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Abstract

This study examines the influence of accounting comparability on management earnings forecast accuracy. Using the Japanese setting, where management earnings forecasts are effectively mandated and accounting comparability could be more exogenous than in other countries, I find a positive relationship between accounting comparability and management earnings forecast accuracy. This indicates that comparable financial information could improve the accuracy of management earnings forecasts. I also provide evidence that the positive relationship between accounting comparability and management earnings forecast accuracy is more pronounced when subject firms have higher institutional ownership and peer firms have higher accounting (i.e., accrual) quality. My results suggest that accounting comparability increases the disclosure quality of management earnings forecasts by enhancing investors' monitoring of managerial behaviours and facilitating managerial learning from peer firms. Additional analyses show that the positive effect of accounting comparability on management forecast accuracy becomes strengthened after the 2008 quarterly reporting regulation in Japan. However, there is no evidence showing that International Financial Reporting Standards (IFRS) adoption increases the positive effect of comparability. Overall, this study enriches the literature on determinants of the accuracy of management earnings forecasts and highlights the positive consequences of accounting comparability in the Japanese capital market.

Keywords: Accounting comparability; Management earnings forecast; Monitoring effect; Learning effect

JEL: M41; M48

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1.Introduction

The credibility of management earnings forecasts has been a central issue for a long time (King et al., 1990; Kato et al., 2009). According to the prior literature, management earnings forecast is one of the key disclosure mechanisms that may influence the market expectations of the firm's financial performance, the information asymmetry between insiders and investors, and managerial reputation for accurate and reliable reporting (Hirst et al., 2008; Preussner and Aschauer, 2022). High-quality management earnings forecast plays an important role in the development of well-functioning capital markets. For example, it may affect the stock prices (Pownall et al., 1993; Baginski et al., 1993; Kato et al., 2009), decrease information asymmetry (Coller and Yohn, 1997), and influence analysts' behaviours (Baginski and Hassell, 1990; Chatalova et al., 2016). Although prior studies have investigated the effects of accounting characteristics such as conservatism (e.g., Hui et al., 2009; Sun and Xu, 2012) and restatement (e.g., Muramiya and Takada, 2017) on management earnings forecasts, there is a lack of research on whether accounting comparability, a unique cross-firm attribute of accounting report quality, could affect managerial behaviours in predicting forward-looking estimates. Given that comparability enhances the usefulness of financial statements for decision-making, I focus on examining the relationship between accounting comparability and management earnings forecast accuracy in the Japanese setting, where management earnings forecasts are effectively mandated and accounting comparability could be more exogenous than in other countries.[1]

In this study, I argue that the accuracy of management earnings forecasts may increase with accounting comparability because of the enhanced monitoring and learning effects. On one hand, comparability can enable managers to learn from peer firms' financial results. Specifically, it can reduce the costs of information acquisition and enable managers to have more available information about peer firms (De Franco et al., 2011). This can facilitate managerial learning from the operation and strategies of comparable firms and allow managers to better predict the impact of economic events in the future (Chen and Gong, 2019). By reducing the uncertainty in judgments and evaluating firms' relative performance more accurately, managers are more likely to predict correct forward-looking estimates (e.g., sales, costs, and cash flows). On the other hand, comparability can enhance investors' monitoring of managerial behaviours. Due to the attenuated information asymmetry and improved information environments, comparability can not only let external stakeholders better monitor managers' decision-making at lower monitoring costs, but also enable internal monitoring agents like boards of directors to achieve a better understanding of firm performance and discipline managers from opportunistic reporting (Zhang et al., 2020). Therefore, managers in firms with higher comparability may be disincentivised towards opportunistic practices (Kim et al., 2016), and thus predict more reliable future estimates. In sum, I argue that the accuracy of management earnings forecasts will increase with the level of accounting comparability.

I focus on the Japanese setting because it is easier to verify the relationship between accounting comparability and management earnings forecast accuracy in Japan. First, accounting comparability could be more exogenous in Japan than in other countries. Specifically, comparability between firms is considered largely fixed (especially in short-term periods) and exogenous to managerial discretion, which is the outcome of accounting standards and industry-working rules (Chen and Gong, 2019). However, accounting reporting comparability

[1] Comparability can significantly increase the usefulness of accounting information because financial statement users' decisions often involve a choice between alternatives, which cannot be made rationally without comparative information (Ahn et al., 2020).

is a function consisting of not only accounting standards, but also interpretation, auditing, and the environment of regulation, litigation, and enforcement (Barth et al., 2012). Thus, accounting comparability could be endogenously determined by managerial discretions.[2] For example, Sohn (2016) claims that managers can change the level of the comparability of their financial statements through various activities such as Mergers and Acquisitions (M&As) and divestitures as the source of "creative accounting techniques". According to prior studies (Odagiri and Hase, 1989; Jackson and Miyajima, 2008), M&As in Japan are not as popular as in other countries such as the U.S. due to the Japanese management concept and labour practice style.[3] Compared with American management, Japanese management prefers internal growth (e.g., the creation of subsidiaries) over external growth driven by M&As. Moreover, the lifetime employment style in Japan makes managers resistant to hostile turnover attempts. Thereby, Japanese firms tend to maintain stable operations and are less likely to be intruded on by M&As. Besides, stable shareholdings (e.g., shareholdings owned by financial institutions) with long-term contracts and implicit arrangements dominate the Japanese equity market (Douthett and Jung, 2001; Shuto and Kitagawa, 2011; Shuto and Iwasaki, 2014). Given that stable investors aim to maintain long-term relationships with firms and do not intervene in management unless a firm is found to be underperforming (Kaplan and Minton, 1994), managers in Japanese firms are likely to keep a stable accounting function and fixed reporting style. As comparability reflects the historical implementation in the process of identifying the optimal choice (e.g., business models and production functions) with business characteristics (Sohn, 2016), which is based on a firm's accounting system selected and operated for a long time, managers rarely exert discretions in changing their firms' accounting comparability in stable operating and reporting environments. Therefore, I conjecture that the comparability among Japanese firms is more likely to be exogenous to managerial discretion than in other countries.

Second, the disclosure system of management earnings forecasts is unique in Japan. Specifically, management earnings forecast is effectively mandated for Japanese firms.[4] Prior studies have emphasized that managers in Japanese firms have stronger incentives to issue accurate earnings forecasts because disclosure cannot signal the credibility of management (Kato et al., 2009; Ishida et al., 2021). Moreover, management earnings forecasts can be regarded as an important performance target in compensation contracts (Suda and Hanaeda, 2008). Therefore, managers are more likely to issue accurate forecast numbers to avoid negative economic consequences, establish a good forecast reputation, and increase personal compensation. Additionally, the mandatory reporting system of earnings forecast in Japan implies that using Japanese data could mitigate the self-selection problem, which is difficult to control in prior studies using U.S. samples (e.g., Baik et al., 2011; Schabus, 2022). Besides, Japanese management forecasts are mainly point-estimated forecasts (Kato et al., 2009), instead

[2] Although accounting comparability is largely driven by exogenous determinants such as accounting standards, accounting standards cannot completely eliminate subjectivity and diversity in the choice and application of accounting methods (Chen and Gong, 2019).

[3] Specifically, Odagiri and Hase (1989) show that only 7.5% of 899 manufacturing firms listed at the Tokyo Stock Exchange (TSE) experienced M&A events during 1964–1984, while the percentage is five times higher at 38.4% of the 1,000 largest manufacturing firms in the U.S. during 1950–1972. Jackson and Miyajima (2008) indicate that the average annual deal volume of Japanese M&A relative to GDP is substantially lower than the other four countries (the U.S., the U.K., France, and Germany) during 1991–2005, which occupies only 2.5% of GDP during the boom period.

[4] Although the disclosure of management forecasts is basically voluntary, the vast majority of listed firms in Japan are proactively reporting earnings forecasts. For example, Kato et al. (2009) find that 93.7% of listed firms present their forecast estimates. Ishida et al. (2021) find that 93.5% of listed firms in their initial sample issue earnings forecasts. Thus, the forecast disclosure system is regarded as statutorily enforceable and effectively mandated in Japan (Kato et al., 2009; Ishida et al., 2021).

of range-estimated forecasts in U.S. samples. This helps mitigate the measurement error problem in calculating forecast accuracy. Considering the above reasons, I posit that it is better to use the Japanese setting to verify the relationship between accounting comparability and management earnings forecast accuracy.

I first hypothesize that there is a positive association between accounting comparability and the accuracy of management earnings forecasts. According to prior studies, comparable financial information can not only enhance investors' monitoring of managerial behaviours but also facilitate managerial learning from peer firms (Kim et al., 2016; Chircop et al., 2020). Therefore, I predict that accounting comparability may increase the disclosure quality of management earnings forecasts, as reflected in the higher accuracy of earnings forecasts. Furthermore, I infer that the above positive relationship between accounting comparability and management earnings forecast accuracy is influenced by firms' monitoring and learning environments. Specifically, I hypothesize that the positive association between comparability and management forecast accuracy is stronger when subject firms have higher institutional shareholdings and when peer firms have higher accounting (i.e., accrual) quality.

To test the above predictions, I follow prior studies (e.g., Kim et al., 2016; Zhang et al., 2020) to use the method of De Franco et al. (2011) to construct the measure of accounting comparability, which is the closeness of the accounting functions (how economic events are reflected in accounting numbers) between two firms in the same two-digit Nikkei industry. Specifically, I generate three measures of accounting comparability: median comparability for all firms in the same industry, average comparability for all firms in the same industry, and comparability based on top-ten firms. Further, I follow Muramiya and Takada (2017) and Ishida et al. (2021) to measure the accuracy of management earnings forecast as the absolute value of initial management earnings forecast error scaled by the lagged market value of equity. Using a sample of 17,318 firm-year observations from 2007 to 2019, I find that three measures of accounting comparability are negatively associated with the absolute value of initial management earnings forecast error at the 1% level.

I further test whether the above relationship between accounting comparability and management earnings forecast accuracy varies cross-sectionally. Specifically, to test the effect of shareholdings by institutional investors on the above relationship, I include the interactions of three measures of accounting comparability with the institutional ownership in the model. Similarly, to test the incremental effect of accounting quality on the positive relationship between accounting comparability and management earnings forecast accuracy, I add the interactions of accounting comparability measures with accounting quality to the model. The results show that the positive relationship between accounting comparability and management earnings forecast accuracy is stronger when subject firms have higher institutional ownership and when peers firms exhibit higher accounting quality. My results suggest that accounting comparability increases the disclosure quality of management earnings forecasts by enhancing investors' monitoring of managerial behaviours and facilitating managerial learning from peer firms.

To test the robustness of the findings, this study follows previous literature (e.g., Kim et al., 2021; Kitagawa, 2021; Ishida et al., 2021) to generate two alternative proxies for management earnings forecast accuracy (the magnitude of forecast revision and the absolute value of initial forecast error deflated by lagged total assets) and two alternative proxies for accounting comparability (comparability calculated based on the prices leading earnings model and comparability calculated based on values of top-four firms). Overall, the results indicate that

the significant and positive relationship between accounting comparability and management earnings forecast accuracy is robust to alternative measures of management forecast accuracy and accounting comparability.

Further, I conduct additional analyses to examine the effect of the 2008 quarterly reporting regulation and the 2010 IFRS adoption on the relationship between comparability and management forecast accuracy. The results show that the positive relationship between comparability and management forecast accuracy is strengthened after the enforcement of the quarterly reporting regulation. However, there is no evidence showing that IFRS adoption increases the positive effect of accounting comparability.

This study contributes to the literature in several ways. First, this study contributes to the literature that examines the determinants of management earnings forecast accuracy by supplementing the influence of accounting comparability, which is a unique cross-firm attribute of accounting report quality. Related to this study, Chen and Gong (2019) examine the relationship between comparability and financial reporting quality. They find that comparability is positively associated with managerial forecast accuracy and precision, indicating that comparability improves the ability of managers to prepare higher-quality financial statements and predict future firm performance. This study extends Chen and Gong (2019) by considering two effects of accounting comparability—the learning and monitoring effects—which increase the information quality used to forecast accurately and decrease the managerial incentives to opportunistically report forecasts.[5] Moreover, this study proposes several cross-sectional hypotheses on whether the positive relationship between accounting comparability and management earnings forecast accuracy becomes stronger when the learning or monitoring effect gets enhanced. Second, this study enriches extant literature that examines the benefits of accounting comparability. Particularly, this study provides evidence on the consequence of comparability in the Japanese setting, where both learning and monitoring effects of comparability are strong and thus easier to investigate. Specifically, non-transient institutional investors are more active in monitoring firms' activities than transient institutional investors (Bushee, 1998). Given that stable shareholdings owned by financial institutions dominate the Japanese equity market (Shuto and Iwasaki, 2014), they are more likely to discipline managers from opportunistic engagements. With sharper inferences about similarities and differences across firms that comparability provides, they could better monitor managerial decision-making. Moreover, managers in Japan are more motivated to learn from peer firms' information. They carefully observe the activities of peer firms and regard the industry-average performance as an important benchmark (Yamaguchi, 2022). Thus, managers may have stronger incentives to investigate the comparable financial statement of peer firms and learn from their strategies and operations. Third, this study adds to the growing literature that examines the consequences of IFRS adoption by providing evidence in Japan, where firms adopt IFRS voluntarily. Particularly, on June 30, 2009, the Business Accounting Council (BAC) of Japan announced an interim report to allow the optional adoption of IFRS starting in 2010 (BAC, 2009). Given the increasing number of firms adopting IFRS in Japan, examining the effects of IFRS adoption on the relationship between comparability and management forecast

[5] Note that Chen and Gong (2019) find that the coefficient of comparability is only significant for restatement firms classified as resulting from non-intentional actions. It is not significant for intentional firms, indicating that comparability is associated with a reduced likelihood of restatements resulting from non-intentional errors. This study argues that intentional bias of earnings forecasts that are driven by managerial incentives to opportunistically report forecasts will decrease as accounting comparability increases.

accuracy is very important for firms and investors.[6] Finally, this study makes a practical contribution to policy-makers. The results of this study show that comparability could improve the accuracy of management earnings forecasts, indicating the usefulness of comparability in enhancing disclosure quality. The implications of this study suggest that it is important to have policies that increase accounting comparability to improve market efficiency and information environments in the capital markets of Japan and other countries.

The remainder of this paper is structured as follows. Section 2 provides a literature review and develops the hypotheses. Section 3 describes the research design. Section 4 shows the empirical results for the baseline test and cross-sectional tests. Section 5 presents the results of robustness checks and additional analyses. Section 6 concludes the study.

2.Literature Review and Hypothesis Development

2.1 Literature Review

The roles of accounting comparability: Monitoring effect and learning effect

Accounting comparability is an important qualitative characteristic of accounting information. The FASB defines comparability as the "qualitative characteristic that enables users to identify and understand similarities in, and differences among, items" (FASB, 2018, pp. 5). According to prior studies, there are two roles of accounting comparability: (1) the monitoring effect (Zhang et al. 2020; Kim et al., 2021); (2) the learning effect (Chircop et al., 2020; Chircop, 2021).

First, comparability could serve as an effective governance tool in monitoring and governing managerial behaviours. Specifically, comparability can lower the costs of acquiring information and increase the quantity and quality of information (De Franco et al., 2011). Thus, information becomes more transferrable within and among comparable firms, which will reduce the monitoring costs of internal and external monitoring agents (Zhang et al., 2020). As a result, investors are more able to detect managers' misuse of corporate resources and monitor managers' behaviours such as investment decisions and the allocation of resources (Ahn et al., 2020). Therefore, accounting comparability could play an important role in mitigating agency problems.

A growing body of empirical studies supports this view. For instance, Kim et al. (2016) find that investors' perceived level of expected crash risk is lower for firms with higher accounting comparability, suggesting that comparability could disincline managers from bad news withholding. Chen et al. (2018) find that acquirers have higher acquisition profitability when target firms' financial statements are more comparable, showing that comparability of target firms makes it easier for boards and outside shareholders' to monitor managers' M&A decisions. More recently, Zhang et al. (2020) show that comparability is negatively associated with the degree of inefficiency in labour investments. Kim et al. (2021) find that financial statement comparability is positively associated with the marginal value of cash holdings.

Second, comparable accounting information of peer firms can facilitate the subject firms' learning process (Chircop et al., 2020). According to the theories of observational learning and

[6] For instance, Gu (2021) finds that about 4.8% of Japanese listed firms chose to report financial statements based on IFRS in 2015.

informational cascades, a firm would imitate other firms' decisions, especially when other firms in the industry appear to have greater expertise ("fashion leaders") (Bikhchandani et al., 1998). Greater accounting comparability will provide managers with more understandable and informative information (Chircop et al., 2020). By gaining more insight into peer firms' information, managers may infer the best choice in decision-making (Devenow and Welch, 1996).

Consistent with this view, Chircop et al. (2020) show that subject firms with greater accounting comparability exhibit higher innovative efficiency. They argue that comparability enhances the ability to predict future cash flows from R&D investments with uncertain outcomes. Chircop et al. (2021) find that comparability increases firm productivity, indicating that comparable information enables subject firms to better identify and understand the productivity-enhancing practices of peer firms. Most recently, Hong et al. (2023) find that comparability is negatively associated with the tax distance between a focal firm's tax avoidance and those of its industry peers.

Determinants of the accuracy of management earnings forecasts

Accounting information to forecast

One important factor affecting managers' forecasting quality is the availability of high-quality information about firms' inside operations and outside environments (Goodman et al., 2014). Although managers may have much private information about their firms, it would be difficult for them to estimate future prospects accurately without access to high-quality internal financial data, for example, data on the cost structure, sales, investing activities, and fixed/intangible assets (Muramiya and Takada, 2017). To make accurate predictions, they may attempt to collect and synthesize all public information that is useful for generating predictions (Schabus, 2022). Specifically, they could utilize integrated internal accounting information as input to create their forecasts, or they may acquire and process information about the industry and economy-wide prospects.

In line with the above theory, Feng et al. (2009) document that managers in firms with ineffective internal controls issue less accurate forecasts due to erroneous internal management reports when forming their guidance. Muramiya and Takada (2017) find that restatement firms report less accurate management forecasts, showing that high-quality input data are essential for managers to formulate accurate forecasts. Most recently, Chen et al. (2022) find that corporate site visits increase management forecast accuracy, suggesting that corporate site visits could serve as a communication channel through which managers learn from investors. Schabus (2022) shows that there is a positive relationship between firms' direct and indirect board connections and management earnings forecast accuracy since managers may benefit from well-connected directors in learning macroeconomic developments.

Managerial incentives

The fundamental intention of management earnings forecasts is to provide stakeholders with credible and unbiased information about a company's future performance, which could be regarded as the corporate objective (Preussner and Aschauer, 2022). For example, managers may issue reliable initial forecasts to reduce the degree of information asymmetry (Coller and Yohn, 1997). However, managers may issue earnings forecasts for their own self-interest (Hirst

et al., 2008). They are likely to have plenty of discretions in calculating the forecasts and manage the forecasts purposely to satisfy personal incentives, which is consistent with the "opportunistic behaviours" view from the theoretical implications of positive accounting theory (Iwasaki et al., 2023). For instance, Aboody and Kasznik (2000) find that managers are more likely to issue bad news forecasts if they receive options shortly before earnings announcements, showing that managers manipulate investors' expectations around stock option awards for personal gains. Rogers and Stocken (2005) find that managers mispresent the forecasts to increase benefits from insider tractions. Cheng and Lo (2006) find that managers exploit disclosure policies of earnings forecasts for trading profits when litigation risk is sufficiently low. More recently, Wang and Zhang (2022) suggest that managers are more likely to issue soft-talk cash flow forecasts when their equity-based compensation is higher.

Consistent with the view that managers could bias forecasts strategically, a great number of studies show that the improvement of corporate governance and monitoring mechanisms may mitigate their self-interests motivated behaviours in earnings forecasts. For example, Baginski and Hassell (1997) find that managers produce more precise earnings forecasts for firms with greater analyst following. Karamanou and Vafeas (2005) show that managers are more likely to make or update earnings forecasts in firms with more effective board and audit committee structures, and the forecast accuracy increases with better governance. Ajinkya et al. (2005) find that firms with more outside directors and higher institutional ownership produce more frequent and accurate forecasts.

Management forecast system in Japan

In Japan, the Financial Instruments and Exchange Act (the Act) requests listed firms to submit the annual securities report (Yuka Shoken Houkokusho) within three months of the end of the fiscal year. To supplement the lack of timeliness in statutory disclosure under the Act, listed firms are required by Japanese stock exchanges to publish financial highlights (Kessan Tanshin, or "summary of financial statements"), which could be called the Timely Disclosure Rules (Kato et al., 2009). In addition, Japanese stock exchanges strongly encourage Japanese firms to proactively disclose future estimates relating to the company's outlook for future performance and financial situation (e.g., forecasts for sales, ordinary income, net income, and earnings per share) together with actual financial results for the current year (The Kessan Tanshin Guidelines). Besides, listed firms are required to revise their forecasts if there are changes in earnings estimates of 30% or more (the "Significance Rule" of the Act; Kato et al., 2009; Ishida et al., 2021).

Although the disclosure of management forecasts is basically voluntary, the vast majority of listed firms in Japan are proactively reporting earnings forecasts. For example, Kato et al. (2009) find that 93.7% of listed firms present their forecast estimates. Ishida et al. (2021) find that 93.5% of listed firms in their initial sample issue earnings forecasts. Thus, the forecast disclosure system is regarded as statutorily enforceable and effectively mandated in Japan (Kato et al., 2009; Ishida et al., 2021). This unique feature of Japanese financial reporting implies that using Japanese data could mitigate the self-selection problem, which is difficult to control in studies focusing on U.S. samples (e.g., Baik et al., 2011; Schabus, 2022). In addition, using Japanese management forecasts provides several other advantages. For example, as management earnings forecasts in Japan are bundled with earnings announcements, management forecast accuracy is less biased by timing issues (Nagata and Nguyen, 2017; Kitagawa, 2021). Besides,

Japanese management forecasts are mainly point-estimated forecasts (Kato et al., 2009), which could mitigate the measurement error problem in calculating forecast accuracy.

2.2 Hypothesis Development

Accounting comparability and the accuracy of management earnings forecasts

Comparable financial reporting of peer firms enables managers to better predict future prospects by facilitating the learning process. According to prior studies, a manager's reporting and decision-making behaviours may be influenced by the financial information of peer firms (Chircop et al., 2020; Chircop, 2021). As comparability reduces the costs of information acquisition and process, managers are likely to have more available and understandable information from peer firms (De Franco et al., 2011).[7] For example, they may have more information about industry-level demand and cost conditions (Durnev and Mangen, 2009). They could also know how competitors perceive and react to market developments (Schabus, 2022). Such information could enable managers to learn from the operation and strategies of comparable firms and have a better understanding of the economic event. This argument is more pronounced in the Japanese setting. In Japan, managers are more likely to regard information about peer firms as an important information source and are more motivated to learn from such information. For example, Yamaguchi (2022) finds that Japanese firms have strong incentives to achieve the benchmark of industry-average profitability (e.g., forecast earnings).[8] Comparability reduces the uncertainty in judgments and thus may help managers to evaluate the relative performance of their firms and predict the impact of economic events in the future (Chen and Gong, 2019).[9] With increased quality and quantity of information, managers are able to predict forward-looking estimates (e.g., sales, costs, and cash flows) more accurately. Even though they make inaccurate judgements at first, they could modify their actions quickly based on the peer firms' comparable information.

Accounting comparability can also lead to more reliable future estimates of subject firms by mitigating the opportunistic reporting behaviours of managers. Based on prior studies, the monitoring and governance from internal and external stakeholders (e.g., boards of directors, analysts, institutional investors, and auditors) could constrain the managerial opportunism in financial reporting (Healy and Palepu, 2001; Archambeault et al., 2008). Moreover, the monitoring effectiveness is documented to be affected by the availability of firm-specific information with high quality (Chen et al., 2017; Zhang et al., 2020). Accounting comparability enables outsiders to not only better understand the profitability of projects in a firm but also make inferences about the firm's relative performance from comparison with the disclosed information of peer firms (Kim et al., 2021). Less informed investors are also likely to conduct simple and standardized but still effective financial analyses (Kim et al., 2013). With attenuated

[7] Chircop et al. (2020) argue that managers of subject firms could benefit from multiple comparable information of peer firms, including financial statements which contain aggregated data and information disclosed throughout the year (e.g., earnings announcements and market updates).

[8] Specifically, Yamaguchi (2022) shows that managers in Japanese firms tend to carefully keep an eye on the activities of peer firms and treat the industry-average performance as an important benchmark. Such incentives are stronger among Japanese firms due to the following two reasons: (1) Japanese firms that miss industry-average profitability targets are seen as unsuccessful and lacking competitive advantages; (2) Japanese firms are afraid of losing competitive advantages.

[9] For instance, subject firms can learn from peer firms' financial results to better predict future cash flows from R&D investments with uncertain outcomes (Chirco et al., 2020). They could also better estimate the allowance for doubtful accounts by considering economic and industry trends (Chen and Gong, 2019).

information asymmetry and improved information environments, external stakeholders can better monitor managers' decision-making at lower monitoring costs. In particular, they can detect opportunistic behaviours of managers even for undisclosed news. Thereby, managers in firms with higher comparability may be disincentivised towards opportunistic practices (Kim et al., 2016).

Moreover, managers with comparable reporting may have more incentives to issue accurate earnings forecasts by considering the negative consequences of the damage done to their reputation by publishing inaccurate forecasts. Suda and Hanaeda (2008) document that the management earnings forecasts benchmark can be regarded as the most important earnings benchmark in Japan. Given that Japanese managers are required to disclose forecasts mandatorily, they are motivated to issue reliable forecasts to avoid negative economic consequences and establish a good forecast reputation (Ishida et al., 2021). Since comparable financial reporting enables internal monitoring agents like boards of directors to achieve a better understanding of firm performance and make meaningful comparisons with industry peers (Zhang et al., 2020), they may encourage managers to present high-quality forecasts to enhance the firm reputation and discipline managers from opportunistic reporting.

Thus, I propose the following hypothesis:

H1: There is a positive association between accounting comparability and the accuracy of management earnings forecasts.

However, the benefit of comparability in increasing managerial learning and investors' monitoring may be compromised if comparable peers misrepresent in financial reporting. Based on management theory on organizational legitimacy (Suchman, 1995), firms will mimic other firms' policies to keep relative performance with peers and defend against potential criticisms or uncertainty (e.g., Deephouse 1996; Ordanini et al., 2008; De Franco et al., 2023). Since comparable firms usually face similar macroeconomic and competitive pressures, they may regard the financial reporting of peer firms as an important reference and may make similar incorrect decisions (Kim et al., 2016). Managers may interpret the misstated earnings as industry trends and cost functions (Li, 2016).[10] Even though firms want to learn from the financial information of comparable firms, they may get inaccurate conclusions by referring to peers with reporting misconduct. As such, comparable reporting can become a bad benchmark and magnify the distorted decisions of peer firms, which results in inaccurate expectations of future earnings.[11]

[10] Specifically, Li (2016) finds that the adverse impact of accounting misreporting on peer firms can be generalized to a wide range of peer firms' operational decisions, indicating the negative externality of financial misstatements on peer firms.

[11] Another possible concern is that comparability may also result in the cost for managers due to the crowding-out effect (Shen et al., 2022). More disclosure could squeeze out other types of information (e.g., private information issued by analysts), which may make overall information set inferior to managers (Goldstein and Yang, 2019; Chen and Lu, 2019). Thus, higher information availability engendered by comparability could squeeze out other information, which may impede managerial learning from the market. Considering the management forecast system in Japan, I argue that the information loss caused by the crowding-out effect of comparability would not be significant. Specifically, analyst forecasts may play different roles in the capital markets in the U.S. and Japan (Sakawa et al., 2022). In Japan, it is practical for analysts to rely on management forecasts as a basis for their own forecasts (Ota, 2011). Moreover, Japanese analysts have relatively less private information than U.S. analysts (Friesen and Weller, 2006). Therefore, reduced managerial learning due to the decreased private information by analysts would not be significant in this study.

The effect of institutional ownership on the AC-MF link

Prior studies emphasize the importance of institutional investors in reducing managerial incentives in self-serving behaviours such as earnings management and financial fraud (Chung et al., 2002; Chhaochharia et al., 2012). Unlike individual investors, institutional investors are sophisticated investors who typically fulfill a monitoring role in constraining managerial opportunism (Bushee, 1998; Ramalingegowda and Yu, 2012). Moreover, they consistently probe the firm for more specific, unbiased, and accurate information about future earnings (Ajinkya et al., 2005).[12] Therefore, if a subject firm has more comparable information with peer firms, it would be easier for institutional investors to infer the managerial reporting opportunism and detect bias in forward-looking estimates.

In particular, Bushee (1998) shows that the incentives of institutions to monitor managerial myopia depend on their investment horizons. Non-transient institution owners with long-term investments are more likely to decrease incentives for managerial opportunism than transient owners. As pointed out in previous literature (Douthett and Jung, 2001; Shuto and Kitagawa, 2011; Shuto and Iwasaki, 2014), stable shareholdings by financial institutions which involve long-term contracts and implicit arrangements dominate the Japanese equity market. Compared with short-term institutional investors, stable institutional investors are more likely to maintain long-term relationships with firms and prevent managers from myopic engagements. They would make decisions based on their perception of the firm's future prospects and ability to fulfill obligations (Kreps et al., 1982; Raman and Shahrur, 2008; Dou et al., 2013). Since comparability enables them to make sharper inferences about similarities and differences across firms, such informational advantages could be translated into superior monitoring incentives and abilities. If a firm is found to perform badly, stable institutional shareholders will exert interventions on management such as re-contracting and changing the CEO (Kaplan and Minton, 1994). As a result, managers tend to have weaker incentives to present unreliable forecasts and have stronger incentives to report accurate accounting information regarding business prospects.[13] Therefore, I expect to observe a stronger relationship between comparability and the accuracy of management earnings forecasts for firms with higher institutional ownership:

H2: The positive association between comparability and management forecast accuracy is stronger in firms with higher institutional shareholdings.

The effect of accounting quality on the AC-MF link

Prior studies document that the quality of peer firms' accounting estimates may affect the benefits of accounting comparability gained by subject firms (Chircop et al.,2020; Chircop, 2021). Although higher comparability may enable managers to acquire and process information about firms' operations and overall environments (Chen and Gong, 2019), managers cannot make accurate forecasts without high-quality information (Goodman et al., 2014). Moreover, financial statements with higher reporting quality are more informative and could better

[12] For example, Healy et al. (1999) document a positive relationship between institutional ownership and disclosure rating. Ajinkya et al. (2005) find that firms with greater institutional ownership are more likely to issue specific, accurate and less optimistically biased forecasts.

[13] For instance, Shuto and Iwasaki (2014) find that firms with more stable shareholdings (e.g., stable shareholdings by institutional investors) are more likely to conduct informative income smoothing.

perform the function of timely price adjustment (Biddle et al., 2009; Callen et al., 2013), which could be more useful to company stakeholders. Subject firms could gain more benefits by learning from the high-quality accounting information of peer firms. If two firms with highly comparable accounting systems present low-quality earnings numbers, the potential benefits of learning from peer firms' financial information would become limited. In line with this argument, Chircop (2021) finds that the positive relation between accounting comparability and firm productivity is stronger when subject firms operate in industries characterized by higher accounting quality. Chircop et al. (2020) find that the positive effect of accounting comparability on innovative efficiency is more pronounced if peer firms have higher accounting quality. They argue that accounting quality and comparability act as complements to jointly determine the subject firm's learning from peer firms' financial statements.

Thus, I posit that the positive relation between accounting comparability and the accuracy of management earnings forecasts is stronger if peer firms exhibit higher accounting quality in their financial statements:

H3: The positive association between comparability and management forecast accuracy is stronger if peer firms have higher accounting (i.e., accrual) quality.

3. Research Design

3.1 Measure of management earnings forecast accuracy

Following Muramiya and Takada (2017), Kitagawa (2021), and Ishida et al. (2021), I measure the accuracy of management earnings forecast as the absolute value of initial management earnings forecast error (*Abs*(*MFE*)), which is the absolute difference between realized earnings and the initial management earnings forecast, scaled by the lagged market value of equity (i.e. |actual earnings for year *t* – initial management earnings forecast for year *t*| / market value of equity for year *t* – 1). Higher values of *Abs*(*MFE*) correspond to lower values of management earnings forecast accuracy, indicating higher distances between earnings forecasts and realized earnings.

3.2 Measures of accounting comparability

Following Kim et al. (2016) and Zhang et al. (2020), I use the method of De Franco et al. (2011) to construct the measure of accounting comparability, which is the closeness of the accounting functions (how economic events are reflected in accounting income) between two firms.

First, I run the following time-series regression using firm *i*'s quarterly earnings and stock returns to measure firm *i*'s accounting function in period *t*:

$$Earnings_{i,t} = \alpha_i + \beta_i Return_{i,t} + \varepsilon_{i,t} \quad (1)$$

where $Earnings_{i,t}$ is the quarterly net income before extraordinary items scaled by the market value of equity at the end of the previous quarter and $Return_{i,t}$ is the quarterly stock returns for firm *i* in quarter *t*. The estimated coefficients α_i and β_i represent the accounting function of firm *i*. Similarly, I estimate α_j and β_j that constitute firm *j*'s accounting function.

Then I compute expected earnings using the two estimated accounting functions for each firm. Specifically, I predict firm *i*'s accounting income (expected earnings) using the estimated accounting functions of both firm *i* and firm *j*, assuming they had experienced the same economic events (had the same return, $Return_{i,t}$). I calculate:

$$E(Earnings)_{i,i,t} = \hat{\alpha}_i + \hat{\beta}_i Return_{i,t} \quad (2)$$

$$E(Earnings)_{i,j,t} = \hat{\alpha}_j + \hat{\beta}_j Return_{i,t} \quad (3)$$

where $E(Earnings)_{i,i,t}$ is the expected earnings of firm *i* based on its own accounting function and return in period *t*. $E(Earnings)_{i,j,t}$ is the expected earnings of firm *j* based on the accounting function of firm *j* and firm *i*'s return in period *t*. I then compute accounting comparability for each firm *i* - *j* pair as the negative value of the average absolute difference between the expected earnings using the accounting functions of firm *i* and firm *j* for the previous 16 quarters:

$$CompAcct_{i,j,t} = -\frac{1}{16}\sum_{t-15}^{t} |E(Earnings)_{i,i,t} - E(Earnings)_{i,j,t}| \quad (4)$$

Specifically, I estimate accounting comparability ($CompAcct_{i,j,t}$) for all *i* - *j* pairs within the same two-digit Nikkei industry group. Next, for each firm *i*, I calculate a firm-year measure of accounting comparability ($AcctInd_{i,t}$) by averaging $CompAcct_{i,j,t}$ for all combinations of firm *i* and firm *j* in the same industry during year *t*. Then I rank $CompAcct_{i,j,t}$ for all *i* - *j* pairs from the highest to lowest. Following De Franco et al. (2011), Kim et al. (2016), Zhang et al. (2021), and Hong et al. (2023), I estimate the mean value of $CompAcct_{i,j,t}$ of the ten firms *j* in the same industry with the highest comparability to firm *i* in year *t* ($Acct10_{i,t}$) and the median of $CompAcct_{i,j,t}$ for all combinations of firm *i* and firm *j* in the same industry ($Acct\_median_{i,t}$). In general, greater values of $AcctInd_{i,t}$, $Acct10_{i,t}$, and $Acct\_median_{i,t}$ indicate higher accounting comparability between firm *i* and its peer firms in the same industry group.

3.3 Control variables

I include a set of control variables that have been suggested by prior studies to affect management earnings forecast accuracy (e.g., Ota, 2011; Muramiya and Takada, 2017; Ishida et al., 2021; Kitagawa, 2021; Schabus, 2022). Specifically, I control for two dummy variables, $Loss\_D_{i,t-1}$ (equals to one if the firm reports losses and zero otherwise) and $Increase\_D_{i,t-1}$(equals to one if the firm's net income has increased compared to the prior year, and zero otherwise), which are used to control for firms' earnings stream (Ishida et al., 2021). I control for firm fundamentals including firm size ($SIZE_{i,t-1}$), profitability ($ROA_{i,t-1}$), and leverage ($LEV_{i,t-1}$) because these firm characteristics may induce managers to intentionally or unintentionally report inaccurate earnings forecasts (Muramiya and Takada, 2017). Earnings volatility ($Earn\_vol_{i,t-1}$) is controlled for firm-specific earnings uncertainty because prior studies find that firms facing greater operating or earnings uncertainty are likely to issue relatively inaccurate earnings forecasts (Gong et al., 2009; Schabus, 2022). Considering the influence of firm growth on managerial forecast behaviours suggested by previous studies (Ota, 2011; Muramiya and Takada, 2017), I also control for firm growth ($Growth_{i,t-1}$). Finally, I follow Muramiya and Takada (2017) to control for the lagged management forecast accuracy

($Abs(MFE)_{i,t-1}$) in the empirical model since prior studies find that management earnings forecast errors are persistent (Kato et al., 2009; Gong et al., 2011). Please see Appendix A for more detailed definitions of the above variables.

3.4 Research model

To determine the effects of accounting comparability on management earnings forecast accuracy, I follow prior studies (Muramiya and Takada, 2017; Ishida et al., 2021; Kitagawa, 2021; Schabus, 2022) to use the following baseline ordinary least squares (OLS) model:

$$\begin{aligned} Abs(MFE)_{i,t} = \beta_0 + \beta_1 CompAcct_{i,t-1} + \beta_2 Loss\_D_{i,t-1} + \beta_3 Increase\_D_{i,t-1} \\ + \beta_4 SIZE_{i,t-1} + \beta_5 ROA_{i,t-1} + \beta_6 LEV_{i,t-1} + \beta_7 Earn\_vol_{i,t-1} \\ + \beta_8 Growth_{i,t-1} + \beta_9 Abs(MFE)_{i,t-1} + \sum Year + \sum Industry + \varepsilon_{i,t} \end{aligned} \quad (5)$$

where $Abs(MFE)_{i,t}$ is the proxy for management earnings forecast accuracy, and $CompAcct_{i,t-1}$ is the lagged accounting comparability measure ($AcctInd_{i,t-1}$, $Acct10_{i,t-1}$, and $Acct\_median_{i,t-1}$). I follow Ishida et al. (2021) and Schabus (2022) to control for both year and industry-fixed effects and cluster the standard errors at the firm and year levels (Petersen, 2009). My variable of interest is $CompAcct_{i,t-1}$. Since I hypothesise that higher comparability may lead to more accurate management earnings forecasts, a negative coefficient on $CompAcct_{i,t-1}$ supports my H1.

To test cross-sectional hypotheses from H2 to H3, I use the following models (6) and (7) by including the interactions of $CompAcct_{i,t-1}$ with institutional shareholdings ($InstOwn_{i,t-1}$) and accounting quality ($Accounting\ quality_{i,t-1}$), respectively:

$$\begin{aligned} Abs(MFE)_{i,t} = \beta_0 + \beta_1 CompAcct_{i,t-1} + \beta_2 CompAcct_{i,t-1} * InstOwn_{i,t-1} \\ + \beta_3 InstOwn_{i,t-1} + \beta_4 Loss\_D_{i,t-1} + \beta_5 Increase\_D_{i,t-1} + \beta_6 SIZE_{i,t-1} \\ + \beta_7 ROA_{i,t-1} + \beta_8 LEV_{i,t-1} + \beta_9 Earn_{vol_{i,t-1}} + \beta_{10} Growth_{i,t-1} \\ + \beta_{11} Abs(MFE)_{i,t-1} + \beta_{12} ForOwn_{i,t-1} + \beta_{13} ManaOwn_{i,t-1} + \sum Year \\ + \sum Industry + \varepsilon_{i,t} \end{aligned} \quad (6)$$

where $InstOwn_{i,t-1}$ is the percentage of the shares owned by institutional investors for year t – 1, $ForOwn_{i,t-1}$ is the percentage of the shares owned by foreign investors for year t – 1, and $ManaOwn_{i,t-1}$ is the percentage of the shares owned by directors for year t – 1. Specifically, I follow Nagel (2005) to calculate the standardized decile rank of $InstOwn_{i,t-1}$. I first rank the ownership of institutional investors into decile for each year and then standardize the decile to a range of 0 – 1.

$$\begin{aligned} Abs(MFE)_{i,t} = \beta_0 + \beta_1 CompAcct_{i,t-1} + \beta_2 CompAcct_{i,t-1} * Accounting\ quality_{i,t-1} \\ + \beta_3 Accounting\ quality_{i,t-1} + \beta_4 Loss\_D_{i,t-1} + \beta_5 Increase\_D_{i,t-1} \\ + \beta_6 SIZE_{i,t-1} + \beta_7 ROA_{i,t-1} + \beta_8 LEV_{i,t-1} + \beta_9 Earn\_vol_{i,t-1} \\ + \beta_{10} Growth_{i,t-1} + \beta_{11} Abs(MFE)_{i,t-1} + \sum Year + \sum Industry + \varepsilon_{i,t} \end{aligned} \quad (7)$$

where $Accounting\ quality_{i,t-1}$ is the measure of a firm's quality of accruals. Specifically, I follow Francis et al. (2005) and Kim et al. (2021) to use the following two measures of $Accounting\ quality_{i,t-1}$: $AQ\_DD_{i,t-1}$ and $AQ_{i,t-1}$. $AQ\_DD_{i,t-1}$ and $AQ_{i,t-1}$ are computed

based on the standard deviation of firm-level residuals from the Dechow and Dichev's (2002) model and modified Dechow and Dichev's (2002) model (augmented by McNichols (2002)) during the previous five years, respectively.[14] Following Chircop et al. (2020), I then generate $AQ\_DD_{i,t-1}$ and $AQ_{i,t-1}$ by multiplying the standard deviations by – 1 and standardizing them so that they have a mean of zero and a standard deviation of 1.[15] A negative coefficient for the interaction term ($CompAcct_{i,t-1} * Accounting\ quality_{i,t-1}$) supports H3 that the positive association between comparability and management forecast accuracy is stronger if peer firms have higher accounting quality.

4. Empirical Results

4.1 Sample selection

Table 1 reports my sample selection procedure. The necessary data of management earnings forecasts, financial statements, and stock data are obtained from the Nikkei NEEDS Financial QUEST database. My initial sample starts with 47,498 firm-year observations from 2007 to 2019.[16] I first exclude 1,436 observations working in banking, securities, and insurance. Following Ishida et al. (2021), I then drop 2,763 firm-year observations with the number of months in a fiscal period not equal to 12 and observations that changed the accounting period during the analysis period. Next, I remove 1,826 observations with missing values related to management earnings forecast accuracy and 23,106 observations with missing values related to accounting comparability. Finally, I delete 1,049 firm-year observations with missing data for control variables. My final sample consists of 17,318 firm-year observations for the main analysis.[17] I then winsorize all continuous variables that lie in the upper or lower 1% of the distribution to reduce the influence of outliers.

[Insert Table 1 about here]

[14] Specifically, the Dechow and Dichev's (2002) model is $TCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \varepsilon_{i,t}$ and the modified Dechow and Dichev's (2002) model is $TCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta Rev_{i,t} + \beta_5 PPE_{i,t} + \varepsilon_{i,t}$, where $TCA_{i,t}$ is total current accruals in year *t*. $CFO_{i,t-1}$, $CFO_{i,t}$, and $CFO_{i,t+1}$ are operating cash flow (earnings before extraordinary items – total accruals ($TA_{i,t}$)) for the current year, prior year, and the future year, respectively. $\Delta Rev_{i,t}$ is change in revenue in year *t*, and $PPE_{i,t}$ is the gross value of property, plant, and equipment (PPE) in year *t*. All variables are scaled by average total assets between year *t* – 1 and year *t*. Following Enomoto et al. (2020), I compute $TCA_{i,t}$ as ((Δcurrent asset – Δcash – Δtrading securities – Δshort-term loans receivable) – (Δcurrent liability – Δshort-term loan payable – Δnote payable for PPE – Δaccrued amount payable for PPE)) and compute $TA_{i,t}$ as ((Δcurrent asset – Δcash – Δtrading securities – Δshort-term loans receivable) − (Δcurrent liability – Δshort-term loan payable – Δnote payable for PPE – Δaccrued amount payable for PPE) – Δlong-term allowance – depreciation).

[15] Higher (lower) values of $AQ\_DD_{i,t-1}$ and $AQ_{i,t-1}$ indicate higher (lower) accounting quality.

[16] My sample period begins in 2007 due to the disclosure time of quarterly financial reports in Japan. Most firms disclosed financial reports twice a year until 2002. Starting April 1, 2003, the TSE asks firms listed on its First and Second Sections to disclose quarterly summary reports. After this requirement, the TSE began to require firms to disclose quarterly financial statements from the fiscal year ending in March 2004. Since $CompAcct_{i,t-1}$ is estimated on the 16 previous quarters of data, the earliest year with values of $CompAcct_{i,t-1}$ is 2007.

[17] The sample for H2 is relatively smaller due to the missing values of the ownership structure. The sample for H3 is also smaller than that for the main analysis due to the calculation of accounting quality. Specifically, there is a sample of 15,558 firm-year observations for $AQ\_DD_{i,t-1}$ and a sample of 15,500 firm-year observations for $AQ_{i,t-1}$, respectively.

4.2 Descriptive statistics

Table 2 reports descriptive statistics for variables. Specifically, Panel A shows summary statistics for all samples. The mean and median values of the absolute value of management earnings forecast errors ($Abs(MFE)_t$) are 0.045 and 0.017, respectively, which are larger than those reported by previous studies using U.S. samples (e.g., Baik et al., 2011; Schabus, 2022).[18] For three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$), the mean values are -0.018, -0.006, and -0.015, respectively, which are much larger than those reported in previous studies using U.S. or international samples (except for Japan).[19] For example, Kim et al. (2016) show that the measure of average 4 highest $CompAcct_{i,j,t}$ (*COMPACCT*4 in their study) has a mean of -0.513 and the measure of average $CompAcct_{i,j,t}$ (*COMPACCTIND* in their study) has a mean of -3.238. Neel (2017) shows that the mean value of the median $CompAcct_{i,j,t}$ (*CompAcct* in his study) is -0.149 for the pre-IFRS adoption period and -0.095 for post-IFRS adoption period. The above results show that the accounting comparability in Japanese firms is significantly higher than the comparability in other countries (e.g., U.S. and European IFRS firms), which is consistent with Mukai (2017).

Panel A also shows that the average ownership of institutional investors is 22.7% and the average ownership of foreign investors is 12.8%. The average percentage of the shares owned by directors is 4.2%, which is much smaller than those of institutional and foreign investors.[20] The table also indicates that the average value of AQ_DD_{t-1} is -0.023 and the mean of AQ_{t-1} is -0.022, which are consistent with Enomoto et al. (2020).[21] Other control variables also exhibit similar descriptive statistics to those reported by prior studies (e.g., Kitagawa, 2021; Ishida et al., 2021).

Panel B presents the results of comparison tests between two groups with high and low accounting comparability. Specifically, I classify the sample into two subsamples (low-comparability and high-comparability) based on the median $Acct10_{t-1}$ for each sample year. Then I test the difference in variables between the two subsamples. As shown in Panel B, the mean of $Abs(MFE)_t$ in the low-comparability group are significantly larger than that in the group of high comparability, which is consistent with my baseline hypothesis. Moreover, the high-comparability group has higher institutional ownership and higher levels of accounting quality.

[Insert Table 2 about here]

Table 3 shows the Pearson correlation matrix of the variables. As shown in Table 3, three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$) are significantly and positively correlated with each other. The correlations between three measures of accounting and $Abs(MFE)_t$ are negative and statistically significant at the 1% level (with the

[18] Specifically, Baik et al. (2011) report a mean value of 1.703 for management forecast error (multiplied by 100) and a median value of 0.455. Schabus (2022) shows that the average management forecast accuracy measured by the absolute value of forecast errors multiplied by -100 is -1.12, and the median is -0.42. The descriptive statistics of $Abs(MFE)_t$ in Ishida et al. (2021) are also larger than those of Baik et al. (2011).

[19] These results are consistent with the descriptive statistics reported by previous Japanese studies. For example, Wakabayashi (2016) indicates that the average of the median $CompAcct_{i,j,t}$ is -0.021 for the sample period from 2012 to 2015.

[20] The results are consistent with previous studies. For example, Ishida et al. (2021) show that the average managerial ownership is 3.7%. Zeitun and Goaied (2021) show that the average foreign ownership is 12.18%.

[21] Enomoto et al. (2020) show that the mean (median) value of *AQ* in the post-2001 sample is –0.020 (–0.016).

coefficients of -0.264, -0.263, and -0.278, respectively), indicating that there is a positive correlation between comparability and management earnings accuracy, as predicted in H1. Besides, there is a significantly negative correlation between $Abs(MFE)_t$ and $InstOwn_{t-1}$ as well as two measures of accounting quality (AQ_DD_{t-1} and AQ_{t-1}).

[Insert Table 3 about here]

4.3 Tests of Hypothesis 1

Table 4 presents the empirical results of model (5) to test Hypothesis 1. As shown in columns (1) to (3), three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$) are negatively associated with $Abs(MFE)_t$ that indicates the management forecast errors, with the coefficients of -0.810, -1.202, and -0.783, respectively. This finding is consistent with Hypothesis 1 that accounting comparability increases the accuracy of management earnings forecasts. For economic significance, the results indicate that one standard deviation increase in the $AcctInd_{t-1}$ reduces the management forecast error by an estimate of 0.009 (0.010 and 0.009 for $Acct10_{t-1}$ and $Acct\_median_{t-1}$, respectively).[22] Given that the mean value of $Abs(MFE)_t$ is 0.045 (as reported in Table 2), the effect of comparability on management forecast accuracy is economically significant. Therefore, H1 is supported based on the results in Table 4.

For the results of the control variables, the coefficients of $Loss\_D_{t-1}$ are significant and positive. This indicates that firms that reported losses in the previous year are more likely to issue forecasts with lower accuracy, which is consistent with previous studies (e.g., Kato et al., 2009; Ishida et al., 2021). The coefficients of $SIZE_{t-1}$ are significantly negative and the coefficients of lagged management forecast errors ($Abs(MFE)_{t-1}$) are significantly positive, which are also consistent with the results in prior studies (e.g., Muramiya and Takada, 2017; Kitagawa, 2021). Overall, the results of the control variables are generally consistent with prior studies.

[Insert Table 4 about here]

4.4 Tests of Hypothesis 2

Table 5 reports the empirical results of model (6) to test the effect of institutional ownership on the relationship between accounting comparability and management forecast accuracy. To examine the prediction, I add institutional ownership ($InstOwn_{i,t-1}$) and its interaction with three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$) to the model. Considering the influence of shareholdings by other investors, I also control the foreign ownership ($ForOwn_{i,t-1}$) and managerial ownership ($ManaOwn_{i,t-1}$). Since institutional ownership ($InstOwn_{i,t-1}$) is highly correlated with firm size ($SIZE_{t-1}$) (with a coefficient of 0.542 at the 1% level), I follow Kim et al. (2016) to add the interaction between $SIZE_{t-1}$ and accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$) to the model to reduce the potential bias suggested by Yzerbyt et al. (2004).

[22] I obtain 0.009 by multiplying 0.011 (the standard deviation of $AcctInd_{t-1}$ reported in Table 2) with 0.810 (the coefficient on $AcctInd_{t-1}$ in column (1)). Similarly, I obtain 0.010 by multiplying 0.008 (the standard deviation of $Acct10_{t-1}$ reported in Table 2) with 1.202 (the coefficient on $Acct10_{t-1}$ in column (2)), and I obtain 0.009 by multiplying 0.012 (the standard deviation of $Acct\_median_{t-1}$ reported in Table 2) with 0.783 (the coefficient on $Acct\_median_{t-1}$ in column (3)).

Columns (1) to (3) present the test results. The coefficients of institutional ownership ($InstOwn_{i,t-1}$) are significantly negative, which is in line with previous studies (e.g., Ajinkya et al., 2005; Ishida et al., 2021) that governance mechanisms such as institutional shareholdings assist in monitoring managerial disclosure behaviours, as reflected in the management earnings forecast accuracy. The coefficients of the interaction terms (*AcctInd* $_{t-1}$ * *InstOwn* $_{t-1}$, *Acct*10 $_{t-1}$ * *InstOwn* $_{t-1}$, and *Acct_median* $_{t-1}$ * *InstOwn* $_{t-1}$) are -0.438, -0.492, and -0.450, respectively. Moreover, the coefficients are statistically significant at less than the 5% level. These results indicate that subject firms with larger shareholdings by institutional investors are more likely to issue forecasts accurately if they have more comparable information with peer firms, which is consistent with the prediction of H2.

Table 5 also shows that foreign ownership ($ForOwn_{i,t-1}$) may decrease the accuracy of management forecasts, which is consistent with the view that foreign ownership strengthens capital market pressure (Kitagawa, 2021). The coefficients of managerial ownership ($ManaOwn_{i,t-1}$) are insignificant, which is consistent with Ishida et al. (2021).

[Insert Table 5 about here]

4.5 Tests of Hypothesis 3

Table 6 reports the empirical results of model (7) to test the effect of accounting quality on the relationship between accounting comparability and management forecast accuracy. Specifically, I include the interactions of three measures of accounting comparability (*AcctInd* $_{t-1}$, *Acct*10 $_{t-1}$, and *Acct_median* $_{t-1}$) with two measures of accounting quality (*AQ_DD* $_{t-1}$ and *AQ* $_{t-1}$) in the model, respectively.

As shown in Table 6, the coefficients of *AQ_DD* $_{t-1}$ and *AQ* $_{t-1}$ are significantly negative in all columns, suggesting that higher accounting quality could decrease management earnings forecast errors. The coefficients of the interaction terms *AcctInd* $_{t-1}$ * *AQ_DD* $_{t-1}$, *Acct*10 $_{t-1}$ * *AQ_DD* $_{t-1}$ and *Acct_median* $_{t-1}$ * *AQ_DD* $_{t-1}$ are negative and significant at 5%-10% in columns (1)-(3). Besides, the coefficients of the interaction terms *AcctInd* $_{t-1}$ * *AQ* $_{t-1}$, *Acct*10 $_{t-1}$ * *AQ* $_{t-1}$ and *Acct_median* $_{t-1}$ * *AQ* $_{t-1}$ are also significantly negative in columns (4)-(6). The above results are in line with previous literature (e.g., Biddle et al., 2009; Chircop, 2021) that higher accounting quality could reduce information asymmetry between firms and facilitate managerial learning from peer firms, which leads to a positive incremental effect of accounting quality on the relation between comparability and management forecast accuracy. Overall, the results of Table 6 are consistent with H3 that the positive association between comparability and management forecast accuracy is stronger if peer firms have higher accounting (i.e., accrual) quality.

[Insert Table 6 about here]

5. Robustness Tests and Additional Analyses

5.1 Robustness tests

Alternative measures of management earnings forecast accuracy

To test the robustness, this study also generates two alternative proxies for management earnings forecast accuracy: *Abs*(*Revision_mag*) $_t$ and *Abs*(*MFE*)2 $_t$. Specifically, I follow Kitagawa (2021) and Ishida et al. (2021) to generate the magnitude of forecast revision (*Abs(Revision_mag)* $_t$), which is measured as the absolute value of management forecast revisions in year *t* scaled by the lagged market value of equity (|initial management earnings forecast for year *t* – the latest management earnings forecast for year *t*|/market value of equity for year *t* – 1). I then follow Kitagawa (2021) to generate *Abs*(*MFE*)2 $_t$ which is the absolute value of *MFE* in year *t* deflated by the lagged total assets (|actual earnings for year *t* – initial management earnings forecast for year *t*|/total assets for year *t* – 1). Similarly, I also control for the lagged management forecast accuracy (*Abs(Revision_mag)* $_{t-1}$ and *Abs*(*MFE*)2 $_{t-1}$) in the empirical model.

Table 7 Panel A presents the results of the above robustness tests. In general, the coefficients of three measures of accounting comparability (*AcctInd* $_{t-1}$, *Acct*10 $_{t-1}$, and *Acct_median* $_{t-1}$) are negative and significant at less than the 5% level, indicating that the effect of accounting comparability on management earnings forecast accuracy is robust to alternative measures of management forecast accuracy.

Alternative measures of accounting comparability

I consider two alternative measures of accounting comparability: comparability calculated based on the prices leading earnings model and comparability calculated based on values of top-four firms. Following De Franco et al. (2011) and Kim et al. (2021), I use the prices leading earnings model to estimate the accounting function of each firm. Specifically, I incorporate lagged stock returns into equation (1) to re-estimate *CompAcct*. I then generate *AcctInd_PLE* $_{t-1}$, *Acct*10*_PLE* $_{t-1}$, and *Acct_median _PLE* $_{t-1}$ by following the same method used to calculate the primary measures of comparability. My second alternative proxy for the comparability is the mean value of *CompAcct* based on top-four firms. Following De Franco et al. (2011) and Kim et al. (2016), I generate *Acct*4 $_{t-1}$ which is the average of the four highest *CompAcct* values for firm *i* in year *t* – 1. Similarly, I also generate *Acct*4*_PLE* $_{t-1}$ by using the prices leading earnings model.

Table 7 Panel B reports the results of regression on alternative measures of accounting comparability. As shown in Panel B, the coefficients of alternative comparability measure 1 (*AcctInd_PLE* $_{t-1}$, *Acct*10*_PLE* $_{t-1}$, and *Acct_median_PLE* $_{t-1}$) and measure 2 (*Acct*4 $_{t-1}$ and *Acct*4*_PLE* $_{t-1}$) are significantly negative for all columns.

Change the sample period

According to the 2008 quarterly reporting regulation, Japanese firms are required to issue quarterly financial reports after the fiscal year 2008. Considering the increasing number of quarterly financial reports after the quarterly reporting regulation, I follow Wakabayashi (2016) to use the sample period from 2012 to examine the relationship between comparability and management forecast accuracy. As shown in Table 7 Panel C, *AcctInd* $_{t-1}$, *Acct*10 $_{t-1}$, and *Acct_median* $_{t-1}$ are significantly and negatively associated with comparability, showing that the positive relationship between comparability and management forecast accuracy is robust to different sample periods. Overall, the results are generally identical to the main analysis reported in Table 4.

[Insert Table 7 about here]

5.2 Additional analyses: A further investigation of the accounting regulations

The effect of quarterly reporting regulation of Japanese Accounting Standards (2008)

In Japan, the new Japanese Accounting Standards (2008) requires firms to issue quarterly financial reports since 2008, after the enactment of the 2007 Financial Instruments and Exchange Act. Before the quarterly reporting regulation, there was no legal or risk penalty if firms didn't disclose full-scale quarterly financial statements (Kubota and Takehara, 2016).

Since quarterly financial statements become compulsory and are required to be published with auditors' reviews since 2008, the disclosure frequency gets increased and more timely information could be provided to investors, which may reduce agency conflicts (Koga and Yamaguchi, 2023). For example, Kubota and Takehara (2016) find that Japanese firms that disclose quarterly financial statements have lower information asymmetry. Given the enhanced access to information, managers may be more likely to learn from peer firms and investors could be more able to monitor managerial behaviours. In this case, the hypothesized positive relationship between comparability and management forecast accuracy becomes strengthened.

To examine the effect of the quarterly reporting regulation on the relationship between accounting comparability and management forecast accuracy, I first construct a dummy variable of *QRR* that takes a value of 1 for the year after 2008, and a value of 0 before 2008. I then add *QRR* and its interaction with comparability to the model. Since the sample period starts from 2007, I set the year 2007 as the pre-QRR period and set the years 2008-2009 as the post-QRR period. In addition, I use two samples. The first sample is the full sample of 2007-2009. I then follow Neel (2017) to select firms that are present for the entire 3-year period as the second sample (56 firms per year).[23]

Table 8 presents the results. Specifically, Panel A shows the descriptive statistics of two samples. Panel B shows the regression results of two samples. As shown in columns (1)-(3), the coefficients of three interaction terms, $AcctInd_{t-1} * QRR$, $Acct10_{t-1} * QRR$, and $Acct\_median_{t-1} * QRR$ are significantly negative at less than the 5% level. Columns (4) and (6) also show that the coefficients of the interactions of comparability with *QRR* are significant and negative for samples with data during the entire 3-year period. These results indicate that the positive relationship between comparability and management forecast accuracy is strengthened after the enforcement of the 2008 quarterly reporting regulation.

[Insert Table 8 about here]

The effect of IFRS adoption in Japan

According to the interim report issued by the BAC (BAC, 2009), Japanese-listed firms are permitted to adopt IFRS voluntarily from the fiscal year ending in March 2010. Since 2010, there are an increasing number of firms that adopt IFRS and the use of IFRS is growing

[23] For both samples, I excluded firms that adopt IFRS or U.S. GAAP.

rapidly.[24] Regarding the differences between IFRS and Japanese GAAP (J-GAAP), Gu (2021) argues that J-GAAP could be regarded as the equivalent of the IFRS since the Accounting Standards Board of Japan and the International Accounting Standards Board launched a project to achieve convergence between J-GAAP and IFRS in 2005. Although most of the major differences between two accounting standards have been eliminated, there still remain some differences (e.g., amortization of goodwill and R&D costs, the booking of impairment loss, etc.) (Sato and Takeda, 2017). In terms of the effects of IFRS adoption on accounting quality in Japan, prior studies find that IFRS adopters are likely to have less income smoothing and higher conditional conservatism (Shimamoto and Takeda, 2020; Gu, 2021). However, Wakabayashi (2018) finds that after IFRS adoption, the comparability level of Japanese firms first decreased to the lowest point in 2012 and then showed an upward trend.[25] In general, the results on the consequences of IFRS adoption in Japan are mixed.

In addition to IFRS and J-GAAP, Japanese firms can also choose to apply U.S. GAAP. For example, Gu (2021) finds that about 4.8% of Japanese-listed firms applied IFRS in 2005, while 0.8% applied U.S. GAAP. Prior studies indicate mixed results on the difference in accounting quality across U.S. GAAP and IFRS firms. Specifically, Lin et al. (2012) find that firms adopting U.S. GAAP generally have better accounting quality than IFRS adopters. In contrast, Leuz (2003) find that there is no evidence supporting claims that U.S. GAAP firms perform better than IFRS firms in informational quality.

Based on previous studies, I conjecture that the effect of comparability on management forecast accuracy may differ across firms that adopt IFRS and J-GAAP (or U.S. GAAP). To examine the effect of IFRS adoption on the relationship between comparability and management forecast accuracy for firms applying different accounting standards, I follow prior studies (Cameran et al., 2014; Gu, 2021; Amano, 2021) to construct the variable of *IFRS*, which is measured as 1 if a firm adopted IFRS voluntarily and 0 otherwise. I then add *IFRS* and its interaction with comparability to the model. To reduce the potential self-selection bias, I follow previous studies (Cameran et al., 2014; Sato and Takeda, 2017; Gu, 2021; Amano, 2021) to use the PSM method to select the control group. To better examine the effect of IFRS adoption on the relationship between comparability and the accuracy of management forecasts, I use two matched samples as benchmarks: firms that adopt J-GAAP and firms that adopt U.S. GAAP. Specifically, I use the one-to-one nearest neighbour matching method with no replacement to match each observation in the IFRS adoption group with a non-adopter (a J-GAAP firm and a U.S. GAAP firm, respectively).[26] Following Sato and Takeda (2017) and Gu (2021), I set the sample period starting from 2010.

Table 9 reports the results of the effect of IFRS adoption in Japan. Panel A shows that compared with J-GAAP firms, IFRS adopters have high management forecast accuracy and high

[24] For example, the TSE announced that as of March 2023, there are 253 firms having adopted IFRS and 10 firms planning to adopt IFRS in the near future, which is 263 firms in total. (https://www.jpx.co.jp/equities/improvements/ifrs/02.html)

[25] Wakabayashi (2018) argues that the change from J-GAAP to IFRS did not lead to an improvement in the comparability of Japanese firms at first due to the revision and abolition of accounting standards. As the convergence progresses, comparability may show an upward tendency in recent years.

[26] To conduct the PSM procedure, I follow previous studies (Cameran et al., 2014; Sato and Takeda, 2017; Gu, 2021; Amano, 2021) to build the following logit model to predict the likelihood of IFRS adoption:

$$IFRS_{i,t} = Logit\ (\beta_0 + \beta_1 SIZE_{i,t} + \beta_2 LEV_{i,t} + \beta_3 ROA_{i,t} + \beta_4 LOSS_{i,t} + \beta_5 Abs\_OPCF_{i,t} + \beta_6 Foreign_{i,t} + \beta_7 Overseas\_ratio_{i,t} + \beta_8 Invest_{i,t} + \beta_9 Growth2_{i,t} + \sum Year + \sum Industry + \varepsilon_{i,t})$$

Please see Appendix B for details.

comparability. However, there is no significant difference in management forecast accuracy and comparability between U.S. GAAP firms and IFRS firms. Panel B presents the regression results. Columns (1)-(2) indicate that the coefficients of the interactions of comparability with *IFRS* are insignificant, while the coefficient of *Acct_median* $_{t-1}$ * *IFRS* in column (3) is positive and significant at the 10% level. The above results suggest that IFRS adoption doesn't increase the positive effect of comparability on management forecast accuracy across J-GAAP firms and IFRS firms. Columns (4)-(6) report the test results for IFRS adopters and U.S. GAAP firms. The coefficients of three interaction terms, *AcctInd* $_{t-1}$ * *IFRS, Acct*10 $_{t-1}$ * *IFRS,* and *Acct_median* $_{t-1}$ * *IFRS* are significantly negative at less than the 10% level. These results show that the positive effect of comparability on management forecast accuracy is stronger for IFRS adopters than for U.S. GAAP firms.[27]

[Insert Table 9 about here]

The above results are consistent with the view that the effect of IFRS adoption depends on the enforcement pressures and institutional environments (Leuz, 2003; Tarca, 2004; Wakabayashi, 2018). Compared with voluntary adoption, mandatory adoption can bring out more consistent application and enforcement because a large number of firms are affected simultaneously (Barth et al., 2012). Thus, the effectiveness of IFRS adoption may differ across firms that adopt IFRS voluntarily and mandatorily. For example, Horton et al. (2013) find that forecast accuracy improves significantly for mandatory IFRS adopters, but the results are not robust for voluntary IFRS adopters. They also find that IFRS adoption could improve forecast accuracy more if there is a larger difference between IFRS earnings and local GAAP earnings. Li and Yang (2016) expect IFRS adoption to have no impact on the forecast behaviour of Japanese firms because management forecasts are fully mandated. Given the uniqueness of the Japanese accounting and disclosure system, the effectiveness of IFRS adoption on the relationship between comparability and management earnings forecasts may be affected by the Japanese-specific contextual factors including organizational and cultural factors.[28]

6. Conclusion

This study examines the effect of accounting comparability on management earnings forecast accuracy in Japan, where management earnings forecasts are effectively mandated and accounting comparability could be more exogenous than in other countries. Comparability can reduce the costs of information acquisition and enable managers to have more available information about peer firms (De Franco et al., 2011). This could facilitate managerial learning from the financial information of comparable firms (Chircop et al., 2020), and thus managers are more likely to predict correct forward-looking estimates. Besides, comparability can enhance investors' monitoring of managerial behaviours due to the attenuated information asymmetry and decreased monitoring costs (Kim et al., 2016; Zhang et al., 2020). As a result, managers may be disincentivised towards opportunism and thus provide more reliable

[27] Cooke (1993) shows that the earnings of Japanese firms under J-GAAP are likely to be more prudent than those reported under U.S. GAAP. In addition, the number of firms that adopt U.S. GAAP is decreasing in recent years. For example, Gu (2021) shows that the average growth rate of U.S. GAAP adopting firms is -8.5% from 2010 to 2014. Given the difference between J-GAAP and U.S. GAAP as well as the convergence of J-GAAP and IFRS, it could be more difficult for U.S. GAAP adopting firms to learn from peers or get monitored by investors than IFRS adopting firms.

[28] Tsunogaya et al. (2015) argue that the main reasons for the concern about the IFRS application in Japan are the code law tradition, the triangular legal system, and the strict compliance with national legislation.

disclosures, as reflected in more accurate future estimates. Therefore, I predict that the accuracy of management earnings forecasts may increase with accounting comparability.

Following Kim et al. (2016) and Zhang et al. (2020), I use the method of De Franco et al. (2011) to construct the measure of accounting comparability. The results indicate a positive relationship between accounting comparability and management earnings forecast accuracy, suggesting that comparable financial information could improve the accuracy of management earnings forecasts. Moreover, the positive relationship between accounting comparability and management earnings forecast accuracy is more pronounced when subject firms have higher institutional ownership and peer firms have higher accounting (i.e., accrual) quality. Additional analyses show that the positive effect of accounting comparability on management forecast accuracy becomes strengthened after the 2008 quarterly reporting regulation in Japan. However, there is no evidence showing that IFRS adoption increases the positive effect of comparability. Overall, this study enriches the literature on determinants of the accuracy of management earnings forecasts and highlights the positive consequences of accounting comparability in the Japanese capital market.

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Table 1 Sample selection procedure

Criteria	Firm-years
Firm-years that listed on Japanese stock markets with financial data and price data obtained from the database during 2007 – 2019	47,498
Less:	
Banks, securities firms, insurance firms and other financial institutions	(1,436)
Firms with the number of months in a fiscal period not equal to 12 and firms that changed accounting period during the analysis period	(2,763)
Missing data for calculating dependent variables	(1,826)
Missing data for calculating independent variables	(23,106)
Missing data for control variables	(1,049)
Number of observations in the final sample for main analysis	17,318

This table shows the sample selection procedures in this study. The initial sample is based on the Nikkei NEEDS Financial QUEST during 2007– 2019. My final sample consists of 17,318 firm-year observations for the main analysis.

Table 2 Descriptive statistics

Panel A: Summary statistics

	N	Mean	SD	Min	p25	Median	p75	Max
Abs(MFE) $_{t}$	17318	.045	.096	0	.006	.017	.044	2.443
AcctInd $_{t-1}$	17318	-.018	.011	-.104	-.021	-.015	-.011	-.002
*Acct*10 $_{t-1}$	17318	-.006	.008	-.063	-.007	-.003	-.002	0
Acct_median $_{t-1}$	17318	-.015	.012	-.102	-.017	-.011	-.008	-.002
Loss_D $_{t-1}$	17318	.118	.322	0	0	0	0	1
Increase_D $_{t-1}$	17318	.592	.492	0	0	1	1	1
SIZE $_{t-1}$	17318	10.437	1.724	6.006	9.169	10.229	11.566	14.985
ROA $_{t-1}$	17318	.034	.044	-.314	.015	.031	.052	.266
LEV $_{t-1}$	17318	.480	.196	.049	.329	.480	.631	1.042
Earn_Vol $_{t-1}$	17318	.021	.022	.001	.008	.014	.025	.229
Growth $_{t-1}$	17318	1.036	.080	.787	.993	1.024	1.063	1.806
Abs(MFE) $_{t-1}$	17318	.046	.098	0	.007	.018	.044	2.287
InstOwn $_{t-1}$	16249	.227	.124	0	.132	.219	.320	.533
ForOwn $_{t-1}$	16249	.128	.121	0	.026	.090	.201	.551
ManaOwn $_{t-1}$	16249	.042	.086	0	.002	.007	.036	.709
AQ_DD $_{t-1}$	15558	-.023	.021	-.206	-.027	-.017	-.011	-.003
AQ $_{t-1}$	15500	-.022	.020	-.191	-.026	-.016	-.010	-.003

Panel B: Summary statistics by groups

	Low Accounting Comparability			High Accounting Comparability			T-Statistic
	N	Mean	Median	N	Mean	Median	t-value
Abs(MFE) $_{t}$	8556	.063	.025	8762	.027	.012	24.657***
Loss_D $_{t-1}$	8556	.178	0	8762	.059	0	24.859***
Increase_D $_{t-1}$	8556	.578	1	8762	.605	1	-3.683***
SIZE $_{t-1}$	8556	10.025	9.794	8762	10.838	10.694	-31.937***
ROA $_{t-1}$	8556	.024	.025	8762	.044	.037	-30.655***
LEV $_{t-1}$	8556	.532	.544	8762	.429	.422	35.870***
Earn_Vol $_{t-1}$	8556	.025	.017	8762	.017	.012	24.948***
Growth $_{t-1}$	8556	1.030	1.019	8762	1.041	1.030	-8.877***
Abs(MFE) $_{t-1}$	8556	.069	.027	8762	.024	.013	31.170***
InstOwn $_{t-1}$	7983	.216	.209	8266	.236	.228	-10.176***
ForOwn $_{t-1}$	7983	.104	.067	8266	.150	.122	-24.598***
ManaOwn $_{t-1}$	7983	.042	.007	8266	.043	.007	-0.488
AQ_DD $_{t-1}$	7353	-.026	-.019	8205	-.020	-.015	-19.535***
AQ $_{t-1}$	7306	-.025	-.018	8194	-.019	-.015	-18.817***

This table presents the descriptive statistics for the variables used in the main analysis. Panel A shows the summary statistics for full samples. *InstOwn* $_{t-1}$ is the original institutional ownership. *AQ_DD* $_{t-1}$ and *AQ* $_{t-1}$ are the variables of accounting quality before standardization, respectively. Panel B presents the results of comparison tests between two groups with high and low accounting comparability. All continuous variables are winsorized at 1 and 99 percentiles. Please see Appendix A for all variable definitions.

Table 3 Pearson correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) *Abs(MFE)*$_{t}$	1.000																
(2) *AcctInd*$_{t-1}$	-0.264***	1.000															
(3) *Acct10* $_{t-1}$	-0.263***	0.833***	1.000														
(4) *Acct_median* $_{t-1}$	-0.278***	0.978***	0.857***	1.000													
(5) *Loss_D* $_{t-1}$	0.268***	-0.290***	-0.261***	-0.315***	1.000												
(6) *Increase_D* $_{t-1}$	-0.107***	-0.002	0.018**	0.003	-0.279***	1.000											
(7) *SIZE* $_{t-1}$	-0.224***	0.343***	0.263***	0.350***	-0.189***	0.086***	1.000										
(8) *ROA* $_{t-1}$	-0.239***	0.287***	0.295***	0.322***	-0.526***	0.260***	0.281***	1.000									
(9) *LEV* $_{t-1}$	0.165***	-0.228***	-0.265***	-0.240***	0.117***	-0.007	-0.060***	-0.245***	1.000								
(10) *Earn_vol* $_{t-1}$	0.158***	-0.399***	-0.292***	-0.401***	0.275***	-0.035***	-0.167***	-0.120***	-0.052***	1.000							
(11) *Growth* $_{t-1}$	-0.026***	0.134***	0.126***	0.133***	-0.101***	0.058***	0.144***	0.281***	-0.014*	0.179***	1.000						
(12) *Abs(MFE)* $_{t-1}$	0.342***	-0.429***	-0.403***	-0.444***	0.510***	-0.144***	-0.230***	-0.340***	0.197***	0.251***	-0.092***	1.000					
(13) *InstOwn* $_{t-1}$	-0.093***	0.250***	0.151***	0.249***	-0.119***	0.007	0.542***	0.069***	0.098***	-0.237***	-0.035***	-0.117***	1.000				
(14) *ForOwn* $_{t-1}$	-0.115***	0.190***	0.177***	0.202***	-0.120***	0.057***	0.731***	0.285***	-0.155***	-0.028***	0.153***	-0.130***	0.390***	1.000			
(15) *ManaOwn* $_{t-1}$	0.052***	-0.131***	-0.047***	-0.112***	0.055***	0.017**	-0.276***	0.062***	-0.085***	0.198***	0.126***	0.054***	-0.389***	-0.178***	1.000		
(16) *AQ_DD* $_{t-1}$	-0.170***	0.351***	0.246***	0.336***	-0.173***	0.025***	0.226***	0.103***	-0.076***	-0.529***	-0.091***	-0.233***	0.249***	0.111***	-0.173***	1.000	
(17) *AQ* $_{t-1}$	-0.167***	0.341***	0.239***	0.328***	-0.162***	0.023***	0.219***	0.088***	-0.099***	-0.483***	-0.050***	-0.228***	0.259***	0.104***	-0.178***	0.945***	1.000

This table shows the Pearson correlation matrix of the variables. All continuous variables are winsorized at 1 and 99 percentiles. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for all variable definitions.

Table 4 Accounting comparability and management earnings forecast accuracy

	(1) $Abs(MFE)_t$	(2) $Abs(MFE)_t$	(3) $Abs(MFE)_t$
$AcctInd_{t-1}$	-0.810***		
	(-5.713)		
$Acct10_{t-1}$		-1.202***	
		(-5.951)	
$Acct\_median_{t-1}$			-0.783***
			(-5.854)
$Loss\_D_{t-1}$	0.019***	0.019***	0.018***
	(3.634)	(3.681)	(3.546)
$Increase\_D_{t-1}$	-0.004***	-0.004***	-0.004***
	(-2.798)	(-2.763)	(-2.970)
$SIZE_{t-1}$	-0.007***	-0.007***	-0.007***
	(-13.436)	(-13.244)	(-13.262)
ROA_{t-1}	-0.120***	-0.120***	-0.114***
	(-4.628)	(-4.595)	(-4.414)
LEV_{t-1}	0.034***	0.034***	0.034***
	(7.649)	(7.557)	(7.603)
$Earn\_Vol_{t-1}$	0.109**	0.122**	0.100*
	(2.120)	(2.418)	(1.943)
$Growth_{t-1}$	0.038*	0.039**	0.039**
	(1.954)	(2.037)	(2.017)
$Abs(MFE)_{t-1}$	0.192***	0.190***	0.191***
	(6.656)	(6.662)	(6.624)
Constant	0.022	0.016	0.022
	(1.152)	(0.803)	(1.111)
Year, Industry	Control	Control	Control
Observations	17,318	17,318	17,318
Adj. R-squared	0.208	0.209	0.209

The dependent variable in the three columns, $Abs(MFE)_t$, is the measure of management earnings forecast accuracy, which is calculated as the absolute value of initial *MFE* (earnings forecast error) in year *t* deflated by lagged market value of equity. Higher values of *Abs*(*MFE*) correspond to lower values of management earnings forecast accuracy, indicating higher distances between earnings forecasts and realized earnings. $AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$ are three measurements of accounting comparability. Greater values of $AcctInd_{i,t}$, $Acct10_{i,t}$, and $Acct\_median_{i,t}$ indicate higher accounting comparability. The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

Table 5 Accounting comparability and management earnings forecast accuracy: the effect of institutional ownership

	(1) $Abs(MFE)_t$	(2) $Abs(MFE)_t$	(3) $Abs(MFE)_t$
$AcctInd_{t-1} * InstOwn_{t-1}$	-0.438***		
	(-2.579)		
$Acct10_{t-1} * InstOwn_{t-1}$		-0.492**	
		(-1.988)	
$Acct\_median_{t-1} * InstOwn_{t-1}$			-0.450***
			(-2.642)
$AcctInd_{t-1} * SIZE_{t-1}$	0.346***		
	(4.105)		
$Acct10_{t-1} * SIZE_{t-1}$		0.381***	
		(3.218)	
$Acct\_median_{t-1} * SIZE_{t-1}$			0.344***
			(4.101)
$AcctInd_{t-1}$	-3.909***		
	(-4.734)		
$Acct10_{t-1}$		-4.564***	
		(-4.002)	
$Acct\_median_{t-1}$			-3.872***
			(-4.743)
$InstOwn_{t-1}$	-0.007***	-0.002*	-0.006***
	(-2.603)	(-1.694)	(-2.613)
$Loss\_D_{t-1}$	0.016***	0.015***	0.015***
	(3.041)	(3.008)	(2.990)
$Increase\_D_{t-1}$	-0.003**	-0.003**	-0.003**
	(-2.416)	(-2.336)	(-2.544)
$SIZE_{t-1}$	-0.005***	-0.008***	-0.006***
	(-3.045)	(-8.843)	(-4.478)
ROA_{t-1}	-0.147***	-0.150***	-0.144***
	(-5.293)	(-5.341)	(-5.201)
LEV_{t-1}	0.039***	0.038***	0.039***
	(8.804)	(8.533)	(8.741)
$Earn\_Vol_{t-1}$	0.118**	0.127**	0.111**
	(2.107)	(2.283)	(1.969)
$Growth_{t-1}$	0.023*	0.023	0.025*
	(1.679)	(1.630)	(1.774)
$Abs(MFE)_{t-1}$	0.180***	0.182***	0.179***
	(6.283)	(6.409)	(6.235)
$ForOwn_{t-1}$	0.074***	0.074***	0.073***
	(6.844)	(6.953)	(6.810)
$ManaOwn_{t-1}$	0.012	0.012	0.012
	(0.936)	(0.970)	(0.986)
Constant	0.010	0.048***	0.021
	(0.443)	(2.842)	(1.018)
Year, Industry	Control	Control	Control
Observations	16,249	16,249	16,249
Adj. R-squared	0.222	0.221	0.223

$Abs(MFE)_t$ is the measure of management earnings forecast accuracy. Higher values of $Abs(MFE)$ correspond to lower values of management earnings forecast accuracy. $AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$ are three

measurements of accounting comparability. Greater values of $AcctInd_{i,t}$, $Acct10_{i,t}$, and $Acct\_median_{i,t}$ indicate higher accounting comparability. $InstOwn_{t-1}$ is the percentage of the shares owned by institutional investors at the end of year $t - 1$. $ForOwn_{t-1}$ is the percentage of the shares owned by foreign investors at the end of year $t - 1$. $ManaOwn_{t-1}$ is the percentage of the shares owned by directors at the end of year $t - 1$. $InstOwn_{t-1}$ are first ranked into deciles for each year and then standardized into a range of 0 – 1. $AcctInd_{t-1} * InstOwn_{t-1}$, $Acct10_{t-1} * InstOwn_{t-1}$, and $Acct\_median_{t-1} * InstOwn_{t-1}$ are the interactions of $InstOwn_{t-1}$ and three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$), respectively. The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

Table 6 Accounting comparability and management earnings forecast accuracy: the effect of accounting quality

	(1) $Abs(MFE)_t$	(2) $Abs(MFE)_t$	(3) $Abs(MFE)_t$	(4) $Abs(MFE)_t$	(5) $Abs(MFE)_t$	(6) $Abs(MFE)_t$
$AcctInd_{t-1} * AQ\_DD_{t-1}$	-0.190**					
	(-2.037)					
$Acct10_{t-1} * AQ\_DD_{t-1}$		-0.258*				
		(-1.765)				
$Acct\_median_{t-1} * AQ\_DD_{t-1}$			-0.168*			
			(-1.932)			
$AcctInd_{t-1} * AQ_{t-1}$				-0.214**		
				(-2.302)		
$Acct10_{t-1} * AQ_{t-1}$					-0.297**	
					(-2.026)	
$Acct\_median_{t-1} * AQ_{t-1}$						-0.195**
						(-2.250)
$AcctInd_{t-1}$	-0.939***			-0.943***		
	(-6.401)			(-6.213)		
$Acct10_{t-1}$		-1.356***			-1.362***	
		(-6.072)			(-5.889)	
$Acct\_median_{t-1}$			-0.901***			-0.904***
			(-6.501)			(-6.296)
AQ_DD_{t-1}	-0.010***	-0.008***	-0.009***			
	(-3.144)	(-3.195)	(-3.199)			
AQ_{t-1}				-0.011***	-0.008***	-0.009***
				(-3.379)	(-3.394)	(-3.450)
$Loss\_D_{t-1}$	0.019***	0.020***	0.019***	0.019***	0.020***	0.019***
	(3.858)	(3.961)	(3.767)	(3.831)	(3.940)	(3.736)
$Increase\_D_{t-1}$	-0.003**	-0.003**	-0.003**	-0.003**	-0.003**	-0.003**
	(-2.387)	(-2.339)	(-2.572)	(-2.270)	(-2.239)	(-2.446)
$SIZE_{t-1}$	-0.006***	-0.006***	-0.006***	-0.006***	-0.006***	-0.006***
	(-12.989)	(-12.850)	(-12.837)	(-12.633)	(-12.490)	(-12.465)
ROA_{t-1}	-0.132***	-0.129***	-0.126***	-0.146***	-0.141***	-0.140***

	(-4.776)	(-4.651)	(-4.558)	(-5.082)	(-4.911)	(-4.886)
LEV_{t-1}	0.034***	0.034***	0.034***	0.033***	0.033***	0.033***
	(7.233)	(7.108)	(7.189)	(7.050)	(6.927)	(7.007)
$Earn\_Vol_{t-1}$	-0.011	-0.002	-0.020	0.019	0.028	0.011
	(-0.162)	(-0.025)	(-0.308)	(0.295)	(0.443)	(0.170)
$Growth_{t-1}$	0.019	0.021	0.021	0.023	0.025	0.025
	(0.922)	(1.044)	(1.000)	(1.066)	(1.177)	(1.133)
$Abs(MFE)_{t-1}$	0.164***	0.163***	0.163***	0.164***	0.162***	0.162***
	(5.572)	(5.545)	(5.529)	(5.515)	(5.489)	(5.483)
Constant	0.040*	0.033	0.039*	0.035	0.027	0.034
	(1.918)	(1.564)	(1.861)	(1.571)	(1.230)	(1.523)
Year, Industry	Control	Control	Control	Control	Control	Control
Observations	15,558	15,558	15,558	15,500	15,500	15,500
Adj. R-squared	0.210	0.210	0.210	0.210	0.210	0.211

$Abs(MFE)_{t}$ is the measure of management earnings forecast accuracy. Higher values of $Abs(MFE)$ correspond to lower values of management earnings forecast accuracy. $AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$ are three measurements of accounting comparability. Greater values of $AcctInd_{i,t}$, $Acct10_{i,t}$, and $Acct\_median_{i,t}$ indicate higher accounting comparability. AQ_DD_{t-1} is the measure of accounting quality generated based on the standard deviation of firm-level residuals from the following Dechow and Dichev's (2002) model during the previous five years. AQ_{t-1} is the measure of accounting quality generated based on the standard deviation of firm-level residuals from the following modified Dechow and Dichev's (2002) model (augmented by McNichols (2002)) during the previous five years. $AcctInd_{t-1} * AQ\_DD_{t-1}$, $Acct10_{t-1} * AQ\_DD_{t-1}$, and $Acct4_{t-1} * AQ_DD_{t-1}$are the interactions of AQ_DD_{t-1} and three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$), respectively. $AcctInd_{t-1} * AQ_{t-1}$, $Acct10_{t-1} * AQ_{t-1}$, and $Acct\_median_{t-1} * AQ_{t-1}$ are the interactions of AQ_{t-1} and three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$), respectively. The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

Table 7 Robustness tests

Panel A: Alternative measures of management earnings forecast accuracy			
Alternative management forecast accuracy measure 1			
	(1)	(2)	(3)
	$Abs(Revision\_mag)_t$	$Abs(Revision\_mag)_t$	$Abs(Revision\_mag)_t$
$AcctInd_{t-1}$	-0.623***		
	(-4.885)		
$Acct10_{t-1}$		-0.940***	
		(-5.280)	
$Acct\_median_{t-1}$			-0.616***
			(-5.086)
Other Control Variables	Yes	Yes	Yes
Year, Industry	Control	Control	Control
Observations	17,302	17,302	17,302
Adj. R-squared	0.206	0.206	0.206
Alternative management forecast accuracy measure 2			
	(1)	(2)	(3)
	$Abs(MFE)2_t$	$Abs(MFE)2_t$	$Abs(MFE)2_t$
$AcctInd_{t-1}$	-0.127***		
	(-3.382)		
$Acct10_{t-1}$		-0.112**	
		(-2.187)	
$Acct\_median_{t-1}$			-0.125***
			(-3.550)
Other Control Variables	Yes	Yes	Yes
Year, Industry	Control	Control	Control
Observations	17,318	17,318	17,318
Adj. R-squared	0.252	0.251	0.252
Panel B: Alternative measures of accounting comparability			
Alternative accounting comparability measure 1			
	(1)	(2)	(3)
	$Abs(MFE)_t$	$Abs(MFE)_t$	$Abs(MFE)_t$
$AcctInd\_PLE_{t-1}$	-0.832***		
	(-6.222)		
$Acct10\_PLE_{t-1}$		-1.092***	
		(-6.351)	
$Acct\_median\_PLE_{t-1}$			-0.791***
			(-6.221)
Other Control Variables	Yes	Yes	Yes
Year, Industry	Control	Control	Control

Observations	16,038	16,038	16,038
Adj. R-squared	0.207	0.207	0.207

Alternative accounting comparability measure 2			
	(1)		(3)
	Abs(*MFE*) $_{t}$		*Abs*(*MFE*) $_{t}$
*Acct*4 $_{t-1}$	-1.462***		
	(-5.757)		
*Acct*4_*PLE* $_{t-1}$			-1.272***
			(-6.389)
Other Control Variables	Yes		Yes
Year, Industry	Control		Control
Observations	17,318		16,038
Adj. R-squared	0.209		0.207

Panel C: Change the sample period			
	(1)	(2)	(3)
	Abs(*MFE*) $_{t}$	*Abs*(*MFE*) $_{t}$	*Abs*(*MFE*) $_{t}$
AcctInd $_{t-1}$	-0.844***		
	(-6.279)		
*Acct*10 $_{t-1}$		-1.118***	
		(-5.739)	
Acct_median $_{t-1}$			-0.824***
			(-6.525)
Other Control Variables	Yes	Yes	Yes
Year, Industry	Control	Control	Control
Observations	12,903	12,903	12,903
Adj. R-squared	0.207	0.206	0.208

Abs(*Revision_mag*) $_{t}$ is the first alternative measure of management earnings forecast accuracy, which is measured as the absolute value of management forecast revisions in year *t* scaled by lagged market value of equity. *Abs*(*MFE*)2 $_{t}$ is the second alternative measure of management earnings forecast accuracy, which is the absolute value of initial *MFE* (earnings forecast error) in year *t* deflated by lagged total assets. Higher values of *Abs*(*Revision_mag*) $_{t}$ and *Abs*(*MFE*)2 $_{t}$ indicate lower management earnings forecast accuracy. *AcctInd_PLE*$_{t-1}$, *Acct*10*_PLE* $_{t-1}$, and *Acct_median _PLE* $_{t-1}$ are alternative measures of accounting comparability that are calculated based on the prices leading earnings model to estimate the accounting function. *Acct*4 $_{t-1}$ and *Acct*4*_PLE* $_{t-1}$ are alternative measures of accounting comparability that are calculated based on the mean value of *CompAcct* of top-four firms. The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

Table 8 Accounting comparability and management earnings forecast accuracy: the effect of the 2008 quarterly reporting regulation in Japan

Panel A Descriptive statistics

Summary statistics: full samples

	N	Mean	SD	Min	p25	Median	p75	Max
Abs(MFE) $_{t}$	1738	.079	.177	0	.008	.028	.076	2.443
AcctInd $_{t-1}$	1738	-.011	.006	-.041	-.012	-.009	-.008	-.002
*Acct*10 $_{t-1}$	1738	-.005	.005	-.039	-.006	-.003	-.002	-.001
Acct_median $_{t-1}$	1738	-.009	.006	-.042	-.010	-.007	-.006	-.002
Loss_D $_{t-1}$	1738	.093	.290	0	0	0	0	1
Increase_D $_{t-1}$	1738	.517	.500	0	0	1	1	1
SIZE $_{t-1}$	1738	10.775	1.672	6.225	9.520	10.623	11.903	14.797
ROA $_{t-1}$	1738	.037	.039	-.272	.018	.034	.054	.235
LEV $_{t-1}$	1738	.488	.191	.055	.342	.501	.633	.988
Earn_Vol $_{t-1}$	1738	.017	.018	.002	.007	.012	.020	.214
Growth $_{t-1}$	1738	1.066	.082	.867	1.017	1.050	1.098	1.806
Abs(MFE) $_{t-1}$	1738	.029	.065	0	.004	.011	.027	.909

Summary statistics: samples with data during 2007-2009

	N	Mean	SD	Min	p25	Median	p75	Max
Abs(MFE) $_{t}$	168	.044	.084	0	.004	.014	.040	.542
AcctInd $_{t-1}$	168	-.011	.006	-.039	-.012	-.009	-.007	-.002
*Acct*10 $_{t-1}$	168	-.005	.006	-.039	-.006	-.003	-.002	-.001
Acct_median $_{t-1}$	168	-.009	.006	-.037	-.010	-.007	-.005	-.002
Loss_D $_{t-1}$	168	.060	.237	0	0	0	0	1
Increase_D $_{t-1}$	168	.565	.497	0	0	1	1	1
SIZE $_{t-1}$	168	11.166	1.713	6.604	9.879	10.920	12.438	14.447
ROA $_{t-1}$	168	.053	.049	-.190	.029	.046	.069	.235
LEV $_{t-1}$	168	.403	.183	.062	.230	.400	.569	.988
Earn_Vol $_{t-1}$	168	.022	.027	.002	.009	.014	.026	.214
Growth $_{t-1}$	168	1.068	.100	.869	1.014	1.043	1.100	1.570

Abs(MFE) $_{t-1}$	168	.026	.069	0	.003	.010	.020	.542

Panel B Accounting comparability and management earnings forecast accuracy:
the effect of the 2008 quarterly reporting regulation in Japan

	(1) *Abs*(*MFE*) $_t$	(2) *Abs*(*MFE*) $_t$	(3) *Abs*(*MFE*) $_t$	(4) *Abs*(*MFE*) $_t$	(5) *Abs*(*MFE*) $_t$	(6) *Abs*(*MFE*) $_t$
AcctInd $_{t-1}$ * *QRR*	-6.054***			-3.985**		
	(-3.371)			(-2.435)		
*Acct*10 $_{t-1}$ * *QRR*		-5.746**			-3.056	
		(-2.393)			(-1.549)	
Acct_median $_{t-1}$ * *QRR*			-5.109***			-3.874**
			(-3.124)			(-2.245)
AcctInd $_{t-1}$	3.811**			3.480**		
	(2.207)			(2.130)		
*Acct*10 $_{t-1}$		3.406*			3.304*	
		(1.777)			(1.914)	
Acct_median $_{t-1}$			3.429**			2.746*
			(2.114)			(1.678)
QRR	-0.012	0.021	0.010	0.015	0.032**	0.026
	(-0.625)	(1.390)	(0.691)	(0.875)	(2.181)	(1.614)
Loss_D $_{t-1}$	0.025	0.025	0.025	0.156	0.159	0.150
	(0.672)	(0.670)	(0.671)	(1.643)	(1.652)	(1.553)
Increase_D $_{t-1}$	-0.014**	-0.013**	-0.014**	-0.001	0.001	-0.000
	(-2.352)	(-2.230)	(-2.292)	(-0.043)	(0.094)	(-0.014)
SIZE $_{t-1}$	-0.012***	-0.012***	-0.012***	-0.008	-0.008	-0.007
	(-3.339)	(-3.324)	(-3.374)	(-1.315)	(-1.313)	(-1.292)
ROA $_{t-1}$	-0.247*	-0.242*	-0.248*	0.051	0.059	0.052
	(-1.832)	(-1.796)	(-1.829)	(0.241)	(0.266)	(0.245)
LEV $_{t-1}$	0.044	0.047	0.046	0.035	0.036	0.032
	(1.470)	(1.634)	(1.542)	(0.966)	(0.972)	(0.881)
Earn_Vol $_{t-1}$	0.343	0.387	0.379	0.557**	0.547*	0.561*
	(1.044)	(1.228)	(1.144)	(1.991)	(1.941)	(1.882)

Growth $_{t-1}$	0.239*	0.236*	0.237*	0.003	-0.001	0.012
	(1.791)	(1.799)	(1.782)	(0.053)	(-0.018)	(0.207)
Abs(MFE) $_{t-1}$	0.747***	0.761***	0.755***	0.109	0.127	0.103
	(2.760)	(2.782)	(2.775)	(0.548)	(0.637)	(0.496)
Constant	-0.119	-0.133	-0.128	0.085	0.080	0.064
	(-0.974)	(-1.091)	(-1.040)	(1.642)	(1.524)	(1.316)
Year, Industry	Control	Control	Control	Control	Control	Control
Observations	1,738	1,738	1,738	168	168	168
Adj. R-squared	0.248	0.247	0.247	0.474	0.467	0.470

Abs(*MFE*) $_{t}$ is the measure of management earnings forecast accuracy. Higher values of *Abs*(*MFE*) correspond to lower values of management earnings forecast accuracy. *AcctInd* $_{t-1}$, *Acct*10 $_{t-1}$, and *Acct_median* $_{t-1}$ are three measurements of accounting comparability. Greater values of $AcctInd_{i,t}$, $Acct10_{i,t}$, and *Acct_median* $_{i,t}$ indicate higher accounting comparability. *QRR* is a dummy variable that takes a value of 1 for the year after 2008, and a value of 0 before 2008. *AcctInd* $_{t-1}$ * *QRR*, $Acct10_{t-1}$ * *QRR*, and $Acct\_median_{t-1}$ * *QRR* are the interactions of *QRR* and three measures of accounting comparability (*AcctInd* $_{t-1}$, *Acct*10 $_{t-1}$, and $Acct\_median_{t-1}$), respectively. The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

Table 9 Accounting comparability and management earnings forecast accuracy: the effect of IFRS adoption in Japan

Panel A Descriptive statistics

Summary statistics of PSM samples (IFRS adopters and non IFRS adopters (J-GAAP))							
	IFRS Adopting Firms			Non-Adopting firms (J-GAAP)			T-Statistic
	N	Mean	Median	N	Mean	Median	t-value
Abs(MFE) $_{t}$	965	.025	.012	965	.031	.012	-2.223**
AcctInd $_{t-1}$	965	-.016	-.014	965	-.017	-.015	4.446***
*Acct*10 $_{t-1}$	965	-.004	-.002	965	-.005	-.003	3.249***
Acct_median $_{t-1}$	965	-.012	-.010	965	-.013	-.011	4.092***
Loss_D $_{t-1}$	965	.104	0	965	.109	0	-0.369
Increase_D $_{t-1}$	965	.593	1	965	.639	1	-2.107**
SIZE $_{t-1}$	965	12.544	12.742	965	12.446	12.546	1.516
ROA $_{t-1}$	965	.046	.040	965	.044	.042	1.066
LEV $_{t-1}$	965	.477	.484	965	.473	.480	0.397
Earn_Vol $_{t-1}$	965	.023	.017	965	.022	.016	1.265
Growth $_{t-1}$	965	1.055	1.040	965	1.040	1.030	3.833***
Abs(MFE) $_{t-1}$	965	.030	.013	965	.035	.014	-1.689*

Summary statistics of PSM samples (IFRS adopters and non IFRS adopters (GAAP))							
	IFRS Adopting Firms			Non-Adopting firms (GAAP)			T-Statistic
	N	Mean	Median	N	Mean	Median	t-value
Abs(MFE) $_{t}$	89	.032	.009	89	.033	.013	-0.083
AcctInd $_{t-1}$	89	-.016	-.015	89	-.017	-.016	1.066
*Acct*10 $_{t-1}$	89	-.003	-.002	89	-.003	-.002	0.168
Acct_median $_{t-1}$	89	-.011	-.010	89	-.013	-.011	1.645
Loss_D $_{t-1}$	89	.045	0	89	.169	0	-2.710***
Increase_D $_{t-1}$	89	.494	0	89	.584	1	-1.201
SIZE $_{t-1}$	89	13.876	14.091	89	13.891	14.122	-0.122
ROA $_{t-1}$	89	.045	.041	89	.032	.033	1.728*

LEV $_{t-1}$	89	.443	.473	89	.449	.393	-0.206
Earn_Vol $_{t-1}$	89	.024	.020	89	.026	.020	-0.516
Growth $_{t-1}$	89	1.040	1.034	89	1.022	1.017	2.129**
Abs(MFE) $_{t-1}$	89	.025	.011	89	.038	.014	-1.494

Panel B Accounting comparability and management earnings forecast accuracy:
the effect of IFRS adoption in Japan

	(1) *Abs*(*MFE*) $_t$	(2) *Abs*(*MFE*) $_t$	(3) *Abs*(*MFE*) $_t$	(4) *Abs*(*MFE*) $_t$	(5) *Abs*(*MFE*) $_t$	(6) *Abs*(*MFE*) $_t$
AcctInd $_{t-1}$ * *IFRS*	0.919			-4.395*		
	(1.552)			(-1.889)		
*Acct*10 $_{t-1}$ * *IFRS*		1.627			-6.135*	
		(1.624)			(-1.910)	
Acct_median $_{t-1}$ * *IFRS*			1.105*			-4.503**
			(1.856)			(-1.971)
AcctInd $_{t-1}$	-1.106*			2.940*		
	(-1.762)			(1.659)		
*Acct*10 $_{t-1}$		-1.418			7.500*	
		(-1.351)			(1.919)	
Acct_median $_{t-1}$			-1.253**			2.494*
			(-2.041)			(1.656)
IFRS	0.012	0.004	0.011	-0.065*	-0.010	-0.049**
	(1.285)	(0.797)	(1.523)	(-1.896)	(-1.033)	(-2.028)
Loss_D $_{t-1}$	0.008	0.008	0.008	0.032	0.033	0.033
	(1.161)	(1.201)	(1.108)	(1.023)	(1.038)	(1.040)
Increase_D $_{t-1}$	-0.004	-0.004	-0.004	-0.008	-0.005	-0.009
	(-1.305)	(-1.354)	(-1.405)	(-1.154)	(-0.671)	(-1.279)
SIZE $_{t-1}$	-0.004***	-0.005***	-0.004***	-0.005	-0.007	-0.006
	(-3.565)	(-4.021)	(-3.546)	(-1.158)	(-1.443)	(-1.411)
ROA $_{t-1}$	-0.015	-0.023	-0.007	-0.322**	-0.372**	-0.299**
	(-0.441)	(-0.601)	(-0.187)	(-2.501)	(-2.541)	(-2.391)

LEV_{t-1}	0.026***	0.027***	0.025***	0.082**	0.082**	0.081**
	(3.559)	(3.577)	(3.523)	(2.141)	(2.255)	(2.099)
$Earn\_Vol_{t-1}$	-0.069	-0.033	-0.084	-0.161	-0.109	-0.195
	(-0.955)	(-0.447)	(-1.147)	(-0.775)	(-0.495)	(-0.863)
$Growth_{t-1}$	-0.035**	-0.034**	-0.033**	0.015	0.028	-0.013
	(-2.230)	(-2.177)	(-2.068)	(0.159)	(0.277)	(-0.144)
$Abs(MFE)_{t-1}$	0.166**	0.166**	0.161**	0.293	0.393	0.271
	(2.355)	(2.362)	(2.300)	(1.395)	(1.618)	(1.377)
Constant	0.092***	0.106***	0.092***	0.058	0.040	0.085
	(2.791)	(3.538)	(2.855)	(0.434)	(0.280)	(0.675)
Year, Industry	Control	Control	Control	Control	Control	Control
Observations	1,930	1,930	1,930	178	178	178
Adj. R-squared	0.166	0.167	0.170	0.356	0.350	0.372

$Abs(MFE)_t$ is the measure of management earnings forecast accuracy. Higher values of *Abs*(*MFE*) correspond to lower values of management earnings forecast accuracy. $AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$ are three measurements of accounting comparability. Greater values of $AcctInd_{i,t}$, $Acct10_{i,t}$, and $Acct\_median_{i,t}$ indicate higher accounting comparability. *IFRS* is a dummy variable measured as 1 if a firm adopted IFRS voluntarily and 0 otherwise. $AcctInd_{t-1}$ * *IFRS*, $Acct10_{t-1}$ * *IFRS*, and $Acct\_median_{t-1}$ * *IFRS* are the interactions of *IFRS* and three measures of accounting comparability ($AcctInd_{t-1}$, $Acct10_{t-1}$, and $Acct\_median_{t-1}$), respectively. The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

Appendix A

Variable	Definition of variable
Management Earnings Forecasts	
$Abs(MFE)_t$	The absolute value of initial *MFE* (earnings forecast error) in year *t* deflated by lagged market value of equity (|actual earnings for year *t* – initial management earnings forecast for year *t*|/market value of equity for year *t* – 1).
Accounting Comparability	
CompAcct	Negative value of the absolute difference between the expected earnings using the estimated coefficients for the accounting functions of firms *i* and *j*, respectively. It is calculated for each firm *i* − *j* pair for firms in the same two-digit Nikkei industry.
$AcctInd_{t-1}$	The mean value of *CompAcct* for firm *i* for all firm *i* − *j* pairs in the same industry in year *t* – 1.
$Acct10_{t-1}$	The average of the ten highest *CompAcct* values for firm *i* in year *t* – 1.
$Acct\_median_{t-1}$	The median value of *CompAcct* for firm *i* for all firm *i* − *j* pairs in the same industry in year *t* – 1.
Control Variables	
$Abs(MFE)_{t-1}$	The absolute value of initial *MFE* in year *t* – 1 deflated by lagged market value of equity
$Loss\_D_{t-1}$	A dummy variable that equals to one if the firm reports net losses in year *t* – 1, and zero otherwise.
$Increase\_D_{t-1}$	A dummy variable that equals to one if the firm's net income in year *t* – 1 has increased compared to the prior year, and zero otherwise.
$SIZE_{t-1}$	The log value of the market value of equity at the end of year *t* – 1.
ROA_{t-1}	Net income before extraordinary items scaled by lagged total assets in year *t* – 1.
LEV_{t-1}	Total liabilities divided by total assets at the end of year *t* – 1.
$Earn\_Vol_{t-1}$	The standard deviation of ROA over a 5-year period from year *t* – 5 to *t* – 1, where ROA is measured as net income before extraordinary items scaled by lagged total assets.
$Growth_{t-1}$	The average of sales growth over a 5-year period from years *t* – 5 to *t* – 1, where sales growth is measured as the ratio of sales in year *t* scaled by sales in year *t* – 1.
Cross-sectional Test	
$InstOwn_{t-1}$	The percentage of the shares owned by institutional investors at the end of year *t* – 1, ranked into deciles for each year and then standardized to a range of 0 – 1.
$ForOwn_{t-1}$	The percentage of the shares owned by foreign investors at the end of year *t* – 1.
$ManaOwn_{t-1}$	The percentage of the shares owned by directors at the end of year *t* – 1.

AQ_DD $_{t-1}$ The standard deviation of firm-level residuals from the following Dechow and Dichev's (2002) model during the previous five years:

$$TCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \varepsilon_{i,t}$$

The standard deviation is then multiplied by – 1 and standardized so that it has a mean of zero and a standard deviation of 1.

AQ $_{t-1}$ The standard deviation of firm-level residuals from the following modified Dechow and Dichev's (2002) model (augmented by McNichols (2002)) during the previous five years:

$$TCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta Rev_{i,t} + \beta_5 PPE_{i,t} + \varepsilon_{i,t}$$

The standard deviation is then multiplied by – 1 and standardized so that it has a mean of zero and a standard deviation of 1.

Robustness Test and Additional Analyses

Abs(*Revision_mag*) $_t$ The absolute value of management forecast revisions in year *t* deflated by lagged market value of equity (|initial management earnings forecast for year *t* – the latest management earnings forecast for year *t*|/market value of equity for year *t* – 1).

Abs(*MFE*)2 $_t$ The absolute value of initial *MFE* (earnings forecast error) in year *t* deflated by lagged total assets (|actual earnings for year *t* – initial management earnings forecast for year *t*|/ total assets for year *t* – 1).

AcctInd_PLE $_{t-1}$ An alternative measure of *AcctInd* that is calculated based on the prices leading earnings model to estimate the accounting function.

*Acct*10*_PLE* $_{t-1}$ An alternative measure of *Acct*10 that is calculated based on the prices leading earnings model to estimate the accounting function.

Acct_median_PLE $_{t-1}$ An alternative measure of *Acct_median* that is calculated based on the prices leading earnings model to estimate the accounting function.

*Acct*4 $_{t-1}$ The average of the four highest *CompAcct* values for firm *i* in year *t* – 1.

*Acct*4*_PLE* $_{t-1}$ An alternative measure of *Acct*4 that is calculated based on the prices leading earnings model to estimate the accounting function.

QRR A dummy variable that takes a value of 1 for the year after 2008, and a value of 0 before 2008.

IFRS A dummy variable measured as 1 if a firm adopted IFRS voluntarily and 0 otherwise.

Appendix B

1. Logit model for IFRS adoption

I follow previous studies (Cameran et al., 2014; Sato and Takeda, 2017; Gu, 2021; Amano, 2021) to build the following logit model to predict the likelihood of IFRS adoption:

$$IFRS_{i,t} = Logit\,(\beta_0 + \beta_1 SIZE_{i,t} + \beta_2 LEV_{i,t} + \beta_3 ROA_{i,t} + \beta_4 LOSS_{i,t} + \beta_5 Abs\_OPCF_{i,t} + \beta_6 ForOwn_{i,t} + \beta_7 Overseas\_ratio_{i,t} + \beta_8 Invest_{i,t} + \beta_9 Growth2_{i,t} + \sum Year + \sum Industry + \varepsilon_{i,t}) \quad \text{(B1)}$$

Where $Abs\_OPCF_{i,t}$ is the absolute value of operating cash flow deflated by total assets in year $t-1$, $Overseas\_ratio_{i,t}$ is the ratio of foreign sales to total sales in year t, $Invest_{i,t}$ is the total investment cash flows scaled by total non-current assets, and $Growth2_{i,t}$ is the total assets divided by lagged total assets.

Table A presents the results of the logit model. As shown in column (1), the coefficients of $SIZE_{i,t}$, $ROA_{i,t}$, and $Overseas\_ratio_{i,t}$ are significantly positive, suggesting that larger firms with higher profitability and foreign sales ratio tend to adopt IFRS. However, the effect of $ForOwn_{i,t}$ on IFRS adoption is insignificant. These results are consistent with Amano (2021) and Sato and Takeda (2017).

Table A Logit model for IFRS adoption

	(1) *IFRS* IFRS adopters and non IFRS adopters (J-GAAP)	(2) *IFRS* IFRS adopters and non IFRS adopters (U.S. GAAP)
SIZE $_t$	0.984***	-0.269*
	(21.764)	(-1.933)
LEV $_t$	0.794***	2.597**
	(3.192)	(2.045)
ROA $_t$	-2.595**	8.458
	(-2.328)	(0.849)
LOSS $_t$	0.227	-0.665
	(1.359)	(-1.046)
Abs_OPCF $_t$	2.706***	2.605
	(3.317)	(0.366)
Foreign $_t$	-0.829	-7.478***
	(-1.605)	(-3.832)
Overseas_ratio $_t$	1.596***	-4.056***
	(8.974)	(-5.147)
Invest $_t$	-0.227	-1.185
	(-0.604)	(-0.363)
Growth2 $_t$	1.083***	1.138
	(3.144)	(0.803)
Constant	-15.016***	6.682**
	(-25.043)	(2.508)
Year, Industry	Control	Control
Observations	14,102	350

Pseudo. R-squared	0.326	0.231

The *t*-values in all columns are based on standard errors clustered by firm and year. *, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.

2. Balanced Property Test

Table B shows the results of the balanced property test of the matched samples. The results indicate that there is no significant difference between IFRS adopters and non-adopters for each variable used in the logit model, confirming that these matched pairs are well balanced.

Table B Balanced property test

Panel A Summary statistics of PSM samples (IFRS adopters and non IFRS adopters (J-GAAP))							
	IFRS Adopting Firms			Non-Adopting firms (J-GAAP)			T-Statistic
	N	Mean	Median	N	Mean	Median	t-value
$SIZE_t$	965	12.633	12.857	965	12.55	12.704	-1.286
LEV_t	965	.474	.478	965	.471	.474	-0.377
ROA_t	965	.049	.043	965	.048	.044	-0.103
$LOSS_t$	965	.076	0	965	.088	0	0.996
Abs_OPCF_t	965	.091	.083	965	.090	.084	-0.177
$ForOwn_t$	965	.252	.251	965	.258	.248	1.090
$Overseas\_ratio_t$	965	.395	.441	965	.389	.408	-0.411
$Invest_t$	965	-.120	-.107	965	-.120	-.100	0.089
$Growth2_t$	965	1.071	1.046	965	1.073	1.054	0.372

Panel B Summary statistics of PSM samples (IFRS adopters and non IFRS adopters (U.S. GAAP))							
	IFRS Adopting Firms			Non-Adopting firms (U.S. GAAP)			T-Statistic
	N	Mean	Median	N	Mean	Median	t-value
$SIZE_t$	89	13.968	14.119	89	13.959	14.119	0.074
LEV_t	89	.434	.461	89	.447	.384	-0.433
ROA_t	89	.044	.041	89	.040	.040	0.566
$LOSS_t$	89	.112	0	89	.124	0	-0.231
Abs_OPCF_t	89	.079	.068	89	.084	.077	-0.753
$ForOwn_t$	89	.363	.354	89	.365	.382	0.136
$Overseas\_ratio_t$	89	.649	.687	89	.648	.700	-0.048
$Invest_t$	89	-.099	-.092	89	-.103	-.102	-0.275
$Growth2_t$	89	1.035	1.024	89	1.041	1.046	0.525

*, ** and *** refer to significance level at 10%, 5% and 1%, respectively. Please see Appendix A for other variable definitions.