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Analysts' perceptions of 'earnings quality'

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accounting-based (relating to notions of core or sustainable earnings, cash and accrual components of earnings, and accounting policies) and non-accounting-based (relating to information drawn from outside the financial statements). We find more non-accounting than accounting references to earnings quality, and that (relatively subjective) non-accounting references are especially widely used where analysts express positive or negative opinions about earnings quality. It is relatively unusual for an analyst's opinion to be both negative and accounting-based. If, however, an analyst does express negative, accounting-based views on earnings quality, then he or she is highly unlikely to be positive in other respects. We interpret this evidence to be consistent with analysts' economic incentives to generate trading volume yet to be favourably biased towards companies, while seeking to use value-relevant information relating to earnings. We also conclude that the importance of accounting-based information relating to earnings quality is more important than it might seem, and that it exerts a significant influence on the analysis and recommendations in analysts' reports.

Keywords::

- earnings quality
- analysts' reports
- analysts' opinions

Notes

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