The Effect of the Fair Value Reporting Model on Analyst Forecast Properties: Evidence from Real Estate Firms

公允價值模型對分析師預測特性的影響：來自房地產公司的證據

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Abstract

Using a sample of US and UK real estate firms, this study investigates whether changes in accounting standards impact analyst forecast properties. It reveals that a shift from the partial fair value reporting model (UK domestic standards) to the full fair value reporting model (IFRS) temporarily increases forecast dispersion; however, this increase disappears several years after adoption. The study also finds that, when both income statements and balance sheets are reported under the full fair value model, financial statements become more straightforward, reducing analysts' forecast revision response time. This reduction only becomes pronounced several years following IFRS adoption, meaning that the effect is not immediate. Finally, the study revisits Liang and Riedl (2014) and shows that the increase in forecast error is temporary in the post-IFRS period. Overall, this work documents that the change in accounting standards has a time-varying effect on analyst behavior.

【Keywords】 fair value, historical cost, analyst forecast dispersion, forecast revision response time

摘 要

本研究以美國與英國的房地產公司為樣本，探討會計準則變動是否影響分析師預測行為。我們發現，當英國自部分公允價值模式（原英國會計準則）轉向全面公允價值模式 (IFRS) 時，分析師的預測分歧短暫上升；然而，該分歧在 IFRS 實施數年後消失。此外，當損益表與資產負債表皆依據全面公允價值模式編製時，財務報表提供了更直接的資訊，縮短分析師修正預測所需的反應時間。這種反應時間的縮短並非立即顯現，而是在 IFRS 實施後數年才逐漸顯著。最後，我們重新檢視 Liang and Riedl (2014) 的研究，發現 IFRS 導致的預測誤差增加亦屬暫時性現象。整體而言，本研究指出，會計準則的變更對分析師行為的影響具有明顯的時間動態特徵。

【關鍵字】 公允價值、歷史成本、分析師預測分歧、預測修訂反應時間

1. Introduction

Prior studies indicate that the fair value and historical cost models have differential effects on capital market participants (Benston, 2008; Blankespoor, Linsmeier, Petroni, and Shakespeare, 2013; Bleck and Liu, 2007; Cantrell, McInnis, and Yust, 2014; Landsman, 2007). In line with this view, Liang and Riedl (2014) show that, relative to the historical cost model, the fair value model reduces analysts' ability to forecast earnings due to its incorporation of a higher number of less-correlated items into earnings, which raises the complexity of the prediction task. This finding raises further questions (which have yet to be covered in prior research) about whether these two reporting models exhibit differential effects on other analyst forecast properties (e.g., forecast dispersion) and whether these effects are long-lasting. Motivated by this gap in the literature, we extend prior works and seek to answer these questions.

We examine real estate firms across the US and the UK from 2002 to 2014, leveraging three advantages identified by Liang and Riedl (2014).[1] First, the difference between the two countries in accounting standards for investment properties allows for a comparison of the fair value and historical cost models. More specifically, while UK firms report investment properties at fair value under both UK domestic standards and International Financial Reporting Standards (IFRS), US firms report them at historical cost under US Generally Accepted Accounting Principles (GAAP), with financial statements rarely disclosing fair value estimates. Moreover, the UK's adoption of IFRS in 2005 facilitates further analysis of whether unrealized fair value gains/losses not passing through net income (under UK domestic standards: the partial fair value model) or passing through net income (under IFRS: the full fair value model) has a differential effect on analyst behavior. Second, compared to a sample of financial institutions that are similarly exposed to fair value accounting, it is easier in the real estate industry to disentangle confounding effects that may bias the effect of fair value accounting; this difference is attributable to the fact that financial institutions are subject to substantial regulations and possess more heterogeneous operating assets. Third, the US and UK real estate industries are similar and

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1   These firms invest in real estate to earn rental revenues and/or capital appreciation.

well-developed, increasing the comparability of the fair value and historical cost models.[2]

We first examine whether the transition from a partial fair value model under UK domestic standards to a full fair value model under IFRS leads to any difference in forecast dispersion among UK firms. We find an immediate but temporary increase in forecast dispersion following IFRS adoption due to earnings reported under the full fair value model being exposed to temporal changes in the market to a greater extent and including a higher number of less-correlated items. While there is an adjustment period following IFRS adoption during which firms have higher forecast dispersion, analysts have less divergent opinions on earnings per share (hereafter EPS) forecasts on average under the fair value reporting model. This difference in dispersion is economically meaningful. In 2013-2014, UK firms exhibited forecast dispersion approximately 43% lower than that of US firms.

Moreover, upon income statements and balance sheets becoming more consistent with each other following IFRS adoption, we find that analysts spend less time reconciling the differences between the two, leading to a reduction in overall forecast revision response time. As with the time-varying effect on forecast dispersion, we find that this change in forecast duration is not static throughout the post-IFRS period. In fact, the difference in forecast duration is not evident within the first six years following IFRS adoption; still, the difference emerges in later years, with the reduction in forecast revision response time becoming more pronounced over time. We note, however, that while the improved consistency shortens the overall forecast revision time, the average time is generally longer among UK firms under the fair value model than it is among US firms under the historical cost model.

Finally, motivated by our evidence that the effect of IFRS adoption is not static throughout the sample period, we re-examine whether the shift from the partial fair value model to the full fair value model also exhibits a time-varying effect on forecast error. Liang and Riedl (2014) find that, in their sample period of 2002-2010, forecast error is higher under the UK full fair value model than it is under either the UK partial fair value model or the US historical cost model. Therefore, the change in forecast dispersion

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2   For more detailed discussion, please refer Liang and Riedl (2014), p. 1152.

warrants further analysis through an examination of forecast error. If the effect of the change in accounting standards on forecast dispersion becomes attenuated over time, it is likely that forecast error exhibits a similar pattern. Our data enable us to assess whether Liang and Riedl's (2014) results hold beyond their sample period. Consistent with our findings regarding the time-varying effect on forecast dispersion and forecast duration, our analysis reveals that forecast error exhibits an inverse U-shape pattern, meaning that while forecast error is higher in the period immediately following IFRS adoption, it is no longer significantly higher in later years.

Our study makes several contributions to the literature. First, it extends prior research by demonstrating that allowing unrealized holding gains and losses to flow through net income has a time-varying effect on forecast properties. These insights are valuable for policymakers as they evaluate the long-term impacts of changes in accounting standards. While prior studies point out that analysts may bear one-time costs to learn and digest the new standards (Wang, Hou, and Chen, 2012; Tan, Wang, and Welker, 2011; Ball, 2006), they do not offer empirical support for this claim. Moreover, while several studies exist that examine the impact of fair value accounting on financial statement users among samples pulled from other industries (e.g., banking, agriculture), these studies (Huffman, 2018) focus on the aggregate impact on financial statement users, neglecting temporal trends. Our study, by documenting the temporary effects on forecast properties, provides evidence in support of the increased information-acquisition cost argument, representing the first attempt to investigate adaptation trends following the adoption of new standards.

Second, our evidence indicates that there are no differences in forecast dispersion or forecast error between the pre-IFRS period and the later years of the post-IFRS period among UK firms. This finding is linked to the notion of Financial Accounting Standards Board (FASB) that recognition in the equity section in the balance sheet and recognition in net income are equally useful for sophisticated financial statement users. Finally, our findings are likely to be of interest to those who develop and implement US, UK, and international standards in ongoing deliberations over the extent of the adoption of fair value accounting. Since fair value accounting is associated with lower forecast dispersion in the real estate industry, US standard setters may consider fair value accounting specifically for the real estate industry, while the International Accounting Standards Board (IASB) may explore the possibility of applying fair value accounting more broadly across

a range of industries. Additionally, as even sophisticated financial statement users require time to adapt to new standards, companies and standard setters may explore innovative means of easing the transition and improving understanding for a wider range of financial statement users.

The paper is organized as follows. Section 2 discusses this study's background, conducts a review of the literature, and develops our hypotheses. Section 3 details the research design. Section 4 discusses the sample-selection process and descriptive statistics. Section 5 reports the empirical results. Section 6 presents some additional analyses, and, finally, Section 7 concludes the paper.

2. Related Accounting Standards, Literature Review, and Hypothesis Development

2.1 Evolution of Accounting Standards for REITS Firms in the US and UK

To examine how fair value accounting impacts analyst behavior, we examine publicly traded investment property firms domiciled in the US and the UK with a particular focus on how accounting standards under their respective reporting regimes affect analyst forecast properties. In our sample period, US firms report properties, plants, and equipment at historical cost subject to impairment, while UK firms report real estate assets at fair value. As UK firms were subject to a shift in standards of fair value reporting in 2005—from the partial fair value model to the full fair value model—we discuss the UK reporting regime in greater detail.

Prior to 2005, UK investment property firms followed domestic standards: the Statement of Standard Accounting Practice No. 19 (hereafter SSAP No. 19) for valuing properties. SSAP No.19 required firms to report real estate at "open market value" on the balance sheet and to report unrealized fair value gains/losses in a "revaluation reserve" account, without them passing through net income. Beginning on January 1, 2005, the UK adopted IFRS, mandating that firms follow International Accounting Standard 40 for investment properties (hereafter IAS 40). IAS 40 permits firms to choose between a fair value model and a cost model. This choice is available because the International Accounting Standards Committee (IASC) believes that allowing firms to choose between two reporting models grants firms and investors more time to get experience with the fair

value model and enables less-developed countries to mature their markets and valuation professionals.[3] However, partially because of SSAP No.19 prior to IFRS adoption, all UK investment property firms reported their assets on balance sheets at fair value (Liang and Riedl, 2014). IAS 40 also requires unrealized fair value gains/losses to be reported in net income. In a nutshell, UK firms have reported investment properties at fair value on the balance sheet throughout the pre- and post-IFRS periods; the key difference between the two periods lies in the accounting treatment of unrealized fair value gains/losses (i.e., whether they pass through the income statement). In other words, under the pre-IFRS UK domestic standards, the fair value reporting model applied only to balance sheets whereas under IAS 40 in the post-IFRS period, it applies to both the balance sheet and the income statement. To be brief and consistent with Liang and Riedl (2014), we refer to the pre-2005 accounting regime as a "partial fair value" reporting model and the post-2005 accounting regime as a "full fair value" reporting model.

2.2 Literature Review

This subsection reviews the literature on fair value accounting. Prior studies indicate that fair values of both financial and non-financial assets are value-relevant to financial statement users. For example, Barth (1994) asserts that fair value estimates for investment securities in US banks offer more explanatory power than historical costs. Venkatachalam (1996) finds that fair value estimates for derivatives explain cross-sectional variation in bank share prices and have incremental explanatory power alongside notional derivative amounts. With respect to value relevance among non-financial assets, Easton, Eddey, and Harris (1993) consider the asset-revaluation reserves among a sample of Australian non-financial firms, meaning these firms' adjustments to the market prices of tangible assets. They find that asset-revaluation reserves represent a better summary of the current state of a firm, as reflected in the positive association between annual returns and price-to-book ratios. Barth and Clinch (1998) also show that revalued financial, tangible, and intangible assets are value-relevant and that some old but revalued amounts still exhibit value

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3   Please check IAS 40-BC12. Available at: http://www.casrilanka.com/casl/images/stories/content/ publications/publications/accounting_standards/sri_lanka_accounting_standards_application_ guidance_2011/application_guidance_of_iass/ias_2040-bc_20&_20appendix.pdf.

relevance. Expanding such works, Aboody, Barth, and Kasznik (1999) find that upward asset revaluations are positively linked to future performance (measured as changes in operating income and cash from operations).

As accounting standards for fair values have evolved over the past decade, a growing body of research looks at how new standards affect the value relevance of fair value estimates. Statement of Financial Accounting Standards (SFAS) 157 requires that fair value assets and liabilities be classified into different levels based on the transparency of the inputs as a means of valuing the assets/liabilities. Song, Thomas, and Yi (2010) document that the value relevance of level 1 and level 2 fair value is greater than that of level 3 and that corporate governance is positively associated with the relevance of these reported fair values. Barron, Chung, and Yong (2016) find that SFAS 157 adoption introduces more comprehensive fair value disclosures of level 3 estimates, giving way to a decline in analysts' overall uncertainty, as reflected by lower forecast error. Magnan, Menini, and Parbonetti (2015) also reveal a differential effect on different categories of financial assets, pointing to an increase in the quality of public and private information for level 2 but a decrease in that for level 3. Similarly, Riedl and Serafeim (2011) show that firms with greater exposure to level 3 financial assets have higher betas than level 1 and level 2 financial assets, revealing that this relationship is mitigated by a stronger information environment.

While fair value accounting improves the value relevance of financial statements, it also leads to income becoming increasingly volatile and, in turn, less predictable (Barth, 1994). Barth (2006) points out that, as more estimates of the future are incorporated into current measures of assets and liabilities, the reliability of future estimates plays an important role in determining the predictability of income. Similarly, Landsman (2007) points out that the level of informativeness in fair value estimates is determined by the estimates' reliability, which is dependent on both the source of the estimates and their measurement error. He also points out that relying on managers' estimates of the fair value of assets and liabilities introduces information asymmetry.

As reliability is a prominent concern for fair value accounting, prior research has examined how reliability and managerial opportunism influence the consequences of fair value accounting. Beaver and Venkatachalam (2003) examine bank loan fair values, showing that investors react negatively to the discretionary part of fair values if the

discretion is likely to be opportunistic. Khurana and Kim (2003) suggest that, among US financial institutions, fair value is more value-relevant when objective market-determined fair value measures are available. In a related study, Yao, Percy, and Hu (2015) assess the association between the reliability of fair value estimates and audit fees among Australian companies and find that auditors react positively to the service provided by an independent valuer or appraiser in the form of charging lower audit fees, as auditors perceive the reliability of fair value amounts to be increasing and the prevalence of agency issues to be decreasing.[4] Similarly, Lin and Wang (2019) examines audit fees in Taiwan subsequent to the adoption of IAS 40 and find that when companies are required to disclose the fair value of investment properties, companies that employ external appraisers exhibit a lower increase in audit fees if they choose the cost model.

Prior research also covers the consequences of fair value accounting with a focus on the real estate industry. Dietrich, Harris, and Muller (2000), looking at fair value estimates for UK investment property, find that managers choose from permissible accounting methods to report higher earnings and boost reported fair values prior to issuing new debt. Furthermore, they show that the reliability of fair value estimates is stronger among firms that hire external appraisers and Big 6 auditors. Extending the work of Dietrich et al. (2000), Muller and Riedl (2002) find that information asymmetry is lower among firms that use external appraisers than among those that employ internal appraisers. Muller, Riedl, and Sellhorn (2011) reveal that IAS 40 reduces information asymmetry among European firms confronted with mandatory adoption. However, these firms still exhibit higher information asymmetry than those that adopted it voluntarily due to the lower reliability of fair values among mandatory adopters. Finally, Liang and Riedl (2014) find that the fair value model bolsters analysts' ability to forecast net asset values but hinders their ability to forecast net income, as unrealized fair value gains/losses are included in net income. In a related study, Ghosh, Liang, and Petrova (2020) show that disclosing net asset values boosts transparency in financial reporting, which manifests in the form of higher pricing efficiency and liquidity. However, using a sample of Chinese real estate companies, Hsu, Wu, and Sbaraglia (2020) find that reporting investment properties under the fair value

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4   Barth and Clinch (1998), however, do not find a difference in value relevance between internal and external appraisals.

model provides more useful information and yields a higher predictive ability for future earnings than under the cost model.

2.3 Hypothesis Development

In this subsection, we predict the effects of the full fair value model and the partial fair value model on forecast dispersion. Following the UK's 2005 adoption of IFRS—and, in turn, the full fair value model—UK firms not only report their investment properties at fair value on the balance sheet but also include unrealized holding gains/losses on the income statement. On the one hand, it is possible that forecast dispersion may not change among UK firms across these two reporting regimes, as the changes in fair value estimates (despite not passing through net income) had been disclosed in the financial statements prior to IFRS adoption; if all analysts had fully used the disclosed information to predict earnings under the UK domestic standards and immediately adjusted to the new reporting regime, IFRS would not provide them with new information or, in turn, lead to changes in forecast dispersion (Kothari, 2001).[5,6] On the other hand, it is possible that task of prediction is more complex and difficult for analysts in the post-IFRS period, as earnings reported under the full fair value model are exposed to temporal market changes and feature a higher number of less-correlated items (relative to those reported under the partial fair value model and the historical cost model). To the extent that not all analysts fully adjust to new accounting standards, analysts' opinions regarding future prospects are likely to be divergent following IFRS adoption.

It is also worth noting the possibility of a time-varying effect following the 2005 shift in standards. Prior research (e.g., Clement, 1999; Markov and Tamayo, 2006; Mikhail, Walther, and Willis, 2003) suggests that analysts learn through experience, meaning

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5   This argument is based on the semi-strong form of the efficient market hypothesis, suggesting that recognition versus disclosure of accounting information should not make a difference to financial statement users. Prior research (e.g., Barth, 1991; Gopalakrishnan, 1994) finds that investors treat disclosed and recognized information in a similar manner. The research question we examine is close to but different from the issue of recognition versus disclosure because the unrealized holding gains/ losses are recognized in the equity section in the balance sheet under UK domestic standards.

6   Related to our research question, FASB also states that recognition and disclosure may have "equal usefulness" for sophisticated users (SFAS No. 87, para.116).

that cognitive biases diminish as they become increasingly familiar with the reporting environment. Moreover, the implementation of new standards may impose "one-time" adjustment costs that temporarily raise the difficulty of generating accurate forecasts. Thus, in our analysis, we examine the potential time-varying effects of IFRS adoption on forecast dispersion, recognizing that analysts may need time to adjust to new standards and that the impact may evolve as these analysts gain experience and overcome initial adjustment costs.

In our sample period, US firms report properties, plants, and equipment at historical cost subject to impairment without any change in the reporting model. In contrast, the UK's 2005 adoption of IFRS marks a shift from a partial fair value model to a full fair value model. This transition allows for a meaningful comparison to the valuation model used by US real estate investment firms across the same period, both pre- and post-transition. As there are two possible outcomes regarding how forecast dispersion changes following the adoption of IFRS, we do not predict *a priori* the direction of the effect of the full fair value model versus that of the partial fair value model on forecast dispersion. The discussion above leads to the following hypothesis:

H1: The dispersion of analysts' EPS forecasts is not different between the pre-IFRS and post-IFRS periods.

3. Research Design

To examine the effect of the fair value model versus that of the historical cost model on analysts' forecast dispersion, we follow the approach lied out by prior works (Chen, Cheng, and Lo, 2014; Lang and Lundholm, 1996; Lee, Pandit, and Willis, 2013; Lehavy, Li, and Merkley, 2011; Liang and Riedl, 2014; Weiss, 2010) and estimate the following regression, where subscript *i* denotes the company and subscript *t* denotes the year:

$$DISPERSION_{it} = \beta_0 + \beta_1 UK_{it} + \beta_2 POST_{it} + \beta_3 UK_{it} \times POST_{it} + \beta_4 ROA_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} +$$
$$\beta_7 BM_{it} + \beta_8 OTHER\_A_{it} + \beta_9 OTHER\_L_{it} + \beta_{10} EPS\_CHANGE_{it} +$$
$$\beta_{11} GROWTH_{it} + \beta_{12} REIT_{it} + \beta_{13} DIVERSIFIED_{it} + \beta_{14} STD\_RET_{it} +$$
$$\beta_{15} PINT_{it} + \beta_{16} FOLLOW_{it} + \beta_{17} HORIZON_{it} + YEAR_t + \varepsilon_{it} \qquad (1)$$

The dependent variable $DISPERSION_{it}$ is the dispersion of analyst forecasts, measured as the average of individual analysts' forecasts scaled by the absolute value of the mean EPS

forecast. Our analyses follow a difference-in-differences design. We include UK_{it}, $POST_{it}$, and $UK_{it} \times POST_{it}$ as the test variables: UK_{it} is an indicator variable that equals one if the company is a UK firm and equals zero if it is a US firm; $POST_{it}$ is an indicator variable that equals one from 2005 if firm i has a December 31 fiscal year-end, equals one from 2006 if firm i has a non-December 31 fiscal year-end, and equals zero otherwise. The coefficient on UK_{it} (β_1) captures the effect of the partial fair value model (i.e., unrealized fair value gains/losses do not pass through net income) on the properties of analysts' earnings forecasts relative to that of the historical cost model under US GAAP. The coefficient on $POST_{it}$ (β_2) captures concurrent temporal effects on US firms that coincide with UK IFRS adoption. The coefficient on the $UK_{it} \times POST_{it}$ interaction term (β_3) captures the incremental effect of the full fair value model (i.e., unrealized fair value gains/losses pass through net income) under IFRS relative to that of the historical cost model under US GAAP.

Equation (1) includes a series of firm-level control variables that are likely to affect the properties of analyst forecasts. ROA_{it} is profitability, measured as net income scaled by total assets at the end of year t-1. $SIZE_{it}$, referring to firm size, is the logarithm of the market value of equity at the end of year t-1. LEV_{it} is the leverage ratio, measured as total long-term debt divided by total assets at the end of year t-1. BM_{it} is the book-to-market ratio at the end of year t-1. $OTHER\_A_{it}$ and $OTHER\_L_{it}$ are the percentage of non-investment property assets and non-debt liabilities in total assets, respectively, measured at the end of year t-1. EPS_CHANGE_{it} is the change in EPS, measured as the absolute value of the difference in EPS between years t-1 and t divided by share price at the end of year t-1. $GROWTH_{it}$ is the sales growth rate between years t-2 and t-1. $REIT_{it}$ is an indicator variable that equals one if firm i is classified as a real estate investment trust and zero otherwise. $DIVERSIFIED_{it}$ is an indicator variable that equals one if firm i has a diversified portfolio of investment properties and zero otherwise. STD_RET_{it} is the standard deviation of daily stock returns for firm i in year t-1. $PINT_{it}$ is the percentage of institutional ownership in year t-1. $FOLLOW_{it}$, referring to analyst coverage, is the number of analysts issuing an EPS forecast for firm i in year t. $HORIZON_{it}$ is the log of 1 plus the average length of time between the forecasting date and the earnings announcement date for firm i in year t.

Next, we examine whether the effect of the full fair value model relative to the partial fair value model and the historical cost model varies over time. To capture time-varying effects, we replace $POST$ in Equation (1) with a vector of time-period indicators:

YEAR_0506, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. For example, *YEAR_0506* equals one for the period 2005-2006 and zero otherwise. The other time-period indicator variables are defined accordingly. More precisely, we estimate the following regression:

$$
\begin{aligned}
DISPERSION_{it} = {} & \gamma_0 + \gamma_1 UK_{it} + \gamma_2 YEAR\_0506_{it} + \gamma_3 YEAR\_0708_t + \gamma_4 YEAR\_0910_{it} + \\
& \gamma_5 YEAR\_1112_{it} + \gamma_6 YEAR\_1314_{it} + \gamma_7 UK_{it} \times YEAR\_0506_{it} + \gamma_8 UK_{it} \times \\
& YEAR\_0708_{it} + \gamma_9 UK_{it} \times YEAR\_0910_{it} + \gamma_{10} UK_{it} \times YEAR\_1112_{it} + \\
& \gamma_{11} UK_{it} \times YEAR\_1314_{it} + \gamma_{12} SIZE_{it} + \gamma_{13} LEV_{it} + \gamma_{14} BM_{it} + \gamma_{15} OTHER\_ \\
& A_{it} + \gamma_{16} OTHER\_L_{it} + \gamma_{17} EPS\_CHANGE_{it} + \gamma_{18} GROWTH_{it} + \gamma_{19} REIT_{it} \\
& + \gamma_{20} DIVERSIFIED_{it} + \gamma_{21} STD\_RET_{it} + \gamma_{22} PINT_{it} + \gamma_{23} FOLLOW_{it} + \\
& \gamma_{24} HORIZON_{it} + YEAR_t + \varepsilon.
\end{aligned}
\qquad (2)
$$

Finally, we winsorize all continuous variables at the 1% and 99% levels to mitigate the effect of outliers and cluster standard errors at the firm level.

4. Sample Selection and Descriptive Statistics

We construct the sample using six data sources: (1) real estate information from the SNL database; (2) financial statement information for US firms from Compustat; (3) financial statement information for UK firms from Worldscope; (4) analyst data from I/B/E/S; (5) price information for US firms from CRSP; and (6) price information for UK firms from DataStream. We consider publicly traded investment property firms from 2002 to 2014 that are domiciled in the US and UK for which we have both the data necessary to derive control variables and at least three analyst forecasts.[7] Table 1 presents the number of firm-year observations across our testing samples for each year. We have 1161 firm-year observations, of which 849 are from the US and 312 are from the UK.

Table 2 presents the descriptive statistics of the variables for US and UK firms. We find that, relative to US firms, UK firms are smaller and have lower leverage, higher book-

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7   To calculate the standard deviation of forecasts, we additionally require at least three analyst forecasts to be consistent with the literature (Barron, Byard, Kile, and Riedl, 2002). Our results are robust to the more stringent requirement of having at least 4 analyst forecasts.

to-market ratios, lower non-property assets, higher non-debt liabilities, a lower percentage of REIT-status firms, more diversified portfolios, lower institutional ownership, more analysts following, and a longer forecast horizon. We find that UK firms exhibit less forecast dispersion than US firms.

Table 1 Sample Selection

Distribution by year		
Year	US	UK
2002	20	16
2003	31	18
2004	51	17
2005	56	19
2006	58	18
2007	66	23
2008	69	24
2009	77	27
2010	72	29
2011	74	28
2012	90	34
2013	90	29
2014	95	30
Total	849	312

Notes: This table presents the number of observations by year.

5. Empirical Results

5.1 Forecast Dispersion

Table 3 presents the regression results for analyst forecast dispersion. Column (1) reports the estimates of Equation (1), including those for *UK*, *POST*, and *UK×POST*. We focus on the interaction term *UK×POST*, which captures the shift in forecast dispersion from the partial fair value model to the full fair value model among UK firms. A significantly positive (negative) coefficient on *UK×POST* suggests that the forecast dispersion is greater (lower) for UK firms reporting under IFRS than it is for UK firms

Table 2 Descriptive Statistics: Comparison between US and UK Firms 2002-2014

Variable	US firms				UK firms				Combined			
	N	Mean	Median	STD	N	Mean	Median	STD	N	Mean	Median	STD
DISPERSION	849	0.966	0.367	2.047	312	0.642***	0.162***	1.580	1,161	0.879	0.302	1.948
ROA	849	0.029	0.027	0.036	312	0.035	0.029		1,161	0.031	0.027	0.055
SIZE	849	7.591	7.613	1.069	312	6.808***	6.710***	1.254	1,161	7.381	7.465	1.192
LEV	849	0.470	0.479	0.148	312	0.371***	0.366***	0.121	1,161	0.443	0.455	0.150
BM	849	0.592	0.528	0.385	312	1.193**	1.121***	0.427	1,161	0.754	0.634	0.480
OTHER_A	849	0.217	0.135	0.242	312	0.185***	0.135**	0.200	1,161	0.209	0.135	0.233
OTHER_L	849	0.064	0.049	0.061	312	0.094***	0.073***	0.059	1,161	0.072	0.053	0.062
EPS_CHANGE	849	0.033	0.012	0.077	312	0.040	0.010*	0.096	1,161	0.035	0.011	0.083
GROWTH	849	0.125	0.072	0.286	312	0.100	0.066**	0.365	1,161	0.119	0.071	0.320
REIT	849	0.951	1.000	0.217	312	0.394***	0.000***	0.493	1,161	0.801	1.000	0.399
DIVERSIFIED	849	0.114	0.016	0.318	312	0.462***	0.017	0.500	1,161	0.208	0.016	0.406
STD_RET	849	0.022	0.000	0.015	312	0.020***	0.000***	0.011	1,161	0.021	0.000	0.014
PINT	849	0.787	0.821	0.205	312	0.268***	0.077***	0.315	1,161	0.647	0.749	0.331
FOLLOW	849	6.188	6.000	2.752	312	9.756***	7.000***	6.641	1,161	7.147	6.000	4.490
HORIZON	849	4.885	4.911	0.333	312	5.030***	5.052***	0.288	1,161	4.924	4.949	0.332

Notes: This table presents descriptive statistics for the variables in the main regressions. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, based on *t*-statistics (z-statistics) for differences in means (medians).

previously reporting under domestic standards, controlling for concurrent temporal trends among US firms reporting under the historical cost model. We find that *UK×POST* is positive but insignificant (0.395, *t*-statistic = 1.40), meaning that the evidence does not point to a difference in dispersion between the pre-IFRS and post-IFRS periods.

Next, we investigate forecast dispersion further by examining whether the insignificant coefficient on *UK×POST* is attributed to the time-varying effect of the 2005 standards transition. Following IFRS adoption, earnings include less-correlated serial terms, raising the difficulty of prediction for analysts. If analysts eventually adjust to the new standard and improve their prediction-making capacities, the effect of the change in accounting standards should be attenuated in the later years of the post-adoption period. We estimate Equation (2) to examine the time-varying effect and report the results in Column (2). The coefficients of interest are the interaction terms between the UK and the time-period indicator variables, which examine the changes between the pre- and post-IFRS periods for UK firms, controlling for the temporal change among US firms. For example, the interaction term *UK×YEAR_0506* examines the change in forecast dispersion for UK firms between the pre-IFRS period (i.e., the partial fair value model under UK domestic standards) and the first two years of the post-IFRS period (i.e., the full fair value model under IFRS).

We find that *UK×YEAR_0506* (1.271, *t*-statistic = 4.04) is significant and positive, but we do not find any other interaction terms to be significant (*UK×YEAR_0708*, *UK×YEAR_0910, UK×YEAR_1112*, or *UK×YEAR_1314*).[8,9] We also observe that the increase in forecast dispersion exhibits a downward trend, peaking in the first two years of the post-adoption period and becoming negative or close to zero in the final four years

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8   To confirm that our results on forecast dispersion are not sensitive to a different scaler, we redefine dispersion as the standard deviation of the individual analysts' forecasts, scaled by the market price in year *t*-1. We continue to find that forecast dispersion of UK firms increases subsequent to IFRS adoption and that the increase exhibits a decreasing trend. In later years, we do not find the forecast dispersion of UK firms to be different from the forecast dispersion in the pre-IFRS period (untabulated).

9   *UK×YEAR_1314* captures the changes due to the application of IFRS 13 for UK firms. An insignificant coefficient on *UK×YEAR_1314* is consistent with the notion that many concepts of IFRS 13 were consistent with the existing practices and that IFRS 13 provides more complete guidance for the application of fair value accounting (PricewaterhouseCoopers (PwC), 2011).

of our sample period. The results suggest that the adoption of IFRS (which requires that unrealized holding gains/losses pass through net income) leads to an immediate increase in the degree of diversified opinions among analysts within UK firms. However, this effect is not permanent; it only lasts for two years. This aligns with the notion that it takes time for analysts to adjust to new accounting standards (Clement, 1999; Mikhail et al., 2003; Markov and Tamayo, 2006).

Finally, we examine the differential effects of the fair value model and the historical cost model on forecast dispersion by checking the significance of the sum of *UK* and the interaction term between *UK* and the vector of time-period indicators. For example, the test of *UK + UK×YEAR_0506* compares forecast dispersion under the full fair value model in the UK in 2005-2006 with forecast dispersion under the historical cost model in the US. Panel B reveals that while both *UK + UK×YEAR_1112* and *UK + UK×YEAR_1314* are significant and negative, *UK + UK×YEAR_0506*, *UK + UK×YEAR_0708*, and *UK + UK×YEAR_0910* are insignificant, suggesting that UK firms reporting under the full fair value model have lower levels of forecast dispersion than US firms reporting under the historical cost model after 2011 and 2012.[10] This decrease in dispersion is economically meaningful. For example, in 2013-2014, UK firms exhibit forecast dispersion lower than US firms by -0.552 (*UK + UK×YEAR_1314*), or a level approximately 43% lower than the average of US firms (US mean is 0.966).[11]

Overall, despite the transition from a partial fair value reporting model (i.e., unrealized holding gains/losses do not pass through net income) to a full fair value reporting model (i.e., unrealized holding gains/losses pass through net income) increasing forecast dispersion among UK firms, we find that this effect is only temporary. More precisely, forecast dispersion in the post-IFRS period exhibits a downward trend, by which it is no longer significantly larger than that in the pre-IFRS period. The results showing no difference between the pre-IFRS period and the later years of the post-IFRS period among UK firms are consistent with and in support of the notion of FASB that recognition in the equity section on the balance sheet and recognition in net income are equally useful to

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10   Our inference remains unchanged if we use different time windows (i.e., one year) (untabulated).

11   Our inference remains unchanged if we cluster standard errors at the firm and year levels (untabulated).

Table 3 The Effect of Fair Value Model Versus Historical Cost Model on Forecast Dispersion

Panel A: Dependent Variable: *DISPERSION*

Variable	(1)			(2)		
	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK	-0.711	-1.80	0.073	-0.621	-1.44	0.150
POST	-2.444	-1.90	0.059			
YEAR_0506				-2.574	-2.00	0.047
YEAR_0708				0.051	0.24	0.808
YEAR_0910				-0.641	-1.44	0.150
YEAR_1112				0.167	0.75	0.452
YEAR_1314				0.259	1.80	0.073
UK×POST	0.395	1.40	0.164			
UK×YEAR_0506				1.271	4.04	0.000
UK×YEAR_0708				0.765	1.52	0.130
UK×YEAR_0910				0.580	1.17	0.244
UK×YEAR_1112				-0.438	-1.23	0.221
UK×YEAR_1314				0.069	0.22	0.825
ROA	-4.201	-3.55	0.000	-3.976	-3.39	0.001
SIZE	-0.086	-1.08	0.282	-0.128	-1.57	0.118
LEV	0.732	1.75	0.082	0.832	1.91	0.057
BM	0.093	0.27	0.790	0.118	0.33	0.741
OTHER_A	-0.172	-0.49	0.622	-0.077	-0.21	0.834
OTHER_L	-1.192	-0.96	0.340	-1.050	-0.76	0.446
EPS_CHANGE	1.954	1.28	0.203	1.747	1.17	0.242
GROWTH	-0.078	-0.62	0.537	-0.059	-0.44	0.662
REIT	-0.296	-1.23	0.219	-0.147	-0.50	0.616
DIVERSIFIED	0.019	0.09	0.928	0.056	0.26	0.792
STD_RET	46.163	3.61	0.000	47.548	3.51	0.001
PINT	0.314	1.15	0.250	0.364	1.33	0.186
FOLLOW	0.004	0.21	0.832	0.009	0.47	0.640
HORIZON	0.410	2.34	0.020	0.464	2.61	0.010
Fixed effects	Yes			Yes		
n	1,161			1,161		
Adj. R^2	0.125			0.134		

Table 3 (continued) The Effect of Fair Value Model Versus Historical Cost Model on Forecast Dispersion

Panel B: Significance Tests of Sum of Coefficients

	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK + UK×POST	-0.316	-1.07	0.287			
UK + UK×YEAR_0506				0.650	1.46	0.145
UK + UK×YEAR_0708				0.144	0.37	0.708
UK + UK×YEAR_0910				-0.041	-0.08	0.937
UK + UK×YEAR_1112				-1.059	-2.60	0.010
UK + UK×YEAR_1314				-0.552	-1.89	0.060

Notes: This table presents the results of the multivariate analysis of the determinants of EPS forecast dispersion using UK and US firm-year observations from 2002 to 2014. Panel A presents the regression results, and Panel B details whether the sums of the coefficients of interest are significant. *DISPERSION* is the dispersion of analyst forecasts, measured as the standard deviation of individual analysts' forecasts scaled by the absolute value of the mean EPS forecast. *POST* equals one after 2005 and zero otherwise. In Column (2), we replace *POST* with a vector of time-period indicator variables: *YEAR_0506*, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. *YEAR_0506* equals one for the period 2005-2006 and zero otherwise; all other time-period indicator variables are defined accordingly. The *t*-statistics are calculated using robust standard errors clustered at the firm level.

sophisticated financial statement users. Finally, we offer evidence indicating that, relative to the historical cost reporting model, the fair value reporting model is associated with less forecast dispersion.

6. Additional Analyses and Robustness Tests

6.1 Analyst Forecast Revision Response Time

Table 4 presents the regression results for analyst forecast revision response time. The dependent variable is *DURATION*, which is the average analyst forecast revision response time, measured as the average length of time between the annual report date and the first report for each analyst. We find that the coefficient on *UK×POST* is insignificant (-5.029, *t*-statistic = -1.48), suggesting that the time required for UK analysts to issue reports under the full fair value reporting model does not differ from that under the partial fair value reporting model.

We again conduct the analyses to examine whether the insignificant coefficient on *UK×POST* is associated with the time-varying effect of the 2005 change in standards. Our results reveal that the change's effect in the UK is not constant throughout the post-IFRS period. We do not identify a significant difference in forecast response time in the early period following IFRS adoption (*UK×YEAR_0506* = -2.078, *t*-statistic = -0.38; *UK×YEAR_0708* = 0.545, *t*-statistic = 0.13; *UK×YEAR_0910* = -3.187, *t*-statistic = -0.80). However, starting in 2011, we find that it takes less time for UK analysts to issue their first forecast revisions (*UK×YEAR_1112* = -7.923, *t*-statistic = -2.17; *UK×YEAR_1314* = -9.988, *t*-statistic = -2.22), and this reduction is economically meaningful. In 2011-2012, both UK and US firms exhibit, on average, an increase in response time (*YEAR_1112* = 9.343). However, this increase is 85% (-7.923/9.343) lower for UK analysts. Still, we note that the magnitude of the coefficients and the significance level have increased in the last four years of our sample period, suggesting that analysts spend less time issuing forecasts. The results are similar to those in Table 3, which documents a time-varying effect of the change in accounting standards on analyst forecast dispersion.

Finally, we examine the differential effect of the fair value model and the historical cost model on forecast revision response time by checking the significance of the sum of *UK* and the interaction term between *UK* and the vector of time-period indicators. Panel B reveals that, aside from *UK + UK×YEAR_1314*, all sums are significant and positive, providing additional evidence of analyst response time being longer among UK firms reporting under the full fair value model than among US firms reporting under the historical cost model.

Overall, we find that analysts spend more time issuing the first forecast revision for UK firms reporting fair values, on average. However, the analysts' forecast revision response times are reduced when income statements and balance sheets are reported under the same reporting model in the post-IFRS period (i.e., the full fair value model), compared to the period in which balance sheets follow fair value accounting while income statements follow the historical cost model (i.e., the partial fair value model). We note that the reduction in forecast revision response time due to IFRS adoption is not immediate. The delayed effect on forecast revision response time is consistent with the previously presented findings on forecast dispersion (Section 5.1) as well as prior research indicating that analysts improve over time, steadily learning how to use resources more effectively

(Markov and Tamayo, 2006; Mikhail et al., 2003). The results also show that even for sophisticated financial statement users—who should be more capable of reconciling differences between balance sheets and income statements and may not be greatly affected by new standards—improved consistency between statements leads to taking significantly less time to analyze reports and makes the forecasting task more straightforward.

6.2 Re-Examination of Forecast Error

In this subsection, we revisit Liang and Riedl (2014), documenting that there is an increase in EPS forecast error following the implementation of the requirement that unrealized holding gains and losses pass through net income. More specifically, we examine whether their results also exhibit a temporal trend and whether their conclusion holds after 2010—the final year of their sample. We estimate Equation (1) with the dependent variable *ABS_ERROR*, which is the absolute value of the difference between the I/B/E/S actual earnings and the mean of analyst forecasts for firm *i* and quarter *t* in the final consensus preceding the earnings announcement, scaled by the absolute value of the mean EPS forecast.

Table 5 presents the results of the regression with the dependent variable *ABS_ ERROR*. We first replicate Liang and Riedl (2014), the results of which are shown in Column (1). The coefficients on *UK* (-0.182, *t*-statistic = 0.49) and *POST* (-1.168, *t*-statistic = -1.33) are both insignificant. The coefficient on *UK×POST* (0.892, *t*-statistic = 2.84) is significant and positive, suggesting that forecast error is higher among UK firms reporting under IFRS than it is among US firms reporting under GAAP.[12] Overall, the results thus far are similar to those reported by Liang and Riedl (2014), aligning with their argument that the net income of UK firms includes non-serially correlated and transient items, increasing the difficulty of predicting earnings.

Next, we partition our sample by year to examine whether the effect of the change in accounting standards on forecast error also varies over time. The results of this partitioned

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12 We also examine whether our findings on forecast error are robust to an alternative scaler. Similarly, we refine *ABS_ERROR* as the absolute value of the difference between the I/B/E/S actual earnings and the mean of analyst forecasts for firm *i* and quarter *t* in the last consensus immediately preceding the earnings announcement, scaled by the market price at the end of year *t*-1. Untabulated results show that our findings are similar to those reported in Table 5.

Table 4 Additional Analysis: The Effect of Fair Value Model Versus Historical Cost Model on Forecast Revision Response Time

Panel A: Dependent Variable: *DURATION*

Variable	(1)			(2)		
	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK	13.603	3.44	0.001	14.126	3.62	0.000
POST	-10.210	-1.29	0.200			
YEAR_0506				-10.885	-1.35	0.180
YEAR_0708				-6.981	-1.76	0.080
YEAR_0910				-1.816	-0.39	0.700
YEAR_1112				9.343	2.12	0.036
YEAR_1314				2.815	0.70	0.484
UK×POST	-5.029	-1.48	0.141			
UK×YEAR_0506				-2.078	-0.38	0.704
UK×YEAR_0708				0.545	0.13	0.896
UK×YEAR_0910				-3.187	-0.80	0.422
UK×YEAR_1112				-7.923	-2.17	0.031
UK×YEAR_1314				-9.988	-2.22	0.027
ROA	-12.103	-1.12	0.262	-3.448	-0.30	0.762
SIZE	2.153	4.17	0.000	1.872	3.37	0.001
LEV	6.124	1.52	0.130	6.816	1.66	0.098
BM	1.123	0.74	0.461	1.220	0.81	0.419
OTHER_A	4.112	1.50	0.136	4.865	1.76	0.079
OTHER_L	-4.444	-0.37	0.710	-7.974	-0.65	0.515
EPS_CHANGE	-1.680	-0.22	0.828	-3.054	-0.42	0.676
GROWTH	-3.884	-2.33	0.021	-3.704	-2.20	0.029
REIT	0.162	0.07	0.946	0.368	0.15	0.884
DIVERSIFIED	2.113	1.62	0.106	2.429	1.86	0.064
STD_RET	-112.119	-1.58	0.115	-86.175	-1.11	0.269
PINT	-4.265	-1.86	0.065	-3.190	-1.36	0.175
FOLLOW	-0.370	-2.64	0.009	-0.357	-2.52	0.012
HORIZON	-0.819	-0.57	0.572	-0.514	-0.36	0.720
Fixed effects	Yes			Yes		
n	1,054			1,054		
Adj. R^2	0.159			0.164		

Table 4 (continued) Additional Analysis: The Effect of Fair Value Model Versus Historical Cost Model on Forecast Revision Response Time

Panel B: Significance Tests of Sum of Coefficients

	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK + UK×POST	8.574	3.64	0.000			
UK + UK×YEAR_0506				12.048	2.65	0.009
UK + UK×YEAR_0708				14.671	4.63	0.000
UK + UK×YEAR_0910				10.939	3.25	0.001
UK + UK×YEAR_1112				6.203	1.99	0.048
UK + UK×YEAR_1314				4.138	1.21	0.226

Notes: This table presents the results of the multivariate analysis of the determinants of analyst forecast response time using UK and US firm-year observations from 2002 to 2014. Panel A presents the regression results, and Panel B details whether the sums of the coefficients of interest are significant. *DURATION* is the average analyst forecast revision response time, measured as the average length of time between the annual report date and the first report for each analyst. *POST* equals one after 2005 and zero otherwise. In Column (2), we replace *POST* with a vector of time-period indicator variables: *YEAR_0506*, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. *YEAR_0506* equals one for the period 2005-2006 and zero otherwise; all other time-period indicator variables are defined accordingly. The *t*-statistics are calculated using robust standard errors clustered at the firm level.

analysis are presented in Column (2). Interestingly, we find that forecast error for UK firms reporting under IFRS increases only early on in the post-adoption period (2005-2006), exhibiting no change later on in the post-adoption period (2007-2014).[13] These results are consistent with our argument that IFRS adoption has a time-varying effect on analyst forecast properties. In other words, while Liang and Riedl (2014) find that introducing IFRS reduces forecast accuracy, this effect is not permanent; in fact, it is most pronounced immediately after the adoption of IFRS, disappearing two years later.

Overall, our findings extend those of Liang and Riedl (2014). Moreover, we observe that, as UK firms' net income includes non-serially correlated and transient items—complicating earnings prediction—forecast error increases in the post-IFRS period. However, this pattern appears to be a short-term phenomenon, as there is no significant reduction in later years.

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13   We extend the sample used in Liang and Riedl (2014) and include firm-year observations after 2010.

6.3 Frequency of Forecast Revision

In this subsection, we examine whether the 2005 change in accounting standards also leads to changes in forecast frequency. Analysts revise their forecasts (increasing forecast frequency) upon receiving new information that is sufficiently important to prompt a revision to an existing forecast through the pursuit of additional information about future earnings. In line with Holden and Stuerke (2008), we estimate the determinants of analysts' forecast frequency, presenting the results in Table 6. *FREQ* is the average number of revisions made by an individual analyst, measured as the total number of revisions made to existing forecasts between earnings announcements scaled by the number of analysts following. *AVG_VOL* is the average daily trading volume over the year prior to the date of the annual earnings announcement. *ABS_PRICECHANGE* is the average daily price change over the year prior to the date of the annual earnings announcement, measured as the average of the absolute difference between daily high and low stock prices scaled by the closing price. *SKEW* is the skewness of daily trading volume over the year prior to the date of the annual earnings announcement. All other variables are as previously defined.

We find that the frequency of forecast revisions decreases in the post-IFRS period, as reflected in the negative coefficient on *UK×POST* in Column (1) and the negative coefficients on all interaction terms between *UK* and the time-period indicators in Column (2). The frequency of forecast revisions is lower among UK firms reporting under the full fair value model (IFRS) than it is among UK firms reporting under the partial fair value model (domestic standards). The results are consistent with the view that improved consistency between income statements and balance sheets under the full fair value model can help analysts to more effectively assess future outcomes.

6.4 Assessing Parallel Trend Assumptions

One potential concern with our main argument is that the results are driven by coincidental changes in market conditions that are unrelated to IFRS. To address this concern, we conduct an analysis aimed specifically at validating parallel trend assumptions. This analysis includes *PRE*, an indicator variable that equals one if the observation comes from two or more years prior to IFRS adoption and zero otherwise. A significant *UK×PRE* coefficient raises concerns that parallel trend assumptions may not hold. Table 7 presents the results of the analysis. In Column (1), *UK×PRE* is insignificant,

Table 5 Additional Analysis: The Effect of Fair Value Model Versus Historical Cost Model on Analyst Forecast Error

Panel A: Dependent Variable: *ABS_ERROR*

Variable	(1)			(2)		
	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK	-0.182	-0.49	0.624	-0.029	-0.07	0.945
POST	-1.168	-1.33	0.185			
YEAR_0506				-1.250	-1.43	0.155
YEAR_0708				0.346	1.69	0.093
YEAR_0910				-0.301	-0.68	0.500
YEAR_1112				0.224	0.98	0.328
YEAR_1314				0.199	1.59	0.114
UK×POST	0.892	2.84	0.005			
UK×YEAR_0506				1.744	2.77	0.006
UK×YEAR_0708				0.795	1.45	0.148
UK×YEAR_0910				0.696	1.50	0.135
UK×YEAR_1112				0.552	1.18	0.238
UK×YEAR_1314				0.587	1.35	0.178
ROA	-6.468	-3.79	0.000	-6.827	-3.70	0.000
SIZE	0.027	0.36	0.719	0.008	0.09	0.926
LEV	-0.211	-0.43	0.668	-0.176	-0.36	0.721
BM	-0.414	-1.56	0.120	-0.417	-1.55	0.123
OTHER_A	0.324	0.69	0.489	0.374	0.78	0.438
OTHER_L	-2.692	-1.84	0.068	-2.236	-1.46	0.147
EPS_CHANGE	6.456	4.57	0.000	6.419	4.44	0.000
GROWTH	-0.133	-0.66	0.509	-0.138	-0.68	0.500
REIT	-0.531	-1.51	0.132	-0.330	-0.82	0.416
DIVERSIFIED	0.054	0.25	0.805	0.078	0.36	0.720
STD_RET	18.865	1.61	0.109	17.987	1.45	0.149
PINT	0.340	1.17	0.242	0.329	1.08	0.281
FOLLOW	-0.056	-2.89	0.004	-0.055	-2.66	0.008
HORIZON	0.275	1.93	0.055	0.278	1.96	0.052
Fixed effects	Yes			Yes		
n	1,520			1,520		
Adj. R^2	0.145			0.147		

Table 5 (continued) Additional Analysis: The Effect of Fair Value Model Versus Historical Cost Model on Analyst Forecast Error

Panel B: Significance Tests of Sum of Coefficients

	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK + UK×POST	0.710	2.13	0.034			
UK + UK×YEAR_0506				1.715	2.09	0.037
UK + UK×YEAR_0708				0.766	1.66	0.099
UK + UK×YEAR_0910				0.667	1.28	0.202
UK + UK×YEAR_1112				0.523	1.15	0.249
UK + UK×YEAR_1314				0.558	1.43	0.155

Notes: This table presents the results of the multivariate analysis of the determinants of EPS forecast error using UK and US firm-year observations from 2002 to 2014. Panel A presents the regression results, and Panel B details whether the sums of the coefficients of interest are significant. The dependent variable is *ABS_ERROR*, measured as the absolute value of the difference between I/B/E/S actual earnings and the mean EPS forecast, scaled by the absolute value of the mean EPS forecast. *POST* is an indicator variable that equals one after 2005 and zero otherwise. In Column (2), we replace *POST* with a vector of time-period indicator variables: *YEAR_0506*, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. *YEAR_0506* equals one for the period 2005-2006 and zero otherwise; all other time-period indicator variables are defined accordingly. The *t*-statistics are calculated using robust standard errors clustered at the firm level.

Table 6 Additional Analysis: The Effect of Fair Value Model Versus Historical Cost Model on the Frequency of Forecast Revision

Panel A: Dependent Variable: *FREQ*

Variable	(1)			(2)		
	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK	0.770	2.78	0.006	0.910	3.08	0.002
POST	-1.555	-4.56	0.000			
YEAR_0506				-1.597	-4.64	0.000
YEAR_0708				1.286	5.96	0.000
YEAR_0910				1.711	7.70	0.000
YEAR_1112				1.396	9.46	0.000
YEAR_1314				1.159	9.25	0.000
UK×POST	-0.967	-4.83	0.000			
UK×YEAR_0506				-0.631	-2.84	0.005
UK×YEAR_0708				-1.085	-4.38	0.000
UK×YEAR_0910				-1.403	-5.13	0.000
UK×YEAR_1112				-1.304	-5.15	0.000
UK×YEAR_1314				-0.934	-3.85	0.000
ROA	-0.130	-0.25	0.802	-0.475	-0.80	0.425
SIZE	0.159	2.84	0.005	0.166	2.91	0.004
LEV	0.253	1.18	0.239	0.258	1.19	0.236
BM	0.077	0.72	0.469	0.081	0.77	0.445
OTHER_A	0.321	1.56	0.120	0.368	1.84	0.067
OTHER_L	1.848	2.07	0.040	2.236	2.50	0.013
EPS_CHANGE	-1.411	-3.28	0.001	-1.342	-2.97	0.003
GROWTH	0.191	2.25	0.026	0.182	2.13	0.034
REIT	0.094	0.60	0.551	0.244	1.37	0.172
DIVERSIFIED	0.009	0.09	0.926	0.013	0.13	0.896
STD_RET	0.917	0.18	0.854	-1.785	-0.33	0.741
PINT	0.249	1.44	0.153	0.239	1.35	0.179
FOLLOW	-0.026	-2.47	0.015	-0.022	-2.12	0.036
AVG_VOL	0.048	1.17	0.245	0.026	0.59	0.555
ABS_PRICECHANGE	8.629	2.40	0.017	10.719	2.97	0.003
SKEW	-0.015	-0.30	0.765	-0.003	-0.06	0.955
Fixed effects	Yes			Yes		
n	1,331			1,331		
Adj. R^2	0.345			0.348		

Table 6 (continued) Additional Analysis: The Effect of Fair Value Model Versus Historical Cost Model on the Frequency of Forecast Revision

Panel B: Significance Tests of Sum of Coefficients

	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK + UK×POST	-0.196	-1.08	0.280			
UK + UK×YEAR_0506				0.280	0.95	0.343
UK + UK×YEAR_0708				-0.175	-0.68	0.495
UK + UK×YEAR_0910				0.492	-2.40	0.017
UK + UK×YEAR_1112				-0.393	-1.78	0.076
UK + UK×YEAR_1314				-0.023	-0.13	0.894

Notes: This table presents the results of the multivariate analysis of the determinants of frequency of forecast revision using UK and US firm-year observations from 2002 to 2014. Panel A presents the regression results, and Panel B details whether the sums of the coefficients of interest are significant. *FREQ* is the frequency of forecast revision, measured as the total number of revisions made to existing forecasts between earnings announcements scaled by the number of analysts following. *POST* is an indicator variable that equals one after 2005 and zero otherwise. In Column (2), we replace *POST* with a vector of time-period indicator variables: *YEAR_0506*, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. *YEAR_0506* equals one for the period 2005-2006 and zero otherwise; all other time-period indicator variables are defined accordingly. The *t*-statistics are calculated using robust standard errors clustered at the firm level.

aligning with parallel trend assumptions. We also find that other coefficients remain similar to those reported in Table 3. Overall, our findings do not suggest that our results are driven by omitted variables.

6.5 Additional Controls for Country-Level Variables

It is also important to examine whether our inference holds upon controlling for country-level variables. Thus, we include the economic policy uncertainty index (*EPU*) and GDP growth rate (*GDP*) to control for policy uncertainty and macroeconomic conditions. Table 8 presents the results of the analysis featuring country-level variables. Notably, the temporal trend persists in forecast dispersion following IFRS adoption. Thus, overall, our inference remains unchanged.

Table 7 Assessing Parallel Trend Assumptions

Panel A: Dependent Variable: *DISPERSION*

Variable	(1)			(2)		
	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK	-0.524	-1.40	0.162	-0.458	-1.11	0.267
PRE	2.792	2.18	0.031	2.596	2.01	0.046
UK×PRE	-0.252	-1.07	0.288	-0.220	-0.91	0.362
POST	0.281	2.16	0.032			
YEAR_0506				-0.037	-0.36	0.716
YEAR_0708				0.121	0.58	0.563
YEAR_0910				-0.574	-1.31	0.191
YEAR_1112				0.237	1.09	0.276
YEAR_1314				0.330	2.44	0.016
UK×POST	0.211	0.89	0.374			
UK×YEAR_0506				1.109	3.30	0.001
UK×YEAR_0708				0.603	1.23	0.221
UK×YEAR_0910				0.421	0.95	0.346
UK×YEAR_1112				-0.598	-1.93	0.055
UK×YEAR_1314				-0.092	-0.35	0.730
ROA	-4.192	-3.54	0.001	-3.969	-3.38	0.001
SIZE	-0.086	-1.07	0.288	-0.127	-1.56	0.121
LEV	0.729	1.74	0.083	0.829	1.91	0.058
BM	0.093	0.27	0.789	0.118	0.33	0.741
OTHER_A	-0.175	-0.50	0.615	-0.079	-0.22	0.827
OTHER_L	-1.184	-0.95	0.344	-1.044	-0.76	0.449
EPS_CHANGE	1.957	1.28	0.203	1.749	1.17	0.242
GROWTH	-0.074	-0.58	0.561	-0.056	-0.41	0.683
REIT	-0.297	-1.24	0.218	-0.148	-0.51	0.614
DIVERSIFIED	0.020	0.09	0.925	0.056	0.27	0.790
STD_RET	46.239	3.61	0.000	47.646	3.52	0.001
PINT	0.317	1.16	0.246	0.367	1.33	0.184
FOLLOW	0.004	0.20	0.845	0.009	0.45	0.651
HORIZON	0.405	2.32	0.021	0.460	2.59	0.010
Fixed effects						
n	1,161			1,161		
Adj. R^2	0.124			0.133		

Table 7 (continued) Assessing Parallel Trend Assumptions

Panel B: Significance Tests of Sum of Coefficients

	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK + UK×POST	-0.313	-1.06	0.290			
UK + UK×YEAR_0506				0.652	1.47	0.144
UK + UK×YEAR_0708				0.145	0.38	0.707
UK + UK×YEAR_0910				-0.037	-0.07	0.943
UK + UK×YEAR_1112				-1.056	-2.59	0.010
UK + UK×YEAR_1314				-0.550	-1.89	0.061

Notes: This table presents the results of the multivariate analysis of parallel trend assumptions. Panel A presents the regression results, and Panel B details whether the sums of the coefficients of interest are significant. *DISPERSION* is the dispersion of analyst forecasts, measured as the standard deviation of individual analysts' forecasts scaled by the absolute value of the mean EPS forecast. *POST* equals one after 2005 and zero otherwise. *PRE* is an indicator variable that equals one two years before IFRS adoption and zero otherwise. In Column (2), we replace *POST* with a vector of time-period indicator variables: *YEAR_0506*, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. *YEAR_0506* equals one for the period 2005-2006 and zero otherwise; all other time-period indicator variables are defined accordingly. The *t*-statistics are calculated using robust standard errors clustered at the firm level.

Table 8 Additional Controls for Country-Level Variables

Panel A: Dependent Variable: *DISPERSION*

	(1)			(2)		
Variable	Coef.	*t*-stat	*p*-value	Coef.	*t*-stat	*p*-value
UK	-0.574	-1.35	0.180	-0.453	-0.82	0.410
POST	-2.514	-1.96	0.052			
YEAR_0506				-2.663	-2.06	0.040
YEAR_0708				0.192	0.19	0.852
YEAR_0910				-0.959	-2.00	0.047
YEAR_1112				-0.121	-0.32	0.749
YEAR_1314				0.276	0.45	0.655
UK×POST	0.313	1.05	0.297			
UK×YEAR_0506				1.328	4.20	0.000
UK×YEAR_0708				0.497	1.07	0.288
UK×YEAR_0910				0.591	0.68	0.497
UK×YEAR_1112				-0.396	-0.75	0.454
UK×YEAR_1314				-0.094	-0.22	0.826
ROA	-4.244	-3.53	0.001	-4.227	-3.80	0.000
SIZE	-0.087	-1.09	0.277	-0.122	-1.46	0.147
LEV	0.761	1.80	0.074	0.818	1.88	0.061
BM	0.116	0.33	0.744	0.122	0.34	0.732
OTHER_A	-0.177	-0.51	0.609	-0.088	-0.25	0.804
OTHER_L	-1.254	-0.95	0.345	-0.959	-0.69	0.494
EPS_CHANGE	2.014	1.32	0.187	1.770	1.19	0.237
GROWTH	-0.061	-0.48	0.631	-0.041	-0.30	0.762
REIT	-0.346	-1.32	0.190	-0.137	-0.47	0.636
DIVERSIFIED	0.016	0.07	0.940	0.060	0.29	0.776
STD_RET	44.124	3.06	0.003	47.435	3.30	0.001
PINT	0.332	1.22	0.225	0.364	1.34	0.183
FOLLOW	0.005	0.28	0.781	0.008	0.42	0.675
HORIZON	0.401	2.26	0.025	0.445	2.52	0.013
EPU	0.680	0.77	0.440	0.566	0.49	0.625
GDP_GROWTH	8.427	0.31	0.756	11.811	0.28	0.781
Fixed effects						
n	1,161			1,161		
Adj. R^2	0.124			0.133		

Table 8 (continued) Additional Controls for Country-Level Variables

Panel B: Significance Tests of Sum of Coefficients

	Coef.	t-stat	p-value	Coef.	t-stat	p-value
UK + UK×POST	-0.260	-0.93	0.353			
UK + UK×YEAR_0506				0.875	1.61	0.109
UK + UK×YEAR_0708				0.044	0.11	0.912
UK + UK×YEAR_0910				0.138	0.23	0.820
UK + UK×YEAR_1112				-0.849	-2.20	0.029
UK + UK×YEAR_1314				-0.548	-1.84	0.068

Notes: This table presents the results of the multivariate analysis that includes additional country-level variables. Panel A presents the regression results, and Panel B details whether the sums of the coefficients of interest are significant. *DISPERSION* is the dispersion of analyst forecasts, measured as the standard deviation of individual analysts' forecasts scaled by the absolute value of the mean EPS forecast. *POST* equals one after 2005 and zero otherwise. In Column (2), we replace *POST* with a vector of time-period indicator variables: *YEAR_0506*, *YEAR_0708*, *YEAR_0910*, *YEAR_1112*, and *YEAR_1314*. *YEAR_0506* equals one for the period 2005-2006 and zero otherwise; all other time-period indicator variables are defined accordingly. The *t*-statistics are calculated using robust standard errors clustered at the firm level.

7. Conclusion

This paper examines how the fair value and historical cost models affect analyst behavior with a focus on real estate firms domiciled in the US and the UK between 2002 and 2014, leveraging the difference in accounting standards for investment properties. More specifically, we exploit the fact that UK investment property firms report their properties at fair value, while their US counterparts report them at historical cost. The UK's adoption of IFRS in 2005 allows for an analysis of whether the partial fair value model (under UK domestic standards) and the full fair value model (under IFRS) differ in their effects on analyst behavior. Moreover, using the real estate industry rather than the financial industry allows us to better capture the differential effect of these two reporting models, as firms in the real estate industry are more homogeneous, meaning that the results are less likely to be explained by confounding factors.

First, we find that, upon the UK's shift from the partial fair value reporting model under domestic standards to the full fair value reporting model under IFRS, UK firms exhibit an immediate increase in forecast dispersion. However, this increase is temporary

and declines over time. From 2009 to 2010, we do not find the forecast dispersion to be distinct from that under UK domestic standards. These results are consistent with the notion that the effect of the change in accounting standards is not permanent and that analysts improve through experience in later years. Second, we find that the income statement and the balance sheet being reported under the full fair value model and improved consistency between the two financial statements give way to analysts spending less time preparing their forecasts. As with the time-varying effect on forecast dispersion, we find that the change in forecast duration is not static throughout the post-IFRS period, with the reduction in response time becoming more pronounced over time.

Finally, we revisit Liang and Riedl (2014) to examine whether the adoption of the full fair value model also has a time-varying effect on forecast error. We find that forecast error, on average, exhibits an increase following IFRS adoption. However, the increase in forecast error is driven by early post-adoption years, exhibiting a declining trend over time. We fail to document a difference after 2010, which is the last year of the sample used in Liang and Riedl (2014). This new evidence is also consistent with the identified time-varying effect on forecast dispersion and forecast revision response time.

Overall, we provide evidence of the effects of changes in accounting standards (in this case, IFRS adoption) varying over time. Our findings extend prior work, particularly that of Liang and Riedl (2014), who examine forecast error but do not cover forecast dispersion or forecast revision response time. Moreover, their study fails to address the time-varying impact of standards transitions, which is a key contribution of our analysis. Importantly, our conclusions are drawn from a sample of real estate firms; they may not be fully generalizable to other industries. While sectors like banking, insurance, and investment also engage in fair value accounting, they operate under distinct regulatory frameworks and market environments. Still, our focus on a single industry mitigates concerns over potential omitted variable bias and reduces the risk of our findings being driven by industry-specific characteristics rather than the accounting standards themselves. While we do not believe that the observed temporal trends are unique to the UK, our study does not empirically examine other jurisdictions. Future research should explore whether similar time-varying adjustment patterns are present in other countries undergoing comparable transitions in accounting standards and examine the temporal dynamics of fair value accounting across a wider range of sectors to provide more generalizable insights.

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