 2009). Fourth, analysts impose their preferred strategies on managers and penalize them for any deviations via negative recommendations. This penalization constrains

managers' control over firm behavior (Benner, 2010). Lastly, analyst presence facilitates quicker dissemination of bad news, which results in elevated stock price sensitivity (Hong et al., 2000).

In sum, the availability of alternate channels in the form of non-GAAP earnings, accounting characteristics utility in achieving specific goals, and the negative implications of analyst coverage can dissuade managers from catering to shared analyst information expectations in the form of comparability with other firms in the analyst portfolio.

The discussions in the prior two subsections presents arguments of managers' incentives to increase and not-increase comparability of their financial statements due to shared analyst coverage. Accordingly, the testable hypothesis of this study in alternate form is:

Hypothesis: Shared Analyst Coverage leads to higher financial statement comparability.

IV. RESEARCH DESIGN AND VARIABLE MEASUREMENT

The research design adopted in this study follows Francis et al. (2014) and Chen et al. (2020) closely. Specifically, I examine at a firm-pair level for change in comparability due to shared analyst coverage. The baseline OLS specification is:

$$AccComp_{i,j,t} = \beta_0 + \beta_1\, Shared\ Analyst_{i,j,t} + \sum_{n=2}^{n} \beta_n\, Controls_i + \sum_{k=2}^{k} \beta_k\, |Controls_i - Controls_j| + Industry\ FE + Year\ FE + \varepsilon \quad (1)$$

The dependent variable in equation (1) is comparability, “AccComp”, which captures the extent to which firm "i" financial statements are comparable to that of firm "j" in fiscal year "t." The dummy variable "Shared Analyst" takes a value of one (zero) for firm pairs with (without) shared analyst coverage in a given fiscal year. Herein, two firms share analyst coverage if there are one or more analysts who issue forecasts for both the firms in the given year. I include industry and year fixed effects based on prior literature (Francis et al., 2014).

All specifications are heteroskedasticity-robust with 2-way clustering at the firm-pair level to control for firm-pair serial dependence in error terms based on Chen et al. (2020).[12]

Quantifying Financial Statement Comparability

I measure the comparability of financial statements based on De Franco et al. (2011). De Franco et al. define comparability as the similarity in the mapping used by firms to translate economic events to financial statements.[13] Accordingly, it is mathematically represented as:

$$Financial\ Statements = f(Economic\ Outcomes) \quad (2)$$

In equation (2), comparability of financial statements, i.e.,"f," is the functional specification that translates economic outcomes to financial statements. Consequently, the structural similarity of "f" between two firms quantifies the financial statement comparability. De Franco et al. (2011) employ reported earnings before extra-ordinary items as the outcome of financial statements, and stock returns capture economic outcomes. To capture FSC between two firms, firm-level regression is estimated based on prior eight quarters data for each firm (say, "i") in period "t" based on Chen et al. (2020) as depicted in equation 3.[14]

$$Earnings_{\ i,t} = \alpha_i + \beta\ Return_{i,t} + \varepsilon \quad (3)$$

The expected earnings of firm "*i*" is estimated using its estimated coefficients from equation 3, as well as its pair firm (say, firm "*j*") estimated coefficients as shown below:

$$E(Earnings)_{\ i,i,t} = \widehat{\alpha_i} + \widehat{\beta_i}\ Return_{i,t} \quad (4)$$

[12] The baseline inferences remain unchanged to alternate clustering such as firm pair-year etc.

[13] De Franco et al. (2011) argue that firms that report similar earnings when exposed to comparable economic situations have comparable accounting characteristics. The choice to examine comparability as a construct is furthered by the fact that selection of any individual accounting method is subject to researcher discretion and requires weighing scheme for alternate choices and a standardization procedure to quantify variations..

[14] De Franco et al. (2011) use prior 16 quarters for comparability computations. However, a shorter window mitigates the time-period overlap concern when the dependent variable and other variables are constructed. Accordingly, Lang et al. (2010) modify the quarter range to prior 4 quarters only. Nevertheless, the inferences are qualitatively consistent for the 16 quarter and 4 quarter based comparability measures (untabulated).

$$E(Earnings)_{i,j,t} = \widehat{\alpha_j} + \widehat{\beta_j}\, Return_{i,t} \quad (5)$$

In equation (5), $E(Earnings)_{i,j,t}$ yields the expected earnings for firm "j" when exposed to similar economic outcomes as firm "i". This essentially captures how firm "j" accounting methods would have mapped to financial statements if they were exposed to the same economic outcomes as firm "i". The absolute difference in the predicted earnings for the two firms is averaged over the past eight quarters and multiplied by minus one as shown in equation 6. This results in a directional measure of Comparability for firm "i" with pair firm "j". Consequently, higher values represent higher comparability:

$$AccComp_{i,j,t} = -\frac{1}{8} \sum_{t-7}^{t} \left| E(Earnings_{i,i,t}) - E(Earnings_{i,j,t}) \right| \quad (6)$$

Controls

The choice and structure of controls is based on Francis et al. (2014) and Chen et al. (2020). The controls used are primarily firm fundamentals such as size, leverage, market-to-book, loss, standard deviation of sale, standard deviation of cash flow from operations, standard deviation of sales growth, covariation of cash flow from operations, and covariation of returns. All controls are averaged over the same time-period as dependent variable, i.e., prior eight quarters. For each control variable, I include levels value of firm “i” and absolute value of the difference of the control variable between firm “i” and pair firm “j”. Herein, controlling for absolute differences accounts for differences across various dimensions between the firms in the firm-pair, and levels control for firm characteristics that affect comparability. Additionally, I control for presence of shared auditors and shared investors as prior research documents their role in shaping financial statement comparability among firm-pairs (Francis et al., 2014; Jang et al., 2019). Appendix-A presents definitions of all variables.

V. SAMPLE SELECTION AND BASELINE RESULTS

5.1. Sample Selection

I start by merging the raw Compustat database with the I/B/E/S detail database and create all financial controls using Compustat data.[15] I drop firm-year observations with missing controls and compute the comparability measure as described in the variable measurement section for all firm pairs within the same Fama-French 48 industry code for each year.[16] Due to fewer industry year observations and prior eight quarter data requirement, observations before 1988 are dropped. I next merge with Thomson Reuters 13F filings to identify shared institutional ownerships. Lastly, following Manchiraju et al. (2020), I drop observations in the top 2% of the absolute value of studentized residuals to control for outlier effects.[17] I also drop the firm-pair observations for the first two-years of shared analyst coverage initiation. This is based on Francis et al. (2014) and ensures that the computation of comparability measure does not overlap the initiation of shared analyst coverage. This step of sample selection is depicted in Figure 1. This procedure results in a final sample of 4,776,821 firm-pair observations from 1988 to 2019. The sample summary statistics are presented in Table 1 and are qualitatively similar to Francis et al. (2014) and Martens and Sextroh (2021). Specifically, 17.5% of sample firm pairs have at least one shared analyst, and 55.3% of firm pairs have a shared broker. The skewed distribution of majority of firm-pairs without shared analyst coverage, biases the sample against finding any impact of shared analyst coverage on comparability.

[15] I/B/E/S database starts from 1980, this acts as the anchor for lower limit of sample period. Also, I limit the sample up to 2019 to avoid influence of COVID-19 on the inferences.
[16] Since comparability measure is directional in nature, i.e., for two firms A and B, comparability for firm pair (A,B) and (B,A) are different, the firm-pairs created are directionally unique. For example, for three firms A, B, and C, the firm pairs possible are: (A,B), (A,C), (B,A),(C,A),(B,C), and (C,B).
[17] The inferences remain unaffected if the outliers are retained in the final sample.

5.2. Baseline Results

The baseline regression specification is presented in equation (1). The dummy variable "Shared Analyst" captures the impact of shared analyst coverage on financial statement comparability. The results of the baseline specification are presented in Table 2, column 1, with industry and year fixed effects. The coefficient of "Shared Analyst" is positive and statistically significant at $p<0.01$ (two-tailed). This indicates that shared analysts between two firms lead to higher comparability. Economically, shared analyst coverage results in a 11.23 percent higher FSC on average compared to firm pairs without shared analyst coverage. The variance inflation factor is 2.74 – this alleviates concerns of collinearity among the independent variables. This finding concurs with the alternate hypothesis stated earlier. Additionally, the coefficient on "Shared Auditor" and "Shared Investor" is significantly positive - this validates Francis et al. (2014) and Jang et al. (2019) findings in my sample, respectively. Lastly, since accruals are used to manage earning to meet analyst expectations (Yu, 2008), I supplement the baseline specification with accrual related controls in additional tests and the inferences remain unchanged.[18]

Alternate Measure of Shared Analyst Coverage

I create a weighted average measure of shared analyst coverage among firm-pairs, "Shared Analyst Ratio." It is measured as the ratio of number of shared analysts and total analyst coverage of the firm. The result of this analysis is presented in column 2 of Table 2, and it validates the baseline inference of increase in comparability due to shared analyst coverage, with an economic significance of 2.83% higher comparability among firm-pairs due to shared analyst coverage vis-à-vis firm-pairs without shared analyst coverage.

[18] The baseline results are qualitatively similar if the firm-pairs are matched at SIC-4-digit industry code.

5.3. Entropy Balanced Results for Impact of Shared Analyst Coverage on Comparability

I next proceed to resolve the impact of inherent differences between firm-pairs with and without shared analyst coverage on baseline inferences. To that end, I undertake entropy balancing of the baseline sample up to third moment on all covariates for firm-pairs with and without shared analyst coverage. The results of this analysis are presented in Columns 3 and 4 of Table 2. The results are qualitatively similar to the baseline results and indicates that the differences across observable covariates do not affect the inferences.

VI. ENDOGENEITY MITIGATION AND POLICIES AFFECTED

6.1. Exogenous Shocks - Brokerage closures and Regulation Fair Disclosure

The baseline results are both economically meaningful and statistically significant; however, causal inference in this setting is susceptible to endogeneity concerns as analyst following is not exogenously determined (Yu, 2008). I employ two exogenous shocks based on prior literature to shed light on the causal mechanism.

Brokerage Closures

Analyst brokerage house closures result in an exogenous drop in analyst following (Kelly and Ljungqvist, 2012). Accordingly, Martens and Sextroh (2021) employ brokerage closure as an exogenous shock for drop in shared analysts. Building on this literature, I create a matched sample of firms that lose analyst coverage due to brokerage closures with firms that do not experience a brokerage closure.[19] The sample contains brokerage closures between 2000 to 2012, and I retain observations for three years on either side of the shock for each brokerage closure. This matched sample is merged with the base dataset resulting in each treated and control firm mapped to all their firm pairs. I employ a difference-in-difference-in-difference

[19] The firm fundamentals used for matching are firm size, market to book ratio, leverage, and return on assets. I further ensure that the matched firms belong to the same industry. Matching is done one year prior to the shock.

model by including a dummy variable "*Link Lost*" that takes a value of one for firm pairs that experience a drop in shared analysts due to brokerage closure, and zero otherwise. The "*treat*" variable takes a value of one (zero) for firms affected (not affected) by brokerage closure, and the "*post*" variable takes a value of one (zero) for observations post (pre) brokerage closures.

I include these dummy variables and their interactions in the base specification of equation (1). The results of this analysis are presented in column 1 of Table 3, Panel A. The triple interaction variable, i.e., *Post x Treat x Link Lost*, captures the impact of the loss of shared analyst on comparability. The significantly negative coefficient on the interaction term indicates that firms tend to reduce comparability with other firms when shared analyst coverage terminates. These results are explained by the fact that a firm cannot cater to all shared analysts, and the realized behavior is an equilibrium of balancing internal and external forces. Consequently, a drop in shared analyst coverage shifts the equilibrium, and firms tend to cater to the remaining shared analysts. This argument is consistent with Degeorge et al. (2013). Overall, the reduction in comparability post exogenous termination of shared analyst coverage indicates that shared analysts drive the observed increase in *comparability* in the baseline tests.

Regulation Fair Disclosure (Reg-FD)

Regulation fair disclosure (Reg-FD) came into effect on October 23, 2000, curtailing preferential disclosure of material information. Mohanram and Sunder (2006) document an increase in idiosyncratic firm information generation post-Reg-FD. This indicates that analysts work harder to gain firm-specific information in post-Reg-FD period. In this context, I predict that if shared analyst information demands drive the comparability in the baseline tests, this effect should be stronger post-Reg-FD due to the heightened relevance of *comparability*.

I execute an event study model to examine the change in the impact of shared analyst coverage on *comparability* from pre- to post-Reg-FD period. The "*Shared Analyst*" variable is

interacted with a dummy variable "*Reg FD*" that takes a value of one (zero) for observations post (pre) fiscal year 2000.[20] The results are presented in Column 2 of Table (3), Panel A. The significantly positive coefficient on "*Shared Analyst x Reg FD*" indicates a more substantial increase in *comparability* in the post-Reg-FD period as predicted.

Overall, the results of the exogenous shocks triangulate the baseline inference of a significant increase in *comparability* due to shared analyst coverage.

6.2. Instrumental Variable Tests - Expected Analyst Coverage and S&P 500 Inclusion

To further mitigate the endogeneity concerns, I employ expected analyst coverage and S&P 500 inclusion as instruments of analyst coverage, based on Yu (2008).

Expected analyst coverage varies due to inherent profits/losses of the broker and is not necessarily related to firms' decision to increase comparability with other firms in the analyst portfolio. Herein, it is plausible that broker coverage terminations will directly impact shared analyst coverage relationships that drive comparability. However, as Yu (2008) and He et al. (2013) argue, this issue affects realized and not expected coverage. I compute the expected coverage instrument based on Yu (2008) as described in Appendix-A.

S&P 500: The inclusion in S&P 500 index depends on industry characteristic and it leads to higher analyst coverage. Consequently, S&P 500 inclusion should affect shared analyst coverage but not financial statement comparability due to shared analysts. The S&P 500 instrument is a dummy variable that takes a value of one for firm-years when the firm is included in the S&P 500 index, and zero otherwise.

The 2SLS instrumental variable regression estimated for the two instruments is:

$$SharedAnalyst_{i,j} = \beta_0 + \beta_1\, Instrument_i + \sum_{n=2}^{n} \beta_n\, Controls_i + \sum_{k=2}^{k} \beta_k |Controls_i - Controls_j| + \varepsilon \quad (7)$$

[20] I drop observations for the fiscal year 2000 to avoid sample contamination.

$$AccComp_{i,j,t} = \beta_0 + \beta_1 \widehat{SharedAnalyst}_{i,j,t} + \sum_{n=2}^{n} \beta_n Controls_i + \sum_{k=2}^{k} \beta_k |Controls_i - Controls_j| + \varepsilon \quad (8)$$

The results of the 2 SLS regressions are presented in Table 3, Panel B. Herein, the first stage coefficient of *Expected coverage* (*S&P 500*) is positively related to "*Shared Analyst"* as reflected in columns 1 and 3. This validates the expected relationship between the instrument and the variable of interest. The second stage results in columns 2 and 4 indicate a positive relationship between *Shared Analyst* and *Comparability*. These results validate the baseline inference that shared analysts are driving the increase in *Comparability*.

6.3. Impact Threshold of Confounding Variables (ITCV)

I next proceed to examine for bias due to correlated omitted variables to evaluate the sensitivity of the baseline results. Following Chapman et al. (2019) and Kim et al. (2021), I undertake impact threshold test of correlated omitted variables procedure. Herein, Model I (II) uses "Shared Analyst" ("Shared Analyst Ratio") as the measure of shared analyst coverage. I document that the largest impact among all covariates is 0.004 (0.007) while the impact threshold of confounding variable is 0.032 (.022) for Model I (II). The results of this analysis are presented in Table 3, Panel C. These results indicate that any omitted variable needs to have an impact of more than nine (three) times the impact of the largest magnitude to overturn the baseline inferences in Model I (II), based on Frank (2000). Since I control for all known determinants of comparability and include absolute value of the differences of controls for each firm-pair, the probability of the presence of a confounding variable with such high impact is reasonably low. This mitigates concerns of endogeneity due to omitted confounding variables.

6.4. Accounting methods affected due to shared analyst coverage

Since comparability represents the similarity of accounting methods used by firms in preparing financial statements, I explore specific accounting methods that are affected by

shared analysts. I examine the five accounting methods DeFond and Hung (2003) employ to compute accounting similarity. Specifically, I examine for changes in accounting methods related to (1) depreciation valuation, (2) contribution of acquisition/sale, (3) property, plant, and equipment valuation (PP&E), (4) Inventory, and (5) Investment tax credits. Following DeFond and Hung (2003), for each policy, I create a dummy variable "*Same Policy"* that takes a value of one (zero) when the firms in the firm-pair follow a similar (dissimilar) accounting method. I do not ex-ante predict for changes in any specific policy.[21]

The results are presented in Table (4), wherein the accounting method examined is stated in column headers. I employ logit model as dependent variable is binary. This analysis employs minimum of controls for each firm-pair instead of levels as the dependent is non-directional in nature. This specification is based on Francis et al. (2014) when examining impact of shared auditors on earnings covariation. I document a significantly positive coefficient on $Shared\ Analysts$ variable for all five accounting methods examined. This indicates that managers modify accounting methods to cater to expectations of shared analysts. Overall, these results provide insights few of the accounting methods that drive the increase in *comparability* due to shared analyst coverage.

VII. MECHANISM VALIDATION

In this section, I empirically test the underlying steps of the mechanism discussed in Section II. For each step, I test the relevant cross-sectional setting when the impact of shared analyst coverage on financial statement comparability should be stronger or weaker. Following are the three steps underlying the mechanism that results in higher *comparability* due to shared analyst

[21] Specific expectations can be formed in tailored settings of shared analyst coverage. For instance, shared analyst coverage by analysts that forecast CAPEX should result in stronger increase in similarity for PP&E valuation policy relative to other policies.

coverage (1) analysts demand managers for higher comparability, (2) managers evaluate the feasibility to cater to analyst demands, and (3) managers cater to most prominent analysts.

7.1. Analyst demand for higher financial statement comparability (Step 1)

Analyst demand for comparability is driven by the necessity to understand firm information better. Accordingly, this demand should intensify when the firm's information environment is impaired. Moreover, managers need to retain analyst coverage is stronger when firm information environment is poor as analysts mitigate information asymmetry. To test this expectation, I create four different measures of firm information environment (1) *Stock Return Volatility*: This captures the uncertainty about the firm due to high information asymmetry, and higher realized volatility is an indicator of impaired information environment (Alfaro et al., 2018). It is measured as the 12-month standard deviation of CRSP daily returns. (2) *Probability of informed trade* (PIN): This construct measures the probability of trading based on private information. A higher PIN indicates poor information environment as investors rely more on private information for trading decisions (Kim et al., 2016). (3) *Amihud Illiquidity measure* (AIM): This measure is based on Amihud (2002), and captures stock illiquidity. Higher AIM implies higher information asymmetry as it captures firms' opacity in sight of investors. (4) *Bid-Ask Spread*: Bid-ask spread is the difference between the highest amount investors are willing to pay and the lowest price at which sellers are willing to sell their assets in the market. A larger bid-ask spread is indicative of higher information asymmetry (Coller and Yohn 1997).

For each measure of information environment, I create a dummy variable "*Firm Characteristic*" that takes a value of one (zero) for firms with information environment measure above (below) median for the industry-year and interact it with the Shared Analyst variable in baseline regression. The differential change in *comparability* is captured by the interacted variable "*Shared Analyst x Firm Characteristic*" as shown in equation 9. The results

of this analysis are presented in Table 5 and the coefficient of interest is positively significant across all specifications. This implies a stronger increase in comparability due to shared analysts for firms with poor information environment as predicted.

$$AccComp_{i,j,t} = \beta_0 + \beta_1\, Shared\ Analyst_{i,j,t} + \beta_2\, Firm\ Characteristic_{i,t} + \beta_3\, Shared\ Analyst_{i,j,t} x\ Firm\ Characteristic + \sum_{n=4}^{n} \beta_n\, Controls_i + \sum_{k=4}^{k} \beta_k\, |Controls_i - Controls_j| + Industry\ FE + Year\ FE + \varepsilon \quad (9)$$

7.2. Managers evaluate the feasibility to cater to shared analysts (Step 2)

There are two primary considerations that affect managers decision to cater to shared analysts: (a) Feasibility to increase financial statement comparability, and (b) Other incentives that affect managers decision to cater to shared analysts.

7.2.1. Feasibility to cater: Principle-Based Accounting versus Rule-Based Accounting

I examine managerial freedom within applicable accounting standards based on extent to which firms employ rule- versus principle-based accounting. Folsom et al. (2011) argue that some firms follow more principle-based accounting methods, while others rely more on rule-based accounting methods when preparing their financial statements. Firms that rely more on principle-based accounting enjoy significantly larger accounting discretion. This discretion allows managers to cater to stakeholder information expectations and produce informative earnings (Folsom et al., 2011). In this context, I argue that managers who employ more principle-based accounting will have more leeway to cater to shared analyst information expectations. Following Folsom et al. (2011), I use the *pscore* measure of firm-level application of principle versus rule based accounting. *PSCORE* is the weighted average of the number of times individual GAAP standards are mentioned in 10-K, and higher value implies more application of principle-based accounting. I test my prediction of stronger increase in comparability when firms apply more principle-based accounting, by interacting the "*Shared*

Analyst" variable with a dummy "*Principle Accounting*" that takes a value of one (zero) for firms with above (below) median *pscore* at the industry year level. The specification is depicted in equation 10 and the results of this analysis are presented in Table 6 – Panel A. The coefficient on the interacted variable is significantly positive – this concurs with the expected prediction that managers of firms that use more principle-based accounting have greater flexibility to cater to shared analysts and thus exhibit a stronger increase in comparability due to shared analysts.

$$AccComp_{i,j,t} = \beta_0 + \beta_1\, Shared\ Analyst_{i,j,t} + \beta_2\, Principle\ Accounting_{i,t} + \beta_3\, Shared\ Analyst_{i,j,t} x\ Principle\ Accounting + \sum_{n=4}^{n} \beta_n\, Controls_i + \sum_{k=4}^{k} \beta_k\, |Controls_i - Controls_j| + Industry\ FE + Year\ FE + \varepsilon \quad (10)$$

7.2.2. Feasibility to cater: Managerial Incentives

Comparability improves the ability of external stakeholders to understand firm behavior (De Franco et al., 2011), and limits the ability of managers to hide information and pursue vested interests (Kim et al., 2016). Building on this argument, I predict that, to constrain monitoring ability of external agents, i.e., analysts, the increase in comparability will be lower for firms with relatively higher agency concerns. To test this prediction, I compute agency conflict using two measures: (1) *Free Cash Flow* (FCF): Myers and Rajan (1998) suggest that higher free cash flow is a poor signal of firm efficiency and possible indicator of managerial misuse of funds. (2) Over-Confidence: Based on Malmendier and Tate (2015), this measure is based on the delay by managers in exercising their vested stock options. Managers tend to delay exercising stock options when they expect the stock price to shoot up in future. In this context, managers who delay exercising their options significantly longer (and near close to expiry) are overconfident in general. Over-confident managers would not want to cater to shared analysts for two possible reasons (a) to avoid analyst monitoring, and (b) overconfident managers may underestimate the negative ramifications of analyst dissent and turnover. To test the impact of

agency concerns on increase in comparability due to shared analysts, I create a dummy variable "*High Agency Concerns*" that interacts with "*Shared Analyst*" variable, as shown in equation 11, and takes a value of one (zero) for firms with agency concern measure that is above (below) median for the industry-year. This interacted variable captures the differential change in *comparability* when the cross-sectional variable is above median. The results of this analysis are presented in Table 6, Panel B. The coefficient of the interacted variable is significantly negative. This indicates a weaker increase in comparability due to shared analyst coverage in presence of agency conflicts as predicted.

$$AccComp_{i,j,t} = \beta_0 + \beta_1\, Shared\ Analyst_{i,j,t} + \beta_2\, High\ Agency\ Concerns_{i,t} + \beta_3\, Shared\ Analyst_{i,j,t} x\ High\ Agency\ Concerns + \sum_{n=4}^{n} \beta_n\, Controls_i + \sum_{k=4}^{k} \beta_k\, |Controls_i - Controls_j| + Industry\ FE + Year\ FE + \varepsilon \quad (11)$$

7.3. Managers Cater to the Most Valuable Analysts (Step 3)

Managers of a firm are affected by several analysts that demand for higher comparability however, managers cannot cater to all analysts simultaneously. In this situation, managers should cater to prominent analysts whose coverage retention is most beneficial for the firm. Accordingly, I expect the effect of shared analysts to be stronger when the loss of the shared analyst or negative recommendation from the shared analyst will be significantly detrimental to the firm. In line with this conjecture, I create eight cross-sectional variables that characterize the shared analyst overlap relationship between a pair of firms and captures different facets of the shared analysts characteristics (1) *Brokerage size*: This is measured as the number of unique analysts affiliated to a brokerage house in a given fiscal year. Brokerage size reflects the resources available to the shared analyst, and the prominence of its research to the capital market (Kim et al. 2019). (2) *Industry Expertise*: I measure it as the number of firms within industry that the analyst follows. Analyst Industry expertise is the most important

characteristic of analysts for investors (Kadan et al. 2012). (3) *Analyst experience*: This is measured as the number of years an analyst is reported in IBES. Experience captures analyst ability and it significantly matters to investors (Clement 1999; Kim et al. 2019). (4) *Investor contacts*: This is measured as the average number of unique institutional investors that invest in firms that the shared analyst covers over the last three years. Since analyst research is critical to buy-side of the capital market, analysts whose research is relevant to larger investor market are more important to retain. (5) *First mover*: This is measured as the average number of times the shared analyst is the first to issue forecasts for the firm over the last three years. Such first mover analysts have a strong impact on capital market (Mikhail et al. 2006). (6) *Accurate Analysts*: Forecast accuracy reflects analyst ability to understand firm performance and it affects investor perception of the firm (Kim et al. 2019). I measure it as the average forecast accuracy for all forecasts over the last three years. (7) *Optimism*: This captures analyst perception of the firm and I measure it as the three-year average of the number of forecasts issued by the analyst that are above the prevailing mean consensus. Overall, these characteristics, albeit not mutually exclusive, capture different facets of analyst prominence, ability to influence investors, perception of the firm, and capability. Consequently, appeasing shared analysts that rank high on these characteristics and retaining their coverage is critical for firms to benefit with greater visibility, higher investor recognition and stakeholder content.

To test this, for each shared analyst characteristic, within the sample of firm-pairs with shared analysts, I create a dummy variable "*Shared Analyst Characteristic"* that takes a value of one (zero) when the characteristic is above (below) median for the given industry year and interact it with "*Shared Analyst*" variable in the baseline regression as shown in equation 12. This interacted variable captures the differential change in *comparability* when analyst characteristic is high. For firm pairs with multiple shared analysts, the characteristic is averaged across the shared analysts. The results of this analysis are presented in Table 7. The results

indicate a stronger increase in comparability when shared analysts are affiliated with larger brokerage houses (column 1), industry experts (column 2), more experienced (column 3), better connected with the buy-side of the capital market (column 4), first movers (column 5), better at forecasting accurately (column 6), and optimistic about firms (column 7). Additionally, I document that the increase in comparability due to shared analyst coverage is stronger as the number of shared analysts increase (column 8). The results concur with the stated predictions and indicate that managers are catering to expectations of the most prominent shared analysts.

$$AccComp_{i,j,t} = \beta_0 + \beta_1\, Shared\ Analyst_{i,j,t} + \beta_2\, Shared\ Analyst_{i,j,t} x\ Shared\ Analyst\ Characteristic + \sum_{n=3}^{n} \beta_n\, Controls_i + \sum_{k=3}^{k} \beta_k\, |Controls_i - Controls_j| + Industry\ FE + Year\ FE + \varepsilon \quad (12)$$

VIII. CONCLUSION

Analysts are gatekeepers of capital markets. Despite decades of research documenting the role of analysts in disseminating information in the capital market and shaping managerial decisions, the impact of shared analysts on the comparability of financial statements has not been examined. Studying comparability is important, as it is an essential characteristic of financial statements, and regulators urge firms to achieve higher comparability of financial statements. This study fills this gap by examining the role of shared analysts in the diffusion of comparability of financial statements.

The comparability of financial statements allows analysts and other stakeholders to evaluate the reported numbers by management for their faithfulness and to determine the underlying true economic value of the firm. Analysts follow a portfolio of firms, and analyst forecast accuracy is affected by the spillover of information among portfolio firms, I predict and document a robust increase in financial statement comparability due to shared analyst coverage. I further identify the individual accounting methods that drive the increase in

observed comparability. These findings help us understand the underlying drivers of comparability and advance the literature to examine the role of analyst-driven interfirm relationships in managerial decisions in other contexts. Moreover, this study identifies that future research examining the impact of any factor on the comparability of financial statements should consider the role of shared analysts in drawing meaningful and faithful inferences. Future research can examine the impact of an increase in financial statement comparability on the institutional valuation of firms and the moderating influence of auditors and CEO incentives on this relationship. Another avenue of research in this context is to examine the role of the firm life cycle stage and business dynamics in the susceptibility of managers to cater to analysts' information expectations.

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Appendix A. Variable Definitions

Variable	Definition
AccComp	This is the financial statement comparability variable. It is measured as the similarity in mapping of returns to earnings for a pair of firms as described by De Franco et al. (2011). The computation of this measure is described in the variable measurement section of the paper.
Shared Analyst	Dummy variable that takes a value of one if two firms have at least one analyst that issues forecasts for both the firms in a given time period, zero otherwise.
Shared Analyst Ratio	For a firm pair (firm "i" and firm "j"), it is measured as the ratio of number of shared analysts and the total number of analysts following firm "i".
Shared Broker	Dummy variable that takes a value of one if two firms have at least one brokerage house employing analysts that issue forecasts for both the firms in a given time period, zero otherwise.
Shared Broker Diff Analyst	Dummy variable that takes a value of one if the pair of firms have analysts affiliated to the same brokerage house but different analysts issuing forecasts for both the firms, zero otherwise.
CFO COV	Covariation in operating cash flows based on Francis et al. (2014)
RET COV	Covariation in returns of two firms based on Francis et al. (2014)
Shared Auditor	Dummy variable that takes a value of one if two firms have the same audit firm, zero otherwise.
Shared Investor	Dummy variable that takes a value of one if two firms have at least one institutional investor based on Thomson Reuters 13-F Filings that is invested in both the firms simultaneously, zero otherwise.
Size	Mean of size over the last eight quarters at the end of fiscal year, where size is measured as the natural log of total assets.
Lev	Mean of leverage over the last eight quarters at the end of fiscal year, where leverage is measured as the Debt to assets ratio of a firm.
MTB	Mean of market to book ratio over the last eight quarters at the end of fiscal year, where market to book ratio is measured as the market value of equity divided by book value of equity.
CFO	Mean of cash flow from operations over the last eight quarters at the end of fiscal year, where cash flow from operations is measured as the Cash flow from operations scaled by total assets from period t-1.
Loss	Proportion of quarters for which the firm reports a negative quarterly income before extraordinary items in the past eight quarters at the end of fiscal year.
Sale SD	Standard deviation of sales is calculated over the preceding eight quarters at the end of fiscal year.
CFO SD	Standard deviation of cash flow from operations scaled by prior period total assets for the past eight quarters at the end of fiscal year.
Sale Growth SD	Sales growth equals sales in current period minus sales in period t-1 divided by sales in period t-1. The standard deviation of this measure is calculated over the past eight quarters at the end of fiscal year.
Size Diff	Absolute value of the difference in *Size* calculated above between the firm pair.
Lev Diff	Absolute value of the difference in *Lev* calculated above between the firm pair.
MTB Diff	Absolute value of the difference in *MTB* calculated above between the firm pair.
CFO Diff	Absolute value of the difference in *CFO* calculated above between the firm pair.
Loss Diff	Absolute value of the difference in *Loss* calculated above between the firm pair.
Sale SD Diff	Absolute value of the difference in *Sale SD* calculated above between the firm pair.
CFO SD Diff	Absolute value of the difference in *CFO SD* calculated above between the firm pair.

Sale Growth SD Diff	Absolute value of the difference in *Sale Growth SD* calculated above between the firm pair.
Firm Characteristic Cross Sectional Variables	
Stock Return Volatility	Yearly standard deviation of CRSP daily stock returns. This measure is based on Alfaro et al. (2018) Source: www.policyuncertainty.com
Bid Ask Spread	Mean during the year of the daily ask price minus the bid price all divided by the mean of the ask price and the bid price
Free Cash Flow	Operating Cash Flow minus Common Dividends minus Preferred Dividends. This value is scaled by total assets.
Amihud Illiquidity	Natural log of one plus the fiscal year average of AIM. It is constructed as follows: Using daily CRSP data (CRSP variables ret, prc, and vol) to calculate the ratio of absolute stock return to dollar volume [10,000,000 × |ret|÷ (prc × vol)] for each day in a fiscal year. I then average these daily AIM over the fiscal year and take logs.
2 SLS Instrumental Variable Regression Variables (Table 3 – Panel B)	
Expected Analyst Coverage	This is measured based on Yu (2008). Specifically, I estimate the following two equations sequentially wherein "i" and "j" are firm and broker identifiers in year "t": $Expected\ Coverage_{i,t,j} = \left(Brokeragesize_{j,t} \middle| Brokeragesize_{j,0}\right) * Coverage_{i,0} \quad (i)$ $Expected\ Coverage_{i,t} = \sum_{j=1}^{n} Expected\ Coverage_{i,t,j} \quad (ii)$ $Brokeragesize_{j,t}$ is measured as the number of unique analysts employed by broker "j" in year "t". $Brokeragesize_{j,0}$ is brokerage size for the base year. Instead of choosing sample median year or the year with most observations as base year as used in prior literature, I compute the Expected coverage for each firm using every year in sample as base year, and then average them out. I drop the year used as base year in each iteration. This value is divided by 100 for expositional purposes. Note: Using only median year as base doesn't affect the inferences.
S&P 500	This dummy variable takes a value of one when a firm is included in the S&P 500 index in a particular year, and zero otherwise.
Other Controls used in examining Accounting Policies Affected (Table 4)	
Size Min	Minimum value of *Size* between the two firms in firm-pair.
Lev Min	Minimum value of *Lev* between the two firms in firm-pair.
MTB Min	Minimum value of *MTB* between the two firms in firm-pair.
CFO Min	Minimum value of *CFO* between the two firms in firm-pair.
Loss Min	Minimum value of *Loss* between the two firms in firm-pair.
Sale SD Min	Minimum value of *Sale SD* between the two firms in firm-pair.
CFO SD Min	Minimum value of *CFO SD* between the two firms in firm-pair.
Sale Growth SD Min	Minimum value of *Sale Growth SD* between the two firms in firm-pair.

Note: All other variables are defined in the pertinent sections in the text.

Figure 1. Sample Selection

The below timeline depicts the time periods that are used to calculate the dependent variable and independent variable. Specifically, *Comparability* measure is based on prior 8-quarters data. To avoid the overlap in time-periods used to measure Comparability and the independent variable of interest, shared analyst coverage, I drop all observations in the first two years of shared analyst coverage initiation. This sample selection criteria follows Francis et al. (2014) and Chen et al. (2020).

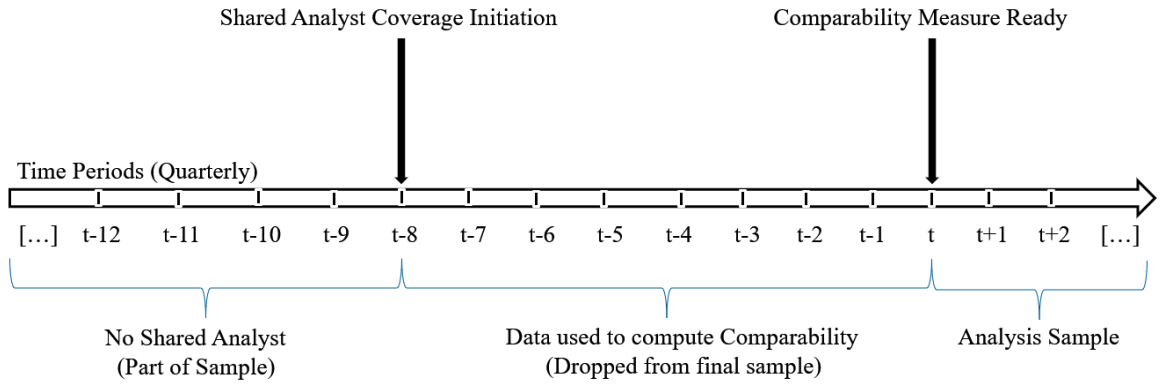

Table 1. Summary Statistics

This table reports the summary statistics for the variables used in the primary analyses. The sample period is from 1988 to 2019, and each observation represents a firm-pair matched at year and Fama-French 48 industry classification. All variables are defined in Appendix A.

Variables	Count	Mean	P (25)	Median	P (75)	P (90)	SD
Main Variables							
AccComp	4,776,821	-3.017	-4.056	-1.623	-.648	-.287	3.481
Shared Analyst	4,776,821	.175	0	0	0	1	.38
Shared Analyst Ratio	4,776,821	.051	0	0	0	.182	.150
Control Variables							
Shared Broker	4,776,821	.553	0	1	1	1	.497
Shared Broker Diff Analyst	4,776,821	.378	0	0	1	1	.485
CFO COV	4,776,821	.480	.163	.493	.784	.913	.325
RET COV	4,776,821	.170	.023	.100	.262	.458	.185
Size	4,776,821	6.539	4.919	6.527	7.957	9.239	2.044
Lev	4,776,821	.185	.023	.118	.281	.480	.201
MTB	4,776,821	3.386	1.354	2.178	3.974	7.297	5.032
CFO	4,776,821	.002	.001	.018	.056	.097	.112
Loss	4,776,821	.305	0	.107	.589	1	.370
Sale SD	4,776,821	39.593	1.953	5.954	20.947	78.763	116.483
CFO SD	4,776,821	.067	.017	.042	.075	.146	.089
Sale Growth SD	4,776,821	.417	.058	.108	.220	.598	1.364
Size Diff	4,776,821	1.773	.648	1.402	2.512	3.844	1.458
Lev Diff	4,776,821	.164	.037	.105	.231	.399	.177
MTB Diff	4,776,821	4.69	.444	1.247	3.572	9.452	11.997
CFO Diff	4,776,821	.084	.009	.038	.105	.229	.118
Loss Diff	4,776,821	.283	.018	.143	.469	.839	.312
Sale SD Diff	4,776,821	67.268	2.502	9.229	36.266	148.134	192.637
CFO SD Diff	4,776,821	.058	.005	.020	.055	.141	.113
Sale Growth SD Diff	4,776,821	.775	.030	.081	.228	.902	3.227
Shared Auditor	4,776,821	.172	0	0	0	1	.377
Shared Investor	4,776,821	.641	0	1	1	1	.480

Table 2

Impact of Shared Analyst Coverage on Financial Statement Comparability

This table reports the coefficients for linear regression models estimating the impact of shared analyst on Financial Statement Comparability. The dependent variable is AccComp i.e., *Comparability*. Columns 1 and 2 employ the original values of covariates, while Columns 3 and 4 employ entropy balanced covariates wherein covariates are balanced between sample of firm-pairs with and without shared analyst coverage. "*Shared Analyst"* is an indicator variable that takes the value of one (zero) for firm-pairs with (without) a shared analyst in a given fiscal year, "*Shared Analyst Ratio*" is the ratio of number of shared analysts in the firm-pair and total analysts following the firms in the firm pair. The sample period is 1988 - 2019. Each observation corresponds to a firm pair within the same Fama French 48 industry and year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

Dependent Variable: AccComp	Original Sample		Entropy Balanced	
	(1)	(2)	(3)	(4)
Shared Analyst	**0.339*** **		**0.341*** **	
	(0.005)		**(0.005)**	
Shared Analyst Ratio		**0.571*** **		**0.470*** **
		(0.011)		**(0.012)**
Shared Auditor	0.081***	0.087***	0.064***	0.061***
	(0.005)	(0.005)	(0.006)	(0.006)
Shared Investor	0.433***	0.436***	0.417***	0.428***
	(0.005)	(0.005)	(0.006)	(0.006)
CFO COV	0.505***	0.508***	0.605***	0.593***
	(0.005)	(0.005)	(0.007)	(0.007)
RET COV	0.798***	0.823***	0.761***	0.754***
	(0.008)	(0.008)	(0.009)	(0.009)
Size	0.029***	0.042***	0.027***	0.043***
	(0.002)	(0.002)	(0.002)	(0.002)
Lev	-0.855***	-0.871***	-0.863***	-0.905***
	(0.014)	(0.014)	(0.018)	(0.018)
MTB	0.045***	0.045***	0.039***	0.040***
	(0.000)	(0.000)	(0.001)	(0.001)
CFO	1.669***	1.678***	1.402***	1.389***
	(0.030)	(0.030)	(0.043)	(0.044)
Loss	-1.333***	-1.318***	-1.452***	-1.445***
	(0.009)	(0.009)	(0.012)	(0.012)
Sale SD	-0.001***	-0.001***	-0.001***	-0.001***
	(0.000)	(0.000)	(0.000)	(0.000)
CFO SD	0.646***	0.692***	0.501***	0.492***
	(0.037)	(0.037)	(0.053)	(0.053)
Sale Growth SD	0.013***	0.013***	0.004	0.003
	(0.002)	(0.002)	(0.003)	(0.003)
Size Diff	0.006***	0.003	-0.010***	-0.008***
	(0.002)	(0.002)	(0.002)	(0.002)
Lev Diff	-0.498***	-0.503***	-0.489***	-0.475***
	(0.013)	(0.013)	(0.018)	(0.018)
MTB Diff	0.011***	0.012***	0.010***	0.010***
	(0.000)	(0.000)	(0.000)	(0.000)
CFO Diff	-7.552***	-7.555***	-7.069***	-7.084***
	(0.028)	(0.028)	(0.042)	(0.042)

Loss Diff	-2.277***	-2.287***	-2.108***	-2.103***
	(0.008)	(0.008)	(0.011)	(0.011)
Sale SD Diff	-0.000***	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
CFO SD Diff	-0.466***	-0.482***	-0.337***	-0.311***
	(0.025)	(0.025)	(0.035)	(0.035)
Sale Growth SD Diff	-0.017***	-0.017***	-0.012***	-0.012***
	(0.001)	(0.001)	(0.001)	(0.001)
Constant	-2.183***	-2.245***	-2.232***	-2.241***
	(0.012)	(0.012)	(0.018)	(0.018)
Economic Significance	**11.23%**	**2.83%**	**11.30%**	**2.33%**
Variance Inflation Factor	**2.74**	**2.73**	**2.92**	**2.87**
Observations	4,776,821	4,776,821	4,776,821	4,776,821
R-squared	0.327	0.327	0.308	0.306
Year FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y

Table 3

Panel A: Exogenous Shock – Brokerage Closure and Regulation Fair Disclosure

This table reports the results of a Difference-in-Difference-in-Difference regression model in column 1, and event study in column 2. The dependent variable is AccComp i.e., Comparability. "*Shared Analyst"* is an indicator variable that takes the value of one (zero) for firm-pairs with (without) a shared analyst in a given fiscal year. "*Post*" is a dummy variable that takes a value of one (zero) for observations after (before) brokerage closure; "*Treat*" is a dummy variable that takes a value of one (zero) for firm-pairs affected (not affected) by brokerage closure; "*Link Lost*" is a dummy variable that takes a value of one when the firm-pair on average loses shared analysts from pre- to post- period, and zero otherwise. The coefficient of "*Post x Treat x Link Lost*" is the change in comparability for firms that lose shared analysts due to brokerage closure; *"Shared Analyst x Reg FD"* is the change in *comparability* post regulation fair disclosure for firm-pairs with shared analysts vis-à-vis firm pairs without shared analysts. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

	Brokerage Closure	Regulation Fair Disclosure
Dependent: AccComp	(1)	(2)
Post	0.034	
	(0.032)	
Treat	-0.017	
	(0.028)	
Post x Treat	0.028	
	(0.039)	
Link Lost	-0.251***	
	(0.047)	
Post x Link Lost	0.260***	
	(0.061)	
Treat x Link Lost	0.063	
	(0.061)	
Post x Treat x Link Lost	**-0.260*** **	
	(0.081)	
Shared Analyst		0.133***
		(0.009)
Shared Analyst x Reg FD		**0.237*** **
		(0.010)
Controls	Y	Y
Observations	104,214	4,644,160
R-squared	0.271	0.331
Industry FE	Y	Y
Year FE	Y	Y

Table 3

Panel B: Instrumental Variable Regression – Expected Analyst Coverage and S&P 500 Inclusion

This table reports the results of 2 stage least square (2 SLS) instrumental variable regression tests. The dependent variable in first stage is "Shared Analyst", and is AccComp i.e., Comparability in second stage. "*Shared Analyst"* is an indicator variable that takes the value of one (zero) for firm-pairs with (without) a shared analyst in a given fiscal year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

2SLS Instrument	Expected Coverage		S&P 500	
Variable Regression	First Stage	Second Stage	First Stage	Second Stage
Dependent Variable:	Shared Analyst	AccComp	Shared Analyst	AccComp
	(1)	(2)	(3)	(4)
Expected Coverage	**0.044*** **			
	(0.001)			
Shared Analyst		**2.599*** **		**5.623*** **
(Instrumented From First Stage)		**(0.093)**		**(0.071)**
S&P 500			**0.094*** **	
			(0.001)	
Controls	Y	Y	Y	Y
Observations	2,252,086	2,252,086	4,776,821	4,776,821
R-squared	0.075	0.201	0.073	Negative

Table 3

Panel C: Impact Threshold for a confounding/suppressing variable

This table assesses the impact of possible correlated omitted variables in the baseline results reported in Table 2. "*Shared Analyst"* is an indicator variable that takes the value of one (zero) for firm-pairs with (without) a shared analyst in a given fiscal year, "*Shared Analyst Ratio*" is the ratio of number of shared analysts in the firm-pair and total analysts following the firms in the firm pair. Following Frank (2000), Model I (Model II) examines impact of covariates when shared analyst coverage is measured as "Shared Analyst" ("Shared Analyst Ratio"). The partial correlations between covariates and independent variable (IV) stated in column header is presented in Columns 1 and 4, and the partial correlations between covariates and AccComp is presented in Columns 2 and 5. Columns 3 and 6 represent the impact of the covariate and is calculated as the product of partial correlations in Columns 1 and 2 (4 and 5) for Model I (Model II). The largest impact among all covariates and the Impact Threshold of Confounding Variable are stated at the bottom of the table.

	Model I (IV = Shared Analyst)			Model II (IV = Shared Analyst Ratio)		
	ρ(IV)	ρ(AccComp)	Impact	ρ(IV)	ρ(AccComp)	Impact
Covariate	(1)	(2)	(3)	(4)	(5)	(6)
Shared Auditor	0.046	0.017	0.001	0.034	0.017	0.001
Shared Investor	-0.013	0.038	-0.001	-0.019	0.038	-0.001
CFO COV	0.053	0.067	0.004	0.057	0.067	0.004
RET COV	0.091	0.029	0.003	0.09	0.029	0.003
Size	0.135	0.002	0	0.038	0.002	0
Lev	0.018	-0.024	0	0.057	-0.024	-0.001
MTB	0.02	0.092	0.002	-0.01	0.092	-0.001
CFO	0.034	0.015	0.001	0.015	0.015	0
Loss	0.057	-0.142	-0.008	0.018	-0.142	-0.003
Sale SD	-0.011	-0.024	0	-0.001	-0.024	0
CFO SD	0.046	0.001	0	0.024	0.001	0
Sale Growth SD	0.005	0.009	0	0.006	0.009	0
Size Diff	-0.082	0.004	0	-0.08	0.004	0
Lev Diff	-0.029	-0.034	0.001	-0.044	-0.034	0.002
MTB Diff	0.004	0.037	0	-0.004	0.037	0
CFO Diff	0.014	-0.204	-0.003	-0.004	-0.204	0.001
Loss Diff	-0.029	-0.034	0.001	-0.034	-0.207	0.007
Sale SD Diff	0.045	-0.024	-0.001	0.046	-0.024	-0.001
CFO SD Diff	-0.03	-0.008	0	-0.023	-0.008	0
Sale Growth SD Diff	0.002	-0.006	0	-0.007	-0.006	0
Largest Impact			0.008			0.007
Impact threshold of confounding variable			0.032			0.022
Minimum magnitude of confounding variable relative to largest impact of included variable required to overturn baseline results			**4**			**3.099**

Table 4 Type of Accounting Policies Affected

This table reports the coefficients for logit regression to examine impact of shared analyst on the five accounting policies used in DeFond and Hung (2003). The dependent variable is an indicator variable "*Same Policy"* for the policy stated in the Column header – it takes a value of one (zero) when the two firms in the firm-pair follow same (different) method for the accounting policy choice in a given fiscal year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

	Similarity in Accounting Policy Method				
Dependent: Same Policy	Investment Tax Credit	Depreciation	PP&E	Acquisition (or) Sales	Inventory
	(1)	(2)	(3)	(4)	(5)
Shared Analyst	**0.077*** **	**0.309*** **	**0.355*** **	**0.060*** **	**0.232*** **
	(0.028)	**(0.012)**	**(0.017)**	**(0.007)**	**(0.010)**
Shared Auditor	0.004	0.009	-0.015	0.022***	0.027**
	(0.031)	(0.013)	(0.022)	(0.007)	(0.011)
Shared Investor	0.007	0.176***	0.042	0.073***	-0.001
	(0.038)	(0.012)	(0.025)	(0.007)	(0.011)
Size Min	-0.082***	-0.051***	0.037***	-0.165***	-0.039***
	(0.017)	(0.007)	(0.010)	(0.004)	(0.006)
Lev Min	0.874***	0.209***	-0.150**	-0.459***	0.102***
	(0.126)	(0.044)	(0.067)	(0.031)	(0.039)
MTB Min	-0.004	-0.002*	-0.024***	-0.011***	-0.003***
	(0.003)	(0.001)	(0.002)	(0.001)	(0.001)
Loss Min	0.717***	0.073***	0.605***	0.624***	-0.068***
	(0.058)	(0.022)	(0.041)	(0.013)	(0.020)
Sale SD Min	0.002**	-0.003***	-0.002***	-0.001***	-0.001***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)
CFO SD Min	2.744***	0.353*	2.932***	3.810***	-0.065
	(0.497)	(0.205)	(0.407)	(0.131)	(0.150)
Sale Growth SD Min	1.153***	0.054	-0.742***	0.154***	0.066***
	(0.121)	(0.033)	(0.060)	(0.023)	(0.022)
Size Diff	-0.108***	-0.026***	0.016**	-0.127***	-0.082***
	(0.012)	(0.005)	(0.007)	(0.003)	(0.004)
Lev Diff	0.312***	0.025	-0.414***	-0.081***	-0.331***
	(0.071)	(0.028)	(0.044)	(0.016)	(0.020)
MTB Diff	0.001	0.005***	-0.005***	0.001**	-0.003***
	(0.001)	(0.000)	(0.001)	(0.000)	(0.000)
Loss Diff	0.195***	0.029*	0.110***	0.151***	-0.370***
	(0.039)	(0.017)	(0.030)	(0.010)	(0.016)
Sale SD Diff	-0.002***	-0.000***	-0.000*	0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
CFO SD Diff	1.051***	0.037	-1.543***	-0.130***	-0.438***
	(0.193)	(0.071)	(0.130)	(0.047)	(0.050)
Sale Growth SD Diff	-0.001	0.006***	-0.007***	0.011***	-0.001
	(0.005)	(0.001)	(0.002)	(0.001)	(0.001)
Constant	4.547***	3.942***	0.836**	3.644***	2.701***
	(0.180)	(1.013)	(0.378)	(0.327)	(0.292)
Observations	1,214,106	1,215,603	1,212,393	1,215,603	608,962
Industry and Year FE	Y	Y	Y	Y	Y
Pseudo R-squared	0.364	0.206	0.514	0.247	0.141

Table 5

Impact of Firm Information Environment on Shared Analysts Demand for Increase in Financial Statement Comparability

(Mechanism Validation- Step 1)

This table reports the coefficients for the OLS regression that examines the cross-sectional variation in impact of shared analyst on accounting policy convergence based on prevailing information environment and agency concerns. The dependent variable is comparability in all columns. The cross-sectional variable used is specified in each column header, and the indicator variable "*Firm Characteristic*" takes a value of one (zero) when cross sectional variable is above (below) median at industry-year level. "*Shared Analyst"* takes the value of one (zero) for firm-pairs with (without) shared analyst coverage in a given fiscal year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

Dependent: AccComp	Firm Information Asymmetry/Uncertainty			
Firm Characteristic Variable:	Stock Return Volatility	Probability of Informed Trading	Amihud Illiquidity	Bid-Ask Spread
	(1)	(2)	(3)	(4)
Firm Characteristic	-0.617***	-0.370***	-0.571***	-0.548***
	(0.006)	(0.005)	(0.005)	(0.005)
Shared Analyst	0.324***	0.308***	0.381***	0.390***
	(0.009)	(0.008)	(0.006)	(0.006)
Shared Analyst x Firm Characteristic	**0.124*** **	**0.033*** **	**0.084*** **	**0.055*** **
	(0.013)	**(0.011)**	**(0.008)**	**(0.008)**
Controls	Y	Y	Y	Y
Observations	2,290,617	2,593,845	4,579,364	4,695,003
R-squared	0.291	0.316	0.331	0.332
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y

Table 6

Panel A. Principle versus Rule Based Accounting - Firms Ability to increase financial statement comparability due to shared analyst coverage

(Mechanism Validation- Step 2)

This table reports the coefficients for the OLS regression that examines the cross-sectional variation in impact of shared analyst on increase in comparability based on application of principle versus rule-based accounting. The dependent variable is AccComp. The variable "*Principle Accounting*" takes a value of one (zero) when *PSCORE* variable is above (below) median at industry – year level. "*Shared Analyst"* takes the value of one (zero) for firm-pairs with (without) shared analyst coverage in a given fiscal year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

Dependent: AccComp	Principle Accounting versus Rule Based Accounting
	(1)
Shared Analyst	0.189***
	(0.011)
Principle Accounting	0.165***
	(0.006)
Shared Analyst x Principle Accounting	**0.040*** **
	(0.013)
Controls	Y
Observations	1,434,089
R-squared	0.333
Industry FE	Y
Year FE	Y

Table 6

Panel B. Impact of Managerial Incentives on Catering to Shared Analysts – Agency Concerns

(Mechanism Validation- Step 2)

This table reports the coefficients for the OLS regression that examines the cross-sectional variation in impact of shared analyst on increase in comparability based on agency concerns. The dependent variable is AccComp. The variable "*High Agency Concern*" takes a value of one (zero) when the agency measure stated in column header is above (below) median at industry – year level. "*Shared Analyst"* takes the value of one (zero) for firm-pairs with (without) shared analyst coverage in a given fiscal year. Each observation corresponds to a firm pair within Fama French 48 industry and year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

Dependent: AccComp	Free Cash Flow	Over Confidence
	(1)	(2)
Shared Analyst	0.370***	0.255***
	(0.006)	(0.008)
High Agency Concern	0.058***	0.091***
	(0.004)	(0.007)
Shared Analyst x High Agency Concern	**-0.060*** **	**-0.060*** **
	(0.008)	**(0.013)**
Controls	Y	Y
Observations	4,776,821	1,736,589
R-squared	0.327	0.320
Industry FE	Y	Y
Year FE	Y	Y

Table 7

Impact of Shared Analyst Characteristics on increase in Financial Statement Comparability

(Mechanism Validation - Step 3)

This table reports the coefficients for the OLS regression that examines the impact of shared analyst characteristics on financial statement comparability. The dependent variable is comparability in all columns. The analyst characteristic variable used is specified in each column header, and the indicator variable "*Shared Analyst Characteristic*" takes a value of one (zero) when cross sectional variable is above (below) median at industry-year level. "*Shared Analyst"* takes the value of one (zero) for firm-pairs with (without) shared analyst coverage in a given fiscal year. Each observation corresponds to a firm pair within Fama French 48 industry and year. Standard errors are reported in the parentheses below the coefficient estimate and are based on heteroskedasticity-robust two-way clustering by firm-pair. ***, **, and * denotes estimates that are significantly different from zero at the 1% level, at the 5% level, and at the 10% level, respectively. All variables are defined in Appendix A.

Dependent: AccComp	(1) Brokerage Size	(2) Industry Expertise	(3) Analyst Experience	(4) Investor Contacts	(5) First-Mover Analysts	(6) Analyst Accuracy	(7) Analyst Optimism	(8) Number of Overlaps
Shared Analyst	0.292***	0.332***	0.331***	0.218***	0.309***	0.297***	0.282***	0.261***
	(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.006)	(0.005)	(0.005)
Shared Analyst x Shared Analyst Characteristic	**0.117*** (0.007)**	**0.018*** (0.007)**	**0.021*** (0.007)**	**0.297*** (0.007)**	**0.094*** (0.007)**	**0.077*** (0.006)**	**0.164*** (0.006)**	**0.248*** (0.007)**
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,776,821	4,776,821	4,776,821	4,776,821	4,776,821	4,776,821	4,776,821	4,776,821
R-squared	0.327	0.327	0.327	0.328	0.327	0.327	0.327	0.328
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y