THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Department of Accounting

Exchange-Sponsored Analyst Coverage

Prof Lakshmanan Shivakumar
LBS

Date: 2 February 2011
Time: 4.00-5.30pm
Venue: OLD3.21

Abstract

This study examines the effects and consequences of an exchange-sponsored analyst coverage scheme to evaluate the effectiveness of stock exchanges promoting research coverage for firms. The context of this study is the Research Incentive Scheme pioneered by the Singapore Stock Exchange, under which the exchange acts as a “clearing house” for matching up firms and analysts electing into the Scheme, and partially funds the analysts’ research coverage. The empirical evidence reveals that forecasts issued under the scheme have similar bias to those issued by analysts voluntarily following a firm, but are less accurate. The market reactions to revisions are also qualitatively similar across these forecasts. Further, after controlling for self-selection, we document a variety of benefits to a firm from joining the Scheme, including: (i) a decline in market surprises at earnings announcements, consistent with analysts improving market’s earnings expectations; (ii) a quicker reflection of earnings and non-earnings information in stock prices; (iii) an increase in stock price synchronicity, consistent with analysts helping incorporate more industry-wide information; and (iv) an increase in media visibility. We find little evidence that analyst coverage through the scheme improves liquidity or price efficiency.