Accounting standards and Information

Discussion

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Overview

1 Summary
2 Specific comments
3 General comments
1. Summary

• Question: For European banks, does US cross-listing and use of IFRS decrease information asymmetries?

• Comprehensive programme: consider four different measures of information asymmetry
  – bid-ask spread
  – analyst forecast errors
  – analyst forecast dispersion (range)
  – rating disagreement (frequency of split ratings)
• Comprehensive programme: analyse both
  – Cross-sectional equations
  – Changes around the time of switch to US GAAP / IFRS
• Rationale: both techniques have pros and cons
  – Cross-sectional equations prone to omitted variable bias
  – Changes approach akin to fixed effects, controlling for firm characteristics that are invariant to switch. But firm characteristics may change as a result of switch.
# Results

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<th>Bid-ask spread</th>
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<th>Split ratings</th>
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<td>Cross-section</td>
<td>Changes</td>
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<td>Cross-listed</td>
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<th>Range of forecast</th>
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2. Specific Comments

Spread equations (Table 9)

- **Volume** (turnover)
  - lowers inventory risk and decreases bid-ask
  - could be higher for cross-listed firms for reasons other than information
  - is standard control in spread regressions, e.g., Leuz and Verrechia (2002), but missing from the equation
Spread equations, continued

• Competition from US exchange
  – could lower spreads in home market
  – Table 8:
    • median spread in US similar to home market
    • US share of volume traded low on average
    • but US spreads tend to be lower whenever US share is sizeable and high when share is negligible
  – points to potential competition. Contestability of market could limit home spreads
Forecast error equation (Table 6)

• Forecast error decreases (significantly) with cross-listing, but range (dispersion) does not (odd)
• “reconciliation to US GAAP helps analysts predict earnings under home GAAP” (plausible?)
• Alternative: omitted variable bias, wrong standard errors
Forecast error equation (Table 6), continued

- **number of forecasts** (analyst following)
  - is *higher* for cross-listed firms
  - included in range equation, but not included in error equation
  - could increase information produced and lower forecast error (as well as spread) (eg Alford and Berger, 1999) (*omitted variable bias*)
  - could also affect the variance of median forecast error and thus standard errors (*heteroskedasticity*)
Forecast equations (Table 6), continued

- **Size positive** in both forecast error and range equations: odd, eg Lang and Lundholm 1996 find the opposite.
  - “larger banks more opaque”
  - omitted variables?
    - size **negative** in spread regressions (Table 9)
    - spread regressions include country dummies
    - should also include in forecast equations
    - Swiss banks more opaque?
3. General Comments

• Disclosure is a choice variable. Endogeneity?
  – Authors acknowledge potential problem and “rely on the assumption that unobservable differences (...) are not correlated with measures of information”
  – could test for endogeneity
  – could address potential endogeneity (self-selection bias) by including inverse Mills ratio, calculated from a first-stage probit model of disclosure choice (as in Leuz and Verrecchia, 2002)
• Difficult to decide whether results driven by differences in information, within that
  – accounting information
  – other information, eg SEC requirements for timely release of material information

• interact cross-listing /IFRS variables with
  – frequency of reporting
  – volatility (likelihood of information event occurring)

• Complete programme of the paper by conducting more changes analyses