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Do Forward-Looking Accounting Standards Improve Bank Analyst Forecasts? Evidence from the Expected Credit Loss Model

Abstract: This study investigates whether and how the adoption of a forward-looking impairment model under IFRS 9 affects the earnings forecast behavior of financial analysts covering commercial banks. Using the staggered implementation of the new financial instruments standard in China as a quasi-natural experiment and employing a difference-in-differences (DiD) design, we find that ECL adoption significantly reduces bank analysts' optimism and improves their forecast accuracy. These effects are concentrated in banks that previously had less timely loan loss provisioning, greater exposure to macroeconomic conditions, and higher disclosure of adverse macroeconomic information, and among analysts with limited access to alternative macroeconomic data. The improvements are pronounced for banks with more rigorous implementation, greater geographic distance from analysts, and higher institutional ownership. Our findings suggest that forward-looking accounting standards enhance the informational environment for analysts by embedding macroeconomic expectations into reported earnings, thereby improving the quality of market forecasts. This study contributes to the literature on accounting standards and information intermediaries, and informs ongoing debates on the efficacy of principles-based, forward-looking financial reporting.

Key Words: New Financial Instruments Standard; Expected Credit Loss Model; Bank Analysts; Forecast Accuracy

1. Introduction

Timely recognition of credit losses is critical for financial institutions to maintain transparency, enhance market discipline, and mitigate systemic risk. Historically, the incurred credit loss (ICL) model, under IAS 39, delayed the recognizing credit worsening until a triggering event occurred. This backward-looking approach has been widely criticized for leading to insufficient provisions during credit booms and excessive write-downs during downturns, reducing the usefulness of financial statements for market participants and regulators alike (Acharya and Ryan 2016, Beatty and Liao 2014; Jin and Wu, 2023).