

The Role of Accounting Comparability in Mitigating SEO Underpricing

Adam Bordeman
Orfalea College of Business
California Polytechnic State University-San Luis Obispo
abordema@calpoly.edu

Philip B. Shane
KPMG Professor of Accounting, Emeritus
College of William & Mary
phil.shane@mason.wm.edu

David B. Smith
Emeritus Professor
College of Business Administration
University of Nebraska-Lincoln
dsmith@unl.edu

Suning Zhang
Ivy College of Business
Iowa State University
suningz@iastate.edu

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Abstract: We provide evidence that accounting comparability mitigates underpricing of seasoned equity offerings where underpricing is the underwriter-offered discount from the prevailing stock price. Controlling for information asymmetry and valuation uncertainty, proxied by lack of accruals quality and higher return volatility, respectively, our results indicate that underpricing declines with accounting comparability. Cross-sectional tests suggest that stronger accounting comparability offers underwriters and investors a tool that cuts through the opacity associated with poor accruals quality and high return variability, particularly when institutional investor interest in the stock is relatively low. Our results contradict FASB and IFRS Foundation characterizations of accounting comparability.

Key words: Seasoned equity offerings (SEOs); Underpricing; Valuation uncertainty; Asymmetric information; Accounting comparability

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1. Introduction

This paper examines the role of accounting comparability when a firm engages an underwriter to facilitate a firm-commitment seasoned equity offering (SEO) in U.S. capital markets. In this process, the underwriter guarantees the firm's proceeds and underprices (discounts) the new shares relative to the prevailing price of the firm's already outstanding common stock. Theoretically, the amount of underpricing increases with the amount of unmitigated valuation uncertainty and information asymmetry faced by potential investors (Parsons and Raviv 1985, Corwin 2003). To mitigate effects of these market frictions, underwriters and investors, alike, rely on benchmark comparisons between the financial statements of the SEO firm and its peers (Bhojraj and Lee 2002; Bruner 2004; Rosenbaum and Pearl 2009). The importance of benchmarking creates demand for comparable accounting information. We evaluate whether accounting comparability, a between-firm characteristic of accounting quality (Imhoff, Seavey, and Smith 2017), mitigates SEO underpricing associated with valuation uncertainty and information asymmetry, respectively proxied by the volatility of the firm's stock returns (Corwin 2003) and the volatility of the firm's accounting accruals (Lee and Masulis 2009).

At its essence, heterogeneous beliefs amongst the parties involved drive underpricing in the market for SEOs, a market replete with agency problems due to substantial valuation uncertainty and information asymmetry (Walker, Yost, and Zhao 2016). To the extent that accounting comparability reduces this heterogeneity through facilitating a common understanding of the SEO firm in the context of its peers, SEO underpricing offers an ideal

setting to examine the usefulness of accounting comparability. We measure underpricing as the percentage difference between the pre-offer closing price and the offer price and, to ease the exposition, we multiply these close-to-offer returns by -1, so increases (decreases) in the variable refer to more (less) underpricing and, correspondingly, larger (smaller) discounts.¹

De Franco, Kothari, and Verdi (2011) define accounting comparability as the degree of similarity between a firm and its peers in the accounting systems used to incorporate effects of economic events into financial statements. Similarly, the Financial Accounting Standards Board (FASB 2010) and International Financial Reporting Standards Foundation (IFRS Foundation 2018) explain accounting comparability as follows: “Users’ decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date... Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items (QC20-21 in the FASB Conceptual Framework and Paragraphs 2.24-25 in the IFRS Foundation Conceptual Framework).”

Our measure of accounting comparability builds on De Franco, et al. (2011) with one innovation. For purposes of identifying each SEO firm’s peer group, instead of referring to all firms operating in industries identified with the SEO firm’s two-digit SIC code (more than 50 firms, on average [Kahle and Walkling 1996]), we refer to the six firms whose 10-K report

¹ Underpricing features prominently in the markets for both SEOs and IPOs (initial public offerings). To be consistent with IPO studies, which have no prior day stock price, some SEO studies measure underpricing as the return from the offer price to the closing price on the day of the offer (i.e., the initial subscribers’ offer day return). Measuring underpricing as the discount from the closing price on the day before the offer to the offer price, as in our study, is consistent with many empirical SEO papers (e.g., Corwin 2003) and with the way the seminal Parsons and Raviv (1985) theory paper models underpricing. Henceforth, our use of the term underpricing refers to this discount.

descriptions of their business operations most closely resemble the SEO firm's description (Hoberg and Phillips 2010, 2016). This innovation adds construct validity to the accounting comparability measure, as it relates to a peer group of firms more like the ones an underwriter might select in determining the SEO offer price.²

In our sample, which covers 4,727 SEOs promulgated between the years 1990 and 2021, underpricing averages 3% (4.8%) of the market value of the already outstanding stock in cases where accounting comparability is in the top (bottom) half of its distribution. On a univariate basis, the 1.8 percentage point difference in underpricing between observations in the two subsamples is statistically significant ($p\text{-value}<0.01$) and economically consequential. The difference corresponds to about 12% of the proceeds of an average issue. While accounting comparability and accruals quality (returns volatility) are positively (negatively) correlated, multivariate tests, controlling for accruals quality and returns volatility, find that accounting comparability independently and incrementally mitigates underpricing.

Next, we investigate how the interrelationship between accounting comparability and accruals quality impacts underpricing. This analysis responds to a call for research investigating the effects of interactions between qualitative characteristics of financial reporting (Fang, Iselin, and Zhang 2022). As in Lee and Masulis (2009), lack of accruals quality proxies for information asymmetry and is measured by the standard deviation of residuals from cross-sectional estimation of the Dechow and Dichev (2002) model of accruals, as augmented by McNichols (2002). Lee and Masulis (2009) promote this measure as superior to other measures of

² We appreciate access to the Hoberg-Phillips data library (<http://hobergphillips.tuck.dartmouth.edu/>) for purposes of obtaining the Text-based Network Industry Classifications (TNIC) used to form a peer group for each SEO observation. Robustness tests concur with Jayaraman, Milbourn, Peters, and Seo (2021), which verifies "that TNIC peers indeed reflect common product market shocks better than pre-defined industry classifications." Also see the online appendix of Young (2023, Table 1A1) showing similar results using the De Franco et al. (2011) approach to identifying peer firms as compared to a TNIC-based approach.

information asymmetry, as it speaks directly to the information advantage of management *vis a vis* outside investors.

There are two possible paths through which the interaction between accounting comparability and accruals quality affects underpricing. The conceptual frameworks developed by the Financial Accounting Standards Board (FASB 2010) and the International Financial Reporting Standards Foundation (IFRS Foundation 2018) describe the first path. These frameworks distinguish accounting comparability and accruals quality as different aspects of the overall quality of accounting information. The frameworks refer to accounting comparability as a qualitative characteristic that does not stand on its own. Instead, it enhances the benefits associated with high-quality underlying accrual accounting information. Furthermore, the frameworks assert that accounting comparability provides little value to investors without high-quality underlying accrual accounting information (e.g.; FASB 2010, BC3.33). Finally, the frameworks point out that a certain degree of accounting comparability occurs naturally with higher quality underlying accrual accounting information (FASB 2010, QC24). This suggests an interactive effect whereby the power of accounting comparability to mitigate underpricing increases with improving accruals quality.

The second path identifies accounting comparability as a qualitative characteristic that mitigates underpricing due to information asymmetry associated with poor accruals quality. Information asymmetry exists between the firm's managers and investors (Myers and Majluf 1984) and between investors (Parsons and Raviv 1985). As described by Christensen, Hail, and Leuz (2021), “a primary benefit of corporate disclosure is to mitigate information asymmetries between the firm and its investors as well as among investors (p. 1187).” Nam and Thompson (2023) find that accounting comparability enhances Securities and Exchange Commission (SEC) identification and investigation of accrual accounting misstatements. This suggests a more

powerful role for accounting comparability when accruals quality is poor, and an interactive effect whereby the marginal mitigating effect of accounting comparability on underpricing increases with deteriorating accruals quality.

Whether the underpricing impact of accounting comparability increases with improving or deteriorating accruals quality is an important empirical question addressed in this paper. Cross-sectional tests find no evidence of a comparability-accruals quality relationship that supports the FASB and IFRS Foundation perspectives, whereby the power of accounting comparability to mitigate underpricing depends on high accruals quality. While our evidence indicates that accounting comparability plays a significant (insignificant) underpricing mitigation role among observations with relatively poor (strong) accruals quality, the difference is not statistically significant. However, this result becomes statistically significant among observations where institutional investors provide less monitoring of the firm's operations and disclosures. Overall, we have some evidence to support the substitutive relation between accounting comparability and accruals quality implied by Nam and Thompson (2023) and no evidence to support the complementary relation suggested by FASB and IFRS Foundation conceptual framework descriptions of accounting comparability as an enhancing qualitative characteristic of financial reporting.

Next, we examine whether improving accounting comparability mitigates underpricing associated with valuation uncertainty. Corwin (2003) points out that valuation uncertainty can exist without information asymmetry, and he provides empirical evidence suggesting that greater return volatility is associated with more underpricing.³ As in Corwin (2003), we use the volatility

³ Corwin (2003) identifies valuation uncertainty, proxied by return volatility, rather than information asymmetry, proxied by the bid-ask spread, as the source of underpricing. This finding is also supported in Kim and Shin (2004). However, other papers find associations between underpricing and other proxies for information asymmetry. For example, Chan and Chan (2014) find that SEO discounts decline with stock return synchronicity as a negative proxy

of returns leading up to the SEO offer date as our measure of valuation uncertainty. As explained by Corwin (2003), “this variable … reflects the *ex ante* uncertainty associated with the value of the issuing firm (p. 2264).” Our cross-sectional tests find that accounting comparability more powerfully mitigates underpricing associated with relatively high versus relatively low valuation uncertainty.

Our results thus far point to an important role of comparability in information processing; comparable financial statements can facilitate the evaluation of investment alternatives, particularly in settings where the extant information environment is opaque. Our final set of tests evaluate whether user sophistication and concentration condition the usefulness of comparability. Specifically, we analyze whether the mitigating impact of accounting comparability on underpricing depends on the level of institutional investor interest in the SEO firm’s stock. Prior research finds a negative relation between institutional investor ownership and underpricing (Chemmanur, He, and Hu 2009). We examine the descriptive validity of two alternative perspectives on the impact of institutional investor ownership on the role of accounting comparability in mitigating underpricing.

The first perspective sees institutional investors as the primary users of financial statement analysis tools sharpened by good accounting comparability. In that case, accounting comparability potentially takes on more importance in SEOs by firms whose stock attracts high institutional investor interest. The second perspective sees institutional investors as potentially having alternative tools at their disposal to compensate for poor accounting comparability in which case accounting comparability takes on more importance in SEOs by firms whose stock is neglected by institutional investors. Our results are consistent with the second perspective. We

for information asymmetry, where synchronicity measures the proportion of public to private information impounded in the SEO firm’s stock price.

find evidence of a significant underpricing mitigation effect of accounting comparability only in the subsample of SEOs with below the median institutional investor interest. Within the low institutional holdings subsample, we find strong support for the underpricing mitigation effect of accounting comparability increasing with deteriorating accruals quality. Within this subsample, we also find strong evidence confirming the importance of accounting comparability in mitigating underpricing associated with increasing returns volatility.

Our paper contributes to the accounting and finance literature in at least three important ways. First, many prior papers focus on market-based determinants of SEO costs, such as stock return variability (Corwin 2003), stock price synchronicity (Chan and Chan 2014), underwriter reputation (Carter and Manaster 1990; Carter, Dark, and Singh 1998), underwriter networks (Huang, and Zhang 2011, Bajo, Chemmanur, Simonyan, and Tehrani 2016), institutional investor interest in the SEO firm's stock (Demiralp, et al. 2011; Chemmanur, et al. 2009), and the number and quality of analysts following the firm (Bowen, et al. 2008). Fewer papers focus on accounting information-based determinants of SEO costs, such as a lack of pre-SEO voluntary disclosure (Lang and Lundholm 2000), a lack of accruals quality measured by discretionary accruals (Lee and Masulis 2009), and accounting conservatism (Kim, Li, Pan, and Zuo 2013). Our identification of accounting comparability as an important attribute that serves to mitigate underpricing consequences of information asymmetry and valuation uncertainty makes a significant contribution to this stream of literature.

More importantly, we examine the validity of FASB and IFRS Foundation descriptions of accounting comparability as an enhancing characteristic of accounting information, whose efficacy depends on the quality of the underlying accrual accounting information. Our results support the perspective that accounting comparability is not merely a complement to the fundamental qualitative characteristics of useful financial information but can function as a

substitute.⁴ We find that accounting comparability and accruals quality independently and incrementally mitigate underpricing. Moreover, we find that, contrary to the FASB and IFRS Foundation descriptions, accounting comparability significantly mitigates underpricing in firms with relatively low accruals quality, and insignificantly mitigates underpricing in firms with relatively high accruals quality.

Finally, we investigate whether the importance of accounting comparability in mitigating underpricing depends on the characteristics of investors interested in the SEO firm's stock, and our results are consistent with more sophisticated investors having valuation tools that compensate for lacking accounting comparability. Consequently, accounting comparability plays a more powerful role in mitigating underpricing when institutional investors have relatively little interest in the SEO firm's stock. These findings suggest that the usefulness of a particular accounting attribute can be a function of the user base.

This paper proceeds as follows. Section 2 describes relevant prior literature. Section 3 presents our hypotheses. Section 4 describes the study's research design. Section 5 describes our sample. Section 6 presents and explains our results, and Section 7 concludes the paper.

2. Prior literature

This paper contributes to two related streams of literature. The first describes the nature and importance of accounting comparability in a firm's information environment. The second seeks a better understanding of factors affecting the pricing of stock in the market for SEOs.

2.1 Importance of accounting comparability in the firm's information environment

⁴ Despite the views stated in the FASB and IFRS Foundation Conceptual Frameworks that comparability is a second-order effect, the actions of the standards setters allude to a more important role for comparability in the information environment. In recent years, the FASB has justified more than half of its standards as improving accounting comparability and reducing diversity in practice is the most frequently cited reason that the FASB takes on a new project (Jiang, Wang, and Wangerin 2018).

One common reality throughout capital markets is the existence of frictions. These frictions derive from many sources, and they create costs borne by market participants. Mechanisms to alleviate these costs, and thus facilitate the transfer of capital between parties, are a central focus of market makers, regulators, and academics alike. A substantial body of literature in accounting and finance explores how information production and dissemination can reduce market frictions and, in turn, lower the cost of capital or improve business valuation models. Broadly, the literature has investigated a multitude of potential friction mitigators such as mandatory financial disclosure (e.g., Christensen, et al. 2021), voluntary financial disclosure (e.g., Botosan 1997), and qualitative disclosures by insiders and outsiders (e.g., Blankespoor, deHaan, and Marinovic 2020). Central to this literature is the role that entity-specific information plays in reducing the uncertainty around the risk-profile of an investment opportunity. In an opaque world, high-quality information, including accounting outputs, helps us cut through the opacity to see the object of interest more clearly.⁵

Lambert, Leuz, and Verrecchia (2007) develop a model showing that improving the quality of accounting information lowers the cost of capital by mitigating the company's non-diversifiable risk through more precise investor estimates of the covariances of cash flows between the firm and other firms in the market. Thus, a pathway through which we see accounting information reducing market frictions is through improved peer comparisons for valuation purposes. As described by Levitt (1998), high-quality accounting standards foster “comparability … across time periods and among companies … (and) … greater investor

⁵ As described by former chair Arthur Levitt in a speech promoting the SEC's role in establishing financial reporting standards that promote high quality accounting information, “Good standards, like good cameras, produce sharper, more accurate pictures. Weak standards, like bad cameras, are unreliable — with some, you never know if you will get a good shot, while others produce fuzzy, out-of-focus images (Levitt 1998, p. 80).”

confidence, which improves liquidity, reduces capital costs, and makes fair market prices possible (p. 81)."

The demand for comparable accounting information stems from outside investors who wish to evaluate investment alternatives. As described by Holthausen and Zmijewski (2012), "Indeed, an important, if not the most important, step in a market multiple valuation is to identify the comparable companies (p. 26)." Investors require comparable information to efficiently choose where to allocate the funds they have available for investment. A company seeking capital must supply credible public information to attract investment at a price commensurate with the company's fundamental value, and the usefulness of such information depends on whether investors can, with confidence, meaningfully benchmark summary measures of performance across different investment opportunities. As described by Choi, Choi, Myers, and Ziebart (2019): "If accounting information is not comparable, investors cannot easily determine whether reported differences in performance across firms are due to differences in the mapping from underlying events to accounting numbers (i.e., accounting effects) or due to differences in economic fundamentals (p. 390)."

Increased accounting comparability means investors have access to more precise information for predicting the subject firm's risk and future cash flows (Feltham and Xie, 1994; and Holmstrom, 1979). As compared to valuations for other purposes, we expect that accounting comparability is especially important to underwriters of SEOs because the adverse selection in these markets makes the SEO firm's own financial statements less credible. In that regard, Bhojraj and Lee (2002) find that P/B and enterprise value-to-sales ratios of peer firms outperform the subject firm's ratios in predicting the subject firm's future P/B and enterprise-value-to-sales ratios.

Before De Franco, et al. (2011), a dearth of empirical research addressed questions regarding the benefits of accounting comparability. De Franco, et al. (2011) opened the door to such research by providing an output-based empirical technique for quantifying the degree of comparability between a firm and its peers in their processes for incorporating the effects of economic events into financial statements. Since De Franco, et al. (2011), researchers have uncovered many benefits associated with greater accounting comparability. De Franco, et al. (2011) find a positive relation between accounting comparability and the accuracy and precision of financial analysts' earnings forecasts. Choi, et al. (2019) find that greater accounting comparability contributes to stock prices that reflect more firm-specific information about future earnings, as evidenced by a stronger relation between stock prices and future earnings. Chen, Collins, Kravet, and Mergenthaler (2018) find that firms seeking to expand through mergers and acquisitions more efficiently allocate capital among alternatives and make more profitable acquisition decisions when the target firm has financial statements characterized by strong accounting comparability. Chen and Wu (2018) provide evidence that financial statement comparability serves as an effective monitoring tool with a positive influence on internal capital allocation. Nam and Thompson (2023) find that accounting comparability strengthens the SEC's oversight efforts reflected by the extent to which SEC comment letters cite discretionary accruals that inappropriately enhance reported earnings. The authors conclude that "higher financial statement comparability improves the efficacy of the SEC's oversight of accounting quality by reducing the information costs associated with cross-firm comparisons (p. 1315)."

In this line of research, our study most closely relates to Imhof et al. (2017). Imhof, et al. (2017) provide evidence suggesting that, holding constant accruals quality, greater accounting comparability lowers the firm's cost of capital. Furthermore, Imhof, et al. (2017) find that accounting comparability mitigates effects of information asymmetry and market imperfection

on the firm's cost of capital. Imhof, et al. (2017) use an earnings-based valuation model to estimate the cost of capital as the discount rate implied by the relation between the current stock price and analysts' earnings forecasts. In a way, our first hypothesis and related tests function as a confirmation of the main findings in Imhof, et al. (2017), with one important distinction. As described by Bowen, et al. (2008) and Kim, et al. (2013), among others, issuing stock in the seasoned equity market has negative stock price consequences, which represents a more direct measure of the cost of raising capital. Our examination focuses on whether, through its mitigating effect on information asymmetry and valuation uncertainty, higher levels of accounting comparability mitigate underpricing, a direct cost of raising capital in the market for SEOs. Our subsequent hypotheses and tests push this notion further by examining conditions that could amplify the comparability-cost of capital relationship.

2.2 Explanations for underpricing in the market for SEOs

SEOs, and more generally any capital raising activities, rely on the decision by the investor to provide capital in the current period in exchange for an uncertain return on that investment in a future period. Underwriters provide compensation to an SEO's initial subscribers in the form of underpriced shares, and this underpricing discount has the effect of reducing the proceeds to the issuer. In the Parsons and Raviv (1985) underpricing model, each potential investor has his or her own valuation of the firm, some with high valuations and some with low valuations. The underwriter does not know investor valuations, nor does the underwriter know the number of high and low valuation investors. The underwriter wants to set the initial offer price as high as possible but knows that setting the initial price too high leads to high valuation investors: (a) placing a higher probability on undersubscription, and (b) waiting for a lower price. The high valuation investor must decide whether to seize the opportunity to buy the stock at a small discount or wait for a larger discount while risking full subscription at the initial price and

the loss of the opportunity to buy *any* discounted shares. In equilibrium the underwriter's initial offer price is a weighted average of the low and high valuations, and the wider the gap in these valuations, the greater the discount offered by the underwriter.

If the gap in investor valuations widens with information asymmetry and valuation uncertainty, and if accounting comparability mitigates effects of information asymmetry and valuation uncertainty, then we expect that the underpricing effects of information asymmetry and valuation uncertainty dissipate as accounting comparability improves. We hypothesize in the next section that accounting comparability mitigates the underpricing effects of information asymmetry and valuation uncertainty associated with low-quality within-firm accounting information, high volatility of returns on the SEO firm stock, and relatively scarce institutional investor interest in the SEO firm's stock.

3. Hypotheses

Underwriter-analysts typically gauge the credibility of the SEO firm's financial statements with reference to the financial statements of economically similar peer firms (Holthausen and Zmijewski 2012). We expect greater accounting comparability to enhance the efficacy of such comparisons, as well as the efficacy of ensuing price-multiples based valuation models. Thus, we expect that accounting comparability facilitates the valuation process, thereby mitigating the risks associated with the issuance and the need for underpricing.

As described in Parsons and Raviv (1985), underpricing arises from heterogeneous investor expectations about the issuer. Following this logic, as investor beliefs converge around a single valuation, the issuer and underwriter have less incentive to underprice the offering. Our first hypothesis predicts that controlling for information asymmetry and valuation uncertainty in the firm's information environment, improving accounting comparability facilitates such belief convergence and mitigates underpricing. As previously described, our proxies for valuation

uncertainty and information asymmetry are returns volatility and lack of accruals quality, respectively. Thus, we state our first hypothesis as follows:

H1: Controlling for accruals quality and returns volatility, improving accounting comparability mitigates underpricing.

Next, we consider the interaction between accounting comparability and accruals quality in mitigating underpricing. The FASB and IFRS Foundation conceptual frameworks posit a complementary relation between accruals quality and accounting comparability; whereby, greater accounting comparability enhances benefits associated with high-quality within-firm accounting, and accounting comparability is less effective with low-quality within-firm accounting. In that case, we expect the mitigating effect of accounting comparability on SEO underpricing to increase with the quality of the firm's accruals. On the other hand, Nam and Thompson (2023) find that accounting comparability enhances the SEC's ability to detect misleading accruals. This result suggests a substitutive relation; whereby, the mitigating effect of accounting comparability increases with deteriorating accruals quality; i.e., accounting comparability provides a tool that cuts through the opacity associated with low underlying accruals quality.

These roles can coexist, in which case, the complementary relation between accruals quality and accounting comparability suggested by the FASB and IFRS Foundation conceptual frameworks offsets the substitutive relation suggested by Nam and Thompson (2023). If both effects have equal strength, we expect to find no evidence of an interactive effect. If one role significantly dominates the other, then we will reject the null hypothesis of no interactive effect, and the direction of the interactive effect will determine which role dominates. The above discussion leads to the following null hypothesis.

H2: *The mitigating impact of improving accounting comparability on underpricing does not depend on the level of accruals quality.*

Failure to find evidence of either a positive or negative interactive effect can mean that neither perspective has descriptive validity or the two effects offset each other. To investigate this issue, we can unpack H2 and examine the mitigating impact of accounting comparability on underpricing when the underlying accruals have poor quality versus the mitigating impact of accounting comparability when the underlying accruals have high quality.

Evidence consistent with H1 supports the proposition that accounting comparability mitigates underpricing, because it helps underwriters and investors see through the opacity created by information asymmetry and valuation uncertainty in the SEO firm's information environment. Investigation of hypothesis H2 above assesses whether the impact of accounting comparability increases with deteriorating accruals quality, a proxy for increasing information asymmetry.

Beatty and Ritter (1986) reason that *ex ante* valuation uncertainty drives underpricing.⁶ Our next test relies on the volatility of returns on the SEO firm's stock leading up to the offer date to proxy for valuation uncertainty (Corwin 2003). Prior research finds a positive relation between stock return variability and underpricing (Corwin 2003). Hypothesis H3 below investigates whether the power of improving accounting comparability to mitigate underpricing increases with the opacity created by increasing valuation uncertainty as reflected in returns volatility.

⁶ Building on models of IPO underpricing introduced by Rock (1986), Beatty and Ritter (1986) draw the implication that *ex ante* valuation uncertainty drives underpricing, and they provide empirical support for this proposition. Kim and Shin (2004) find that this reasoning also applies to the market for SEOs.

H3: *Controlling for accruals quality, the power of improving accounting comparability to mitigate underpricing increases with increasing returns variability.*

Thus far, the hypotheses examine whether the ambient quality of the information environment conditions the usefulness of comparability. Next, we turn our attention to the users of the financial statements to explore whether the usefulness of comparability is conditional on their needs. Fundamentally, financial reporting is a tool available to users (e.g., investors) to address information asymmetry in the face of agency conflict. The value of high quality financial reporting is likely a function of the degree of asymmetry and access to alternative sources of information. To explore the usefulness of comparability in financial reporting, we turn our attention to the user base and, specifically, institutional investors. Institutional investors play important roles in the market for SEOs. Their monitoring and information production activities can impact the importance of accounting comparability in mitigating underpricing. As evidence of institutional investor preference for accounting information with a high degree of accounting comparability, Fang, Maffett, and Zhang (2015) provide evidence that when U.S. institutions invest in the stock of companies headquartered in emerging markets, they influence the companies to choose accounting policies more consistent with International Financial Reporting Standards (IFRS), so as to improve accounting comparability. If institutional investors rely heavily on comparisons between subject firm and peer firm financial statements when evaluating investment opportunities, then accounting comparability might take on more importance for SEO firms with high institutional investor ownership.

On the other hand, institutional investors may have means beyond those available to retail investors for assessing the attractiveness of an SEO offer price. Chemmanur, et al. (2009) find that institutional investors produce private information that enhances their identification of undervalued SEOs and, correspondingly, their investment returns during the post-SEO period.

This private information production might mitigate the consequences of accounting information that lacks comparability, in which case a high degree of institutional investor ownership could have a diminishing effect on the importance of accounting comparability in mitigating underpricing. This reasoning leads to the following null hypothesis:

H4: The mitigating impact of improving accounting comparability on underpricing does not depend on the level of institutional investor interest in the SEO firm's stock.

4. Research Design

4.1 Models for empirical tests of hypotheses

Our empirical tests begin with model (1), designed to evaluate H1.

$$U = a_0 + a_1(AC) + a_2(LAQ) + a_3(RV) + Controls + e, \quad (1)$$

where U represents the amount of underpricing (minus one times the close-to-offer return), AC increases with increasing accounting comparability, LAQ increases with deteriorating accruals quality, and RV measures the volatility of returns on the SEO firm's stock during a period leading up to the offer date. Our unit of analysis is the SEO, and we suppress the subscript representing the particular SEO observation. Finding $a_1 < 0$ in (1) is consistent with accounting comparability having a significant mitigating impact on underpricing; i.e., a_1 indicates the decrease in underpricing, given a one-unit improvement in accounting comparability, holding constant at zero changes in accruals quality, returns volatility, and other control variables described in Section 4.5 below.

Our tests of H2 rely on coefficient estimates from model (2):

$$U = b_0 + b_1(AC) + b_2(LAQ) + b_3(AC * LAQ) + b_4(RV) + Controls + e, \quad (2)$$

with AC , LAQ , and RV transformed to fall on scales between zero and one based on quintile cutoffs.⁷ Model (2) focuses on the interaction between AC and LAQ and treats RV as a control variable. Finding $b1 < 0$ is consistent with improvement from the quintile with the lowest to the quintile with the highest comparability scores significantly mitigating SEO underpricing when $LAQ=0$; i.e., when the firm's accruals have relatively high quality. Finding $b1+b3 < 0$ is consistent with improving accounting comparability significantly mitigating underpricing when $LAQ=1$; i.e., when the firm's accruals have relatively low quality. Thus, $b3$ reflects the difference in the amount of underpricing mitigated by a one-unit increase in AC when $LAQ=1$ versus $LAQ=0$. Finding $b3 \neq 0$ rejects H2 in favor of the one of the alternative hypotheses. Finding $b3 < 0$ ($b3 > 0$) is consistent with the substitutive (complementary) perspective whereby the power of accounting comparability to mitigate underpricing increases with deteriorating (improving) levels of accrual quality.

We use model (3) below to evaluate hypothesis H3.

$$U = \delta_0 + \delta_1(AC) + \delta_2(RV) + \delta_3(AC * RV) + \delta_4(LAQ) + Controls + e, \quad (3)$$

where all variables are defined in connection with model (2) above and with lack of accruals quality (LAQ) entering the model as a control variable. Finding $\delta_1 < 0$ is consistent with improvement from the quintile with the lowest to the quintile with the highest comparability scores significantly mitigating SEO underpricing when $RV=0$; i.e., when the firm has relatively little uncertainty in its information environment. Finding $\delta_1+\delta_3 < 0$ is consistent with improving accounting comparability significantly mitigating underpricing when $RV=1$; i.e., when the firm

⁷ Henceforth, we refer to: “good” (“bad”) accounting comparability as representing observations falling in the fifth (first) quintiles of the distribution of AC , “good” (“bad”) accruals quality as representing observations falling in the first (fifth) quintiles of the distribution of LAQ , and “high/bad” (“low/good”) return volatility as representing observations falling in the fifth (first) quintiles of the distribution of RV . Transforming the test variables in this manner does not affect the tenor of our results, and facilitates economic interpretation of the results of hypotheses tests that refer to the coefficients of interactive models (2) and (3).

has a relatively large amount of uncertainty in its information environment. Thus, δ_3 reflects the difference in the amount of underpricing mitigated by a one-unit increase in AC when $RV=1$ versus $RV=0$. Finding $\delta_3 < 0$ is consistent with H3 which predicts that the power of accounting comparability to mitigate underpricing increases with increasing uncertainty in the firm's information environment; i.e., accounting comparability matters more in opaque information environments.

Our final set of tests focuses on two subsamples, one with greater than median and one with less than median institutional investor holdings of the SEO firm's stock as a percentage of all outstanding stock. For these tests, we estimate models (2) and (3) in each subsample and investigate H4, which predicts that the mitigating effect of accounting comparability on underpricing depends on the level of institutional investor interest in the SEO firm's stock. The remainder of this section describes the measurement of all variables used in this study.⁸

4.2 Accounting comparability

De Franco, et al. (2011)'s measure of accounting comparability increases with the similarity between a firm and its peer group in terms of how the firms' reported earnings diverge from economic earnings, as reflected by stock price changes. These divergences depend on the bias and error in reported earnings as a reflection of economic earnings. When the subject firm and its peer group of firms have similar functional relations between reported and economic earnings, the subject firm will have a high accounting comparability score.

Our approach to measuring accounting comparability follows De Franco, et al. (2011) except for the identification of the set of peer firms for purposes of calculating the accounting

⁸ Appendix A provides a list of variable definitions.

comparability score.⁹ De Franco, et al. (2011) identifies the SEO firm's peer group with reference to the firms in the SEO firm's 2-digit SIC. In an effort to better simulate underwriter selection of peer firms, our main tests calculate accounting comparability with reference to the SEO firm's closest peers in terms of the way the firms' 10-K reports describe their business operations (Hoberg and Phillips 2010, 2016).¹⁰ The rest of our procedure for assigning an *AC* score to each of our SEO firms exactly follows De Franco, et al. (2011), as described below.

Following De Franco, et al. (2011), we estimate the following regressions using the sixteen fiscal quarters prior to the fiscal quarter containing the SEO offer date.

$$Earnings_{it} = \alpha_i + \beta_i(Return_{it}) + \varepsilon_{it}, \quad (4)$$

$$Earnings_{jt} = \alpha_j + \beta_j(Return_{jt}) + \varepsilon_{jt} \quad (5)$$

where: *Earnings* is the ratio of the firm's quarter *t* net income before extraordinary items to the beginning-of-period market value of equity, *Return* is the firm's stock return during quarter *t*, and *t* ranges from -1 to -16.

The intercept and slope coefficients estimated in (4) and (5) represent the accounting systems of *i* and each of *i*'s six closest peer firms. The closeness of these accounting systems depends on the conservative bias and error in accounting earnings as a measure of economic earnings, with either one of these characteristics biasing the slope coefficients in (4) and (5)

⁹ As described earlier, Holthausen and Zmijewski (2012) emphasize the importance of rigorous peer firm identification when evaluating investment opportunities. Similarly, Eaton, Guo, Liu, and Officer (2022) emphasize the importance of rigorous peer firm identification in the context of determining a bid price when evaluating target firms in mergers and acquisitions decisions.

¹⁰ While we cannot directly observe the peer groups used by underwriters in the valuation process, our approach aims to minimize the noise in the peer selection process. Empirical literature shows that peer groups defined by product similarity can outperform more general SIC classifications, particularly when the question at hand has to do with performance benchmarking (e.g., Jayaraman, Milbourn, et al. [2021]). In support of this approach, comparability scores are lower and more volatile using 2-digit SIC codes to find peer firms as in De Franco, et al. (2011), as compared to the comparability scores using the TNIC-based approach in this study. As expected, our results are weaker, albeit generally consistent, when we measure accounting comparability with reference to all firms in the SEO firm's 2-digit SIC code.

downward. The comparability score described below reflects the similarity between the degrees of bias and error in reported earnings as a measure of economic earnings.

To determine a comparability score, we use the models of the accounting systems for i and each firm j to measure their expected earnings, as if they all had i 's returns during the sixteen fiscal quarters in the estimation period (i.e., as if the firms had experienced the same economic events, as reflected by $Return_{it}$). Thus, we combine the modeled accounting system for each cohort firm j , with the economic events of i . We calculate expected earnings for i and j as follows:

$$E(Earnings_{iit}) = \alpha'_i + \beta'_i (Return_{it}), \quad (6)$$

$$E(Earnings_{ijt}) = \alpha'_j + \beta'_j (Return_{it}). \quad (7)$$

$E(Earnings_{iit})$ is i 's expected quarter t earnings, given i 's accounting system and i 's return for quarter t ; and $E(Earnings_{ijt})$ is j 's expected earnings, given j 's accounting system and i 's return in quarter t .

We define financial reporting comparability between SEO firm i and its cohort of six peer firms ($j1$ through $j6$) as the average of the mean absolute differences between each of the six pairs of expected earnings using the estimated accounting functions from (6) and (7) above. The computations described in this paragraph are represented in Model (8) below, which derives AC for each SEO firm-quarter, it .

$$AC_{it} = \frac{-\sum_{j=1}^6 \frac{\sum_{t=-16}^{-1} |E(Earnings)_{it} - E(Earnings)_{jt}|}{16}}{6}, \quad (8)$$

where accounting comparability improves (deteriorates) with increasing (decreasing) values of AC .

If both firms in an SEO firm-peer firm pair report accounting earnings equal to economic earnings, then the intercept and slope coefficients in (6) and (7) are zero and one, respectively,

and $AC=0$ in (8). The comparability score, AC , in (8) measures the similarity in how the SEO firm's reported earnings diverge from economic earnings, relative to the divergences of its peers, with more similarity reflected in higher AC scores.

4.3 Accruals quality

As in Francis, LaFond, Olsson, and Schipper (2005) and Lee and Masulis (2009), we measure lack of accruals quality (LAQ) as the standard deviation of the residuals, $e_{i,y}$, from the following extended Dechow and Dichev (2002) accruals model proposed by McNichols (2002).

$$CA_{i,y} = \gamma_0 + \gamma_1(CF_{i,y-1}) + \gamma_2(CF_{i,y}) + \gamma_3(CF_{i,y+1}) \\ + \gamma_4(PPE_{i,y-1}) + \gamma_5(\Delta SALES_{i,y}) + e_{i,y} \quad (9)$$

where $CA_{i,y}$ is SEO firm i 's current accruals for year y (the year containing the SEO), $CF_{i,k}$ is SEO firm i 's operating cash flows for year k , $PPE_{i,k-1}$ is the gross book value of SEO firm i 's property, plant, and equipment as of the end of year $y-1$, and $\Delta SALES_{i,y}$ is SEO firm i 's change in sales revenue for year y (i.e., $SALES_{i,y} - SALES_{i,y-1}$). We estimate model (9) cross-sectionally within the SIC code that includes the SEO firm for each of the six years leading up to and including the year containing the SEO. Then, LAQ equals the standard deviation of the SEO firm's discretionary accruals over these six years, with higher values reflecting greater accruals volatility and lower accruals quality.

4.4 Returns volatility

In models (2) and (3), RV_i refers to the quintile rank of the standard deviation of the SEO firm's raw returns over the forty trading days ending on the 10th day prior to the offer day. Using returns volatility as a proxy for valuation uncertainty, prior research finds that SEO firms with greater returns volatility have more underpricing (Corwin 2003). H3 predicts that the power of

improving accounting comparability to mitigate underpricing increases with increasing uncertainty around the value of the SEO firm's stock.

4.5 Control variables

4.5.1 Effects of underwriter pricing practices

Corwin (2003) and Loderer, Sheehan, and Kadlec (1991) find that firms trading on the NASDAQ stock exchange experience greater amounts of discounting. Corwin (2003) attributes this result to "clear differences in underwriter pricing mechanisms across markets." He finds that the practice of underwriter pricing at the bid price when discounting is measured relative to the pre-offer day closing price mechanically increases the amount of discounting found among SEO firms listed on the NASDAQ. Therefore, models (1) and (2) include the control variable, *NYSE*, a dummy variable equal to one when the SEO firm's stock is traded on the *NYSE*, and we expect less underpricing when $NYSE = 1$.¹¹

Mola and Loughran (2004) find that SEO offer prices "cluster around whole integers and generally avoid odd-eighths." Therefore, as in Corwin (2003), the control variables in models (1) and (2) include the dummy variable, *TICK_i*, where $TICK_i = 1$ if the pre-offer closing price does not fall on an increment of \$0.25. We expect a positive relation between *TICK* and *U*.

4.5.2 Other control variables

We control the size of the SEO firm (*MVE*) with the natural log of the market value of the firm's common stockholders' equity as of the end of the quarter preceding the SEO offer date, and we control the size of the offering relative to the size of the SEO firm (*RS*). Prior research suggests this relative size variable as a factor that reduces liquidity and creates downward pressure on the offer price (Corwin 2003). Therefore, we expect that underpricing (*U*) increases

¹¹ We group SEOs conducted on the AMEX with SEOs conducted on the NYSE.

with RS . Larger firms have more publicly available information, which should reduce the information asymmetry in the firms' information environments. Therefore, we expect a negative relation between the market value of equity (MVE) and U . As in Corwin (2003), our control variables also include: average IPO firm underpricing during the quarter of the SEO ($avgipoup$), which we expect to be positively correlated with U ; the SEO firm's positive stock returns during the ten days leading up to the SEO ($CAR+$), which we expect to be positively correlated with U , meaning that the market punishes SEO firms with large positive returns leading up to the offer date, presumably due to concerns about overvaluation associated with market timing or earnings management; the SEO firm's negative stock returns during the ten days leading up to the SEO ($CAR-$), which we expect to be negatively correlated with U , meaning that the market punishes SEO firms with large negative returns leading up to the offer date, presumably due to increased valuation uncertainty (Corwin 2003, p. 2251);¹² and the log of the issuer's stock price 10 days prior to the offering ($price$), which we expect to be negatively associated with U .¹³

5. Sample

With reference to the SDC New Issues Database, we first exclude spin-offs, reverse leverage buyouts (LBOs), closed-end funds, unit investment trusts, Real Estate Investment Trusts (REITs) and limited partnerships, rights and standby issues, unit offers of stock and warrants, and international offers only, resulting in an initial sample of 12,973 SEOs between 1990 and

¹² Corwin (2003) finds the negative relation between CAR- and U only after the 1988 promulgation of Rule 10b-21. Since our sample period does not begin until 1990, we expect to find this negative relation in our sample.

¹³ The variable $avgipoup$ increases with underpricing. Since, average IPO underpricing varies through time, $avgipoup$ serves as a control for changing economics of underpricing through time, where time is measured in quarters. Therefore, our tabled test results do not include controls for year fixed effects. However, the results are robust to controls for year fixed effects. The tabled test results do include industry fixed effects, and our results are robust to their exclusion.

2021.¹⁴ Next, we eliminate 306 observations of SEOs not traded on the three major exchanges (NASDAQ, NYSE, and AMEX). Next, following prior literature, we delete observations with share prices of less than \$3. From this sample, we begin to calculate our variables of interest.

To measure accounting comparability, we must identify the relevant peer group. While the exact peer set used by underwriters and investors is not readily observable, we utilize the novel data developed by Hoberg and Phillips (2010, 2016) that measures the textual similarity of firms' business descriptions in their financial statements in order to approximate a reasonable benchmark group.¹⁵ We identify the six peers with the most similar business descriptions and use that as our foundation for the peer group. We focus on six peers as the literature supports this as a reasonable critical mass for benchmarking and valuation purposes (e.g., Bhojraj and Lee 2002; Palleari, Signori, and Vismara 2014). We further reduce our sample size by 5,395 observations due to lack of sufficient data to measure accounting comparability. Finally, we eliminate 1,221 observations due to insufficient data to calculate control variables.¹⁶ As shown in Table 1, our final sample for analysis is 4,727 observations.

6. Results

6.1 Descriptive statistics

Table 2 Panel A provides full-sample descriptive statistics for each of the variables in our models. Panel B divides the sample into two subsamples, one where the SEO firm's accounting comparability score is greater than the median of its distribution and one where the SEO firm's accounting comparability score is below the median of the distribution. For most variables, the

¹⁴ We begin our analysis in 1990 to ensure that our sample falls after the Securities and Exchange Commission's implementation of Rule 10b-21, which restricted short selling around SEOs. Prior literature documents that underpricing increased after the implementation of this rule (Kim and Shin 2004) and this effect can be attributed to the reduced informativeness of pre-offer pricing (Gerard and Nanda 1993).

¹⁵ These data are obtained from their website: <https://hobergphillips.tuck.dartmouth.edu/>.

¹⁶ The sample includes financial firms. Results are robust to the exclusion of these firms.

means differ significantly between the two subsamples. For example, underpricing averages 3.0% when accounting comparability is high versus 4.8% when accounting comparability is low (i.e., a 60% increase in underpricing). This univariate result suggests that accounting comparability has a mitigating effect on SEO underpricing.

Accruals quality is significantly better in the high accounting comparability subsample. That is LAQ , which measures the standard deviation of the residuals from the Dechow and Dichev (2002) and McNichols (2002) accounting accruals model, is significantly lower in the high accounting comparability subsample. This result is consistent with the IFRS Foundation and FASB interpretations that greater values of accounting comparability emerge when accruals quality is relatively high. In addition, as shown in the univariate results presented in Table 2 Panel B, greater accounting comparability is associated with less volatile returns on the SEO firm's stock, greater market value of the SEO firm's equity, smaller offers as a percentage of the market value of equity, smaller absolute values of changes in the value of the firm's stock prior to the SEO, higher prices of the firm's stock at the time of the SEO, listing on the NYSE, and less downward rounding of the offer price.

Table 3 shows the univariate correlations among the variables used in our models. On a univariate basis and using continuous variables, we see that underpricing increases with declining accounting comparability, declining accruals quality, and increasing returns volatility. These correlations are consistent with our expectations; i.e., underpricing increases with information asymmetry and valuation uncertainty. The significant negative correlation between AC and LAQ is consistent with the FASB and IFRS Foundation views that accounting comparability improves with improving underlying accruals quality.

Among the control variables, U has: a significant negative correlation with the SEO firm's market capitalization (MVE), the SEO firm's stock price ($PRICE$), the magnitude of

negative returns leading up to the offer date (*CAR*-), and whether the firm trades on the New York Stock Exchange (*NYSE*); and a significant positive correlation with the relative size of the offer (*RS*) and the average underpricing of IPOs initiated in the same month of the SEO (*AVGIPOUP*). These univariate correlations are consistent with the expectations described in Section 4.5 above. On a univariate basis, *AC* is significantly correlated with each of the variables in the study except *AVGIPOUP*. These significant univariate correlations confirm the need for our models to control for these variables.

6.2 Test of H1: Controlling for accruals quality and returns volatility, does accounting comparability mitigate underpricing?

Table 4 shows the results of estimating model (1) using continuous variables with and without controls for accruals quality and return variability. Without controls for accruals quality and return variability, Column 1 shows that *U* decreases significantly with *AC*, which means that underpricing declines significantly with improving accounting comparability. Column 2 shows that this effect persists with controls for accruals quality and return variability; i.e., the coefficient relating *AC* to *U* remains significant with a t-statistic of -3.23 (p-value < 0.01).¹⁷ This result is consistent with H1 which predicts that, controlling for accruals quality and returns volatility, increasing accounting comparability mitigates underpricing.

The result that the coefficient relating *LAQ* to *U* also is significantly positive (t-statistic = 3.28, p-value < 0.01) suggests that accruals quality also significantly mitigates underpricing and, equivalently, deteriorating accruals quality exacerbates underpricing, controlling for the relations between *AC* and *U* and between *RV* and *U*. This result is consistent with Lee and Masulis (2009), which finds that deteriorating accruals quality exacerbates negative SEO announcement date

¹⁷ While two of our hypotheses are one-tailed, all reported p-values conservatively reflect two-tailed hypotheses tests.

returns. The result that the coefficient relating RV to U also is significantly positive (t-statistic = 6.46, p-value < 0.01) is consistent with Corwin (2003), which finds that underpricing increases with returns volatility.

6.3 Test of H2: Does the mitigating effect of accounting comparability depend on the level of accruals quality?

For purposes of estimating interactive models (2) and (3), we transform AC , LAQ , and RV to fall on zero-to-one scales with reference to quintile cutoffs in their respective distributions.¹⁸ Comparing Columns (2) and (3) of Table 4 shows that inferences are unaffected by the transformation. The negative underpricing effect of AC , and the positive underpricing effects of LAQ and RV remain statistically significant after the quintiles-based transformation of AC , LAQ , and RV .

Table 5, Panel A, presents the results of our estimation of the interactive effect between comparability and accruals quality on underpricing. Panel B of Table 5 summarizes the variables and relationships of interest. As discussed earlier, we are interested in evaluating two alternative roles for accounting comparability. The first role is consistent with the FASB and IFRS Foundation perspectives that accounting comparability enhances good underlying accruals quality. In that case, as shown in Table 5, Panel B, we expect $bI < 0$ in model (2). Panel B reports $bI = -0.13\%$ with an insignificant t-statistic of -0.35. The second role we consider emerges from our reading of Nam and Thompson (2023), which finds that better accounting comparability enhances detection of accrual accounting misstatements. If greater accounting comparability

¹⁸ The quintile determines the value as $X = (Q-1)/4$, where X is AC , LAQ , or RV ; Q represents the observation's quintile (1, 2, 3, 4, or 5, with 5 containing the highest values of the variable). Thus, all observations of AC , LAQ , and RV take on values of 0, 0.25, 0.50, 0.75, or 1.00. Measuring the variables using quintiles facilitates discussion of tests of hypotheses involving interactive relationships. Results are robust to transforming each variable to range from zero to one based on the observation's percentile rank. Results are weaker when using dichotomous or continuous variables. We attribute inconsistencies to the coarseness of dichotomous measure and the presence of outliers in the continuous specification.

mitigates the underpricing consequences of lower accrual accounting quality, then we expect $b1+b3<0$ in model (2). The results reported in Panel B estimate $b1+b3=-0.97\%$ with a t-statistic of -2.28 and a p-value < 0.05. Thus, while our results are not consistent with the FASB and IFRS Foundation characterizations that the effectiveness of accounting comparability requires high-quality underlying accounting accruals, they do support the inference that accounting comparability mitigates underpricing associated with poor accruals quality.

In relation to model (2), as described in Table 5 Panel B, finding $b3<0$ ($b3>0$) provides evidence that the mitigating effect of accounting comparability on underpricing when accruals quality is bad (good) outweighs the mitigating effect when accruals quality is good (bad). Our results estimate $b3=-0.84\%$ with an insignificant t-statistic of -1.33, providing insufficient evidence for rejecting H2. That is, at this stage, we cannot reject the null hypothesis of no difference between the amount of underpricing mitigated by improving accounting comparability among observations with relatively poor versus relatively strong accruals quality.

6.4. Tests of H3: Does improving accounting comparability mitigate underpricing associated with higher returns volatility?

The next hypothesis, H3, examines the degree to which improving accounting comparability mitigates underpricing associated with increasing valuation uncertainty. Table 6 Panel B summarizes the Panel A results of our investigation of a two-way interaction effect of accounting comparability and returns volatility on underpricing, controlling for accruals quality. The interaction coefficient equals -2.47% (t-statistic=-3.56, p-value<0.01), indicating that improvement from a relatively weak to a relatively strong level of accounting comparability mitigates a significantly greater amount of underpricing associated with high versus low returns volatility. Unpacking this statistic finds no evidence of underpricing mitigated by improvement from a relatively weak to a relatively strong level of accounting comparability among

observations with relatively low returns volatility. On the other hand, among observations with relatively high returns volatility, improvement from weak to strong accounting comparability mitigates a statistically significant amount of underpricing equal to 1.91% (p-value<0.01) of the pre-offer stock price. Thus, consistent with H3, improving accounting comparability mitigates a significantly greater amount of underpricing in cases of relatively high versus relatively low valuation uncertainty.

6.5. Tests of H4: Does the mitigating effect of accounting comparability depend on the level of institutional investor interest in the SEO firm's stock?

Our final analysis evaluates whether the mitigating impact of accounting comparability on underpricing depends on the level of institutional investor interest in the SEO firm's stock (H4). This analysis re-estimates models (2) and (3) within two subsamples, one with lower than median institutional investor holdings and one with greater than median institutional investor holdings. Table 7 Panel A shows the results of estimating model (2), and Panel B shows the results of estimating model (3) within each subsample.

Panel A shows that the mitigating impact of accounting comparability on underpricing associated with information asymmetry, proxied by lack of accruals quality, is only significant in the low institutional investor holdings subsample, where the coefficient on the term interacting accounting comparability and accruals quality equals -2.59%. This provides evidence that the mitigating effect of accounting comparability on underpricing when accruals quality is relatively weak outweighs the mitigating effect when accruals quality is relatively strong. Finding that $b_3=-2.59\%$ with a t-statistic of -2.64 (p-value<0.01) provides evidence rejecting H2. That is, when institutional investor interest in the SEO firm's stock is relatively low with correspondingly reduced monitoring and private information production, consistent with accounting comparability and accruals quality serving as substitutes, we find significantly greater amounts

of underpricing mitigated by improving from relatively weak to relatively strong accounting comparability among observations with relatively weak versus relatively strong accruals quality. This mitigating effect of accounting comparability is statistically ($p\text{-value}<0.01$) and economically significant. The 2.6% percentage point increase in mitigated underpricing corresponds to approximately 18% of total offer proceeds, on average, for SEO firms with relatively scarce institutional investor interest.¹⁹ This result is consistent with the perspective that accounting comparability provides a tool that mitigates underpricing associated with deteriorating accruals quality. This evidence of a substitutive relation between accruals quality and accounting comparability is inconsistent with the FASB (2010) and IFRS Foundation (2018) assertions that the efficacy of accounting comparability depends on having a complement of high quality underlying accrual accounting systems.

Panel B shows that the mitigating impact of accounting comparability on underpricing associated with valuation uncertainty, proxied by returns volatility, is only significant in the low institutional investor holdings subsample, where the coefficient on the term interacting accounting comparability and return volatility equals -3.14% ($t\text{-statistic}=-2.93$, $p\text{-value}<0.01$). This result confirms our full sample findings and indicates that, among observations with relatively low institutional investor interest, improvement from a relatively weak to a relatively strong level of accounting comparability mitigates a significantly greater amount of underpricing

¹⁹ As in Asquith and Mullins (1986), we represent economic significance throughout the paper in terms of the amount of mitigated underpricing as a percentage of the average proceeds. The dollar amount of the mitigated underpricing equals the percentile point decline due to improving accounting comparability times the average market value of the SEO firm's stock immediately before the offer. Table 2 Panel A shows that the log of the market value of equity averages 6.4513, which corresponds to an unlogged average market value of \$634 million prior to the SEO. Thus, we find that improving accounting comparability from its worst to best quintile mitigates 2.6% of \$634 million or about \$16 million in underpricing associated with low versus high accruals quality. Given an average relative offer size of 14.91% as shown in Table 2, the average offer proceeds amount to about \$94 million, and the \$16 million of mitigated underpricing corresponds to about 17% of the proceeds.

associated with high versus low returns volatility. Unpacking this statistic finds no evidence of underpricing mitigated by improving accounting comparability among observations with relatively low returns volatility. On the other hand, among observations with relatively high returns volatility, improvement from weak to strong accounting comparability mitigates a statistically significant amount of underpricing equal to 2.43% ($p\text{-value}<0.01$) of the pre-offer stock price. Thus, when institutional investor interest is relatively low, consistent with H3, improving accounting comparability mitigates a significantly greater amount of underpricing in cases of relatively high versus relatively low valuation uncertainty.

Collectively, our evidence suggests that high institutional investor interest detracts from the importance of accounting comparability in mitigating underpricing, thus we reject H4 in favor of the alternative hypothesis that lacking institutional investor interest compromises monitoring and information production, thus making accounting comparability more important in low institutional investor settings. This result is consistent with institutional investors having channels to acquire information not available to retail investors. Consequently, the importance of comparable financial statements is diminished in the process of pricing an SEO with high institutional investor interest. More importantly, these tests suggest that the decision usefulness of a particular accounting attribute can be a function of the user base. Decision usefulness is not a universal concept but, rather, context specific.

7. Conclusion

Seasoned equity offerings can be costly to the issuing firm as the underwriter underprices the offer by setting the offer price below the prevailing market price of already-outstanding stock in order to entice potential investors to fully subscribe to the offer. This underpricing stems from market frictions associated with information asymmetry and valuation uncertainty in the market for SEOs. This paper discovers a role for accounting comparability in mitigating underpricing in

the market for seasoned equity offerings, where underpricing is measured by minus one times the return from the closing price of the SEO firm's stock on the day before the offer to the offer price.

Our analysis initially finds a negative relation between accounting comparability and underpricing, suggesting that accounting comparability mitigates the opacity associated with information asymmetry and valuation uncertainty at the time of an SEO. Observations in the top half of the distribution of the accounting comparability variable experience a 3% discount from the closing price on the day before the offer to the offer price, as compared to a 5% discount when the observation is in the bottom half of the accounting comparability distribution. This two-percentage point difference corresponds to approximately 13% of the total proceeds of the average SEO in our sample. In a multivariate regression, we find that the mitigation of the underpricing going from the bottom to the top quintile of the accounting comparability distribution is statistically significant (p -value < 0.01), while controlling for accruals quality and returns variability.

The FASB and IFRS Foundation conceptual frameworks include arguments suggesting that the efficacy of accounting comparability in improving investor decisions depends on having high quality underlying accrual accounting information; i.e., information with a high degree of relevance and representational faithfulness. On the other hand, results from Nam and Thompson (2023) indicate that accounting comparability enhances the SEC's ability to detect low-quality accrual accounting information. Our tests provide evidence of the mitigating effect of accounting comparability on the underpricing consequences of poor accruals quality and no evidence to support the enhancing role promoted by the FASB and IFRS Foundation. This analysis responds to a call for research describing the effects of interactions between qualitative characteristics of financial reporting (Fang et al. 2022).

We also examine the hypothesis predicting that improving accounting comparability more powerfully mitigates SEO underpricing associated with relatively high versus relatively low valuation uncertainty, proxied by the volatility of returns on the firm's stock leading up to the SEO offer date. Our statistically and economically significant results support this prediction. Thus, accounting comparability matters more in opaque information environments, characterized by greater valuation uncertainty.

Finally, we investigate the role of accounting comparability in mitigating underpricing among SEOs with high versus low institutional investor interest. We find strong evidence (no evidence) of an underpricing mitigation role for accounting comparability in a subsample of observations with less than the median (greater than the median) institutional investor interest. This evidence is consistent with institutional investors having alternative valuation tools that mitigate the effects of poor accounting comparability on their decision processes in which case accounting comparability in settings with high institutional investor interest has little effect on underpricing.

This study finds that the power of accounting comparability to mitigate underpricing increases with the opacity in the SEO firm's information environment. In our sample, accounting comparability most powerfully mitigates underpricing in cases of low accruals quality, high return volatility, and scarce institutional investor interest. The results of this study have implications for the characterization of accounting comparability as an enhancing characteristic of accounting quality, whose effectiveness depends on high-quality underlying accrual accounting information. Our evidence suggests that this characterization understates the decision-usefulness of financial reports with strong accounting comparability. Controlling for accruals quality, we find that accounting comparability independently and incrementally mitigates SEO underpricing. Furthermore, we find an insignificant (statistically and

economically significant) mitigating effect of accounting comparability on underpricing among observations with high-quality (low-quality) accruals.

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Appendix A

Variable Definitions

Label	Variable	Description
Dependent variables		
<i>U</i>	Underpricing	Minus one times the difference between the offer price and the prior day close deflated by the prior day close, where the offer price comes from SDC and prior day close comes from the CRSP Daily Stock File.
Main test variable		
<i>AC</i>	Financial Statement Comparability, following DeFranco, Kothari, and Verdi (2011), with peers defined by product similarity (Hoberg and Phillips, 2016).	<p>Following DeFranco, Kothari, and Verdi (2011), we estimate the following firm-specific model over sixteen quarters:</p> $Earnings_{it} = \alpha_t + \beta_i (Returns_{it}) + \varepsilon_{it}$ <p>where <i>Earnings</i> is the ratio of the firm's quarter <i>t</i> net income before extraordinary items to the beginning-of-period market value of equity, <i>Return</i> is the firm's stock return during quarter <i>t</i>, and <i>t</i> ranges from -1 to -16; i.e., from 1 to 16 quarters prior to the fiscal year containing the offer date. The coefficient estimates are then used to predict earnings in each of the same sixteen quarters, given the returns of the SEO firm in each of those quarters. We estimate the same model for the SEO firm's peers. Peers are defined based on the textual similarity of the firms' product descriptions, following Hoberg and Phillips (2016). Using the coefficient estimates and the returns of the SEO firm, we calculate predicted earnings of the peer firms. For each SEO firm-peer pair, the average distance between the SEO firm and peer firm predicted earnings becomes the comparability score for that SEO firm-peer firm pair. Then, the SEO firm's <i>AC</i> score is minus one times the mean of the comparability scores across the SEO firm-peer firm pairs.</p>
Cross-sectional test variables		
<i>LAQ</i>	The Dechow & Dichev (2002) accruals quality measure (as modified by McNichols 2002)	<p>The standard deviation of the firm-year residuals from the following cross-sectional model for each 2-digit SIC code industry-year:</p> $\begin{aligned} Current_Accruals_{it} = & \alpha_t + \beta_1 Operating_Cash_Flows_{(it-1)} \\ & + \beta_2 Operating_Cash_Flows_{(it)} + \beta_3 \\ & Operating_Cash_Flows_{(it+1)} + \beta_4 \Delta Revenue_{(it)} + \beta_5 PPE_{(it)} \\ & + \varepsilon_{it} \end{aligned}$
<i>RV</i>	Returns volatility	The standard deviation of daily returns (obtained from CRSP) for the SEO firm measured over the forty trading days ending as of 10 days preceding the event.
<i>INST</i>	Institutional ownership (%)	One minus the average percentage of institutional ownership (obtained from Institutional 13F Holdings) in the last fiscal year before seasoned offerings.

Control variables

<i>MVE</i>	Log of Market Value of Equity	Natural log of the market value of equity prior to the issuance, obtained from CRSP.
<i>RS</i>	Relative Size	Size of the offering, obtained from SDC, scaled by the market value of the issuer prior to the issuance, obtained from CRSP.
<i>AVGIPOUP</i>	Avg. IPO underpricing	The average underpricing across all IPOs in the same month as the SEO. The data come from Professor Jay Ritter's web page. CAR = Cumulative stock return adjusted for value-weighted market return over the 10 days prior to the offer. If CAR is positive (negative) then $CAR^+ = CAR$ ($CAR^- = CAR$), and CAR^+ (CAR^-) = zero otherwise.
<i>Price</i>	SEO firm share price prior to offering	Natural log of the share price of the SEO firm, measured 10 days prior to the offer date.
<i>NYSE</i>	New York Stock Exchange indicator	Equals one if the SEO firm is listed on the NYSE at the time of offering; and zero otherwise.
<i>TICK</i>	Offer price rounding indicator	Equals one if the decimal portion of the closing price on the day prior to the offer is not an increment of 0.25; and zero otherwise (Corwin 2003).

TABLE 1
Sample Selection and Distribution

<i>Sample Selection Criterion</i>	Observations
Sample of eligible SEOs in SDC New Issues database between years 1990-2021	12,973
Less: firms not traded on NYSE, AMEX or NASDAQ	(306)
Less: offer price less than \$3/share	(1,324)
Less: observations with insufficient data to calculate comparability	(5,395)
Less: observations with insufficient data to calculate control variables	<u>(1,221)</u>
Final Sample	4,727

TABLE 2
Descriptive Statistics

This Table reports the summary statistics of the key variables used in the empirical analysis. See variable definitions in Appendix A. For Panel B, statistical significance of difference in means is measured using a two-tailed t-test. ** and * indicate 1% and 5% statistical significance, respectively.

Panel A: Descriptive statistics

Variable	N	Mean	SD	Q1	Median	Q3
AC	4727	-2.9108	2.7665	-3.7300	-2.1000	-1.1200
U	4727	0.0388	0.0521	0.0066	0.0261	0.0559
LAQ	4727	0.2698	0.8313	0.0435	0.0945	0.2391
INST	4727	0.6148	0.2521	0.4311	0.6543	0.8252
RV	4727	0.0305	0.0177	0.0183	0.0270	0.0386
MVE	4727	6.4513	1.6691	5.2949	6.3723	7.5181
RS	4727	0.1491	0.1301	0.0715	0.1188	0.1878
AVGIPOUP	4727	0.1883	0.1765	0.0890	0.1460	0.2300
CAR+	4727	0.0451	0.1253	0.0000	0.0000	0.0503
CAR-	4727	-0.0439	0.0675	-0.0676	-0.0097	0.0000
Price	4727	3.0716	0.8316	2.5487	3.0995	3.6055
NYSE	4727	0.4468	0.4972	0.0000	0.0000	1.0000
TICK	4727	0.2395	0.4268	0.0000	0.0000	0.0000

Panel B: Summary Statistics based on Level of Accounting Comparability

	High Comparability			Low Comparability			Difference in Means
	N	Mean	SD	N	Mean	SD	
AC	2355	-1.1285	0.5246	2372	-4.6805	2.9485	3.5519**
U	2355	0.0294	0.0399	2372	0.0481	0.0604	-0.0186**
LAQ	2355	0.1747	0.3361	2372	0.3642	1.1168	-0.1895**
INST	2355	0.6196	0.2483	2372	0.6100	0.2558	0.0096
RV	2355	0.0241	0.0131	2372	0.0369	0.0192	-0.0128**
MVE	2355	6.8064	1.6608	2372	6.0988	1.6015	0.7075**
RS	2355	0.1313	0.1023	2372	0.1667	0.1507	-0.0353**
AVGIPOUP	2355	0.1893	0.1867	2372	0.1873	0.1658	0.0020
CAR+	2355	0.0309	0.0683	2372	0.0593	0.1620	-0.0283**
CAR-	2355	-0.0367	0.0570	2372	-0.0511	0.0759	0.0144**
Price	2355	3.3206	0.7208	2372	2.8243	0.8601	0.4963**
NYSE	2355	0.5694	0.4953	2372	0.3250	0.4685	0.2443**
TICK	2355	0.2696	0.4439	2372	0.2095	0.4071	0.0601**

Table 3
Correlations among the Variables

This table reports the correlation among of the key variables used in the empirical analysis. See variable definitions in Appendix A. * indicates a statistically significant correlation with p<0.05.

	AC	U	LAQ	INST	RV	MVE	RS	AVIPOUP	CAR+	CAR-	PRICE	NYSE	TICK
AC	1												
U	-0.2140*	1											
LAQ	-0.1417*	0.1141*	1										
INST	-0.0266	0.0856*	0.0500*	1									
RV	-0.394*	0.3169*	0.0789*	0.1236*	1								
MVE	0.1925*	-0.1657*	-0.0518*	-0.4345*	-0.4142*	1							
RS	-0.1365*	0.0288*	-0.0109	0.1527*	0.2049*	-0.5194*	1						
AVGIPOUP	0.0034	0.0689*	-0.0006	-0.0333*	0.1650*	0.0568*	-0.0288*	1					
CAR+	-0.1624*	0.0205	0.0607*	-0.0296*	0.2362*	-0.0777*	0.0230	0.1538*	1				
CAR-	0.0842*	-0.1990*	-0.0089	-0.1502*	-0.1858*	0.1805*	-0.1713*	0.0032	0.2344*	1			
PRI	0.3241*	-0.2583*	-0.1176*	-0.3615*	-0.3719*	0.6119*	-0.3009*	0.1213*	-0.1467*	0.1311*	1		
NYSE	0.1925*	-0.2054*	-0.1209*	-0.1469*	-0.3920*	0.4163*	-0.1610*	-0.0724*	-0.1252*	0.1233*	0.2551*	1	
TICK	0.0988*	-0.1324*	-0.0926*	0.1795*	-0.0029	-0.1886*	0.1129*	0.0076	-0.0207	-0.0034	0.0335*	0.0002	1

TABLE 4
Impact of Accounting Comparability on SEO Underpricing

This table estimates model (1) which describes the association of underpricing with accounting comparability, while controlling for accruals quality and return volatility. The dependent variable is underpricing (U). Accounting comparability (AC), lack of accruals quality (LAQ), and returns volatility (RV) are measured as continuous variables such that higher values indicate better accounting comparability, lower accruals quality, and more volatile stock returns.

$$\text{Model (1): } U = a_0 + a_1(AC) + a_2(AQ) + a_3(RV) + \text{Controls} + e$$

All variables are measured as described in Appendix A. t-values are reported below each coefficient. ** and * represent statistical significance at 0.01 and 0.05 levels, respectively, based on two-tailed tests.

	(1)	(2)	(3)
Intercept	0.0849** (5.62)	0.0613** (4.59)	0.0714** (4.71)
AC	-0.0020** (-5.36)	-0.0012** (-3.23)	-0.0058* (-2.35)
LAQ		0.0026** (3.28)	0.0119** (4.62)
RV		0.5479** (6.46)	0.0258** (8.38)
MVE	-0.0004 (-0.51)	0.0007 (0.94)	0.0004 (0.54)
RS	-0.0321** (-3.98)	-0.0309** (-3.99)	-0.0334** (-4.17)
AVGIPOUP	0.0245** (5.30)	0.0170** (3.82)	0.0177** (3.84)
CAR+	-0.0140 (-0.87)	-0.0236 (-1.59)	-0.0193 (-1.21)
CAR-	-0.1140** (-7.57)	-0.0990** (-6.67)	-0.1025** (-6.83)
Price	-0.0119** (-7.54)	-0.0105** (-6.87)	-0.0107** (-6.93)
NYSE	-0.0084** (-4.80)	-0.0062** (-3.60)	-0.0041* (-2.38)
TICK	0.0125** (7.07)	0.0119** (6.81)	0.0119** (6.66)
Ind Fixed Effects	Included	Included	Included
N	4727	4727	4727
Adj. R2	16.1%	18.1%	17.5%

TABLE 5
Role of Accounting Comparability in Mitigating
SEO Underpricing Associated with Deteriorating Accruals Quality

This table estimates model (2) which describes the impact of the interaction between accounting comparability and accruals quality on underpricing. The dependent variable is underpricing (U). Accounting comparability (AC), lack of accruals quality (LAQ), and returns volatility (RV) are measured on a quintiles-based scale from zero to one such that higher values indicate better comparability, lower accruals quality, and higher returns volatility.

$$\text{Model (2): } U = b_0 + b_1(AC) + b_2(LAQ) + b_3(AC * LAQ) + b_4(RV) + Controls + e$$

All variables are measured as described in Appendix A. t-values are reported below each coefficient. ** and * represent statistical significance at 0.01 and 0.05 levels, respectively, based on two-tailed tests.

Panel A: Estimates of model (2) coefficients	
	Coefficient (t-statistic)
Intercept	0.0600** (4.29)
AC	-0.0013 (-0.35)
LAQ	0.0163** (3.51)
AC*LAQ	-0.0084 (-1.33)
RV	0.5667** 6.72
MVE	0.0006 (0.90)
RS	-0.0307** (-3.93)
AVGIPOUP	0.0171** (3.86)
CAR+	-0.0231 (-1.54)
CAR-	-0.0984** (-6.67)
Price	-0.0105** (-6.83)
NYSE	-0.0052** (-2.99)
TICK	0.0113** (6.41)
Ind Fixed Effects	Included
N	4727
Adj. R2	18.2%

TABLE 5 (continued)
Role of Accounting Comparability in Mitigating
SEO Underpricing Associated with Deteriorating Accruals Quality

Model (2): $U = b0 + b1(AC) + b2(LAQ) + b3(AC * LAQ) + b4(RV) + Controls + e$

Panel B: Combinations of coefficients

Accounting comparability	Accruals quality	AC	LAQ	Combination of coefficients	Value (t-statistic)
Bad	Bad	0	1	$b0+b2$	
Good	Bad	1	1	$b0+b1+b2+b3$	
Incremental underpricing mitigated with a change from the worst to best quintile of accounting comparability in the context of observations falling in the worst accruals quality quintile				$b1+b3<0$	-0.97% (t=-2.28)
Bad	Good	0	0	$b0$	
Good	Good	1	0	$b0+b1$	
Incremental underpricing mitigated with a change from the worst to best quintile of accounting comparability in the context of observations falling in the best accruals quality quintile				$b1<0$	-0.13% (t=-0.35)
Test of H2: Does the marginal underpricing mitigation benefit of improving accounting comparability depend on the level of accruals quality?				$b3<0$ ($b3>0$) is consistent with underpricing mitigated by improving accounting comparability increasing with deteriorating (improving) accruals quality	-0.84% (t=-1.33)

TABLE 6
Role of Accounting Comparability in Mitigating
SEO Underpricing Associated with Returns Volatility

This table estimates model (3) which describes the impact of the interaction between accounting comparability and returns volatility on underpricing. The dependent variable is underpricing. Accounting comparability (*AC*), lack of accruals quality (*LAQ*), and returns volatility (*RV*) are measured on a quintiles-based scale from zero to one such that higher values indicate better comparability, lower accruals quality, and higher returns volatility.

Model (3): $U = \delta_0 + \delta_1(AC) + \delta_2(RV) + \delta_3(AC * RV) + \delta_4(LAQ) + Controls + e$

All variables are measured as described in Appendix A. t-values are reported below each coefficient. ** and * represent statistical significance at 0.01 and 0.05 levels, respectively, based on two-tailed tests.

	Coefficient (t-statistic)
Intercept	0.0696** (4.56)
AC	0.0056 (1.90)
RV	0.0381** (8.37)
AC*RV	-0.0247** (-3.56)
LAQ	0.0026** (3.50)
MVE	0.0005 (0.61)
RS	-0.0321** (-4.05)
AVGIPOUP	0.0171** (3.71)
CAR+	-0.0207 (-1.30)
CAR-	-0.1022** (-6.79)
Price	-0.0105** (-6.78)
NYSE	-0.0053** (-3.06)
TICK	0.0124** (-7.04)
Ind Fixed Effects	Included
N	4727
Adj. R2	17.5%

TABLE 6 (continued)
Role of Accounting Comparability in Mitigating
SEO Underpricing Associated with Returns Volatility

Model (2): $U = b0 + b1(AC) + b2(LAQ) + b3(AC * LAQ) + b4(RV) + Controls + e$

Panel B: Combinations of coefficients

Accounting comparability	Return Volatility	AC	RV	Combination of coefficients	Value (t-statistic)
Bad	Bad	0	1	$\delta_0 + \delta_2$	
Good	Bad	1	1	$\delta_0 + \delta_1 + \delta_2 + \delta_3$	
Incremental underpricing mitigated with a change from the worst to best quintile of accounting comparability in the context of observations falling in the highest returns volatility quintile				$\delta_1 + \delta_3 < 0$	-1.91% (t=-3.62)
Bad	Good	0	0	δ_0	
Good	Good	1	0	$\delta_0 + \delta_1$	
Incremental underpricing mitigated with a change from the worst to best quintile of accounting comparability in the context of observations falling in the lowest returns volatility quintile				$\delta_1 < 0$	0.56% (t=1.90)
Test of H3: Does the marginal underpricing mitigation benefit of improving accounting comparability increase with increasing return volatility?				$\delta_3 < 0$	-2.47% (t=-3.56)

Table 7
Institutional Investors and the
Importance of Accounting Comparability in Mitigating Underpricing

Panel A-Institutional Investors and the Interactive Effect of Accounting Comparability and Accruals Quality on Underpricing

This table estimates model (2) which describes the impact of the interaction between accounting comparability and accruals quality on underpricing based on the level of institutional ownership. In Column (1) we report the results on full sample base for reference purpose. In Columns (2) and (3), we report the results from the SEO firms with institutional ownership below and above the median level of institutional ownership. The dependent variable is underpricing (U). Accounting comparability (AC), lack of accruals quality (LAQ), and returns volatility (RV) are measured on a quintiles-based scale from zero to one such that higher values indicate better comparability, lower accruals quality, and higher returns volatility.

$$\text{Model (2): } U = b_0 + b_1(AC) + b_2(LAQ) + b_3(AC * LAQ) + Controls + e$$

All variables are measured as described in Appendix A. t-values are reported below each coefficient. ** and * represent statistical significance at 0.01 and 0.05 levels, respectively, based on two-tailed tests.

	Full Sample (for reference)	LOW INST	HIGH INST
Intercept	0.0600** (4.29)	0.0673** (3.49)	0.0578** (3.46)
AC	-0.0013 (-0.35)	0.0074 (1.31)	-0.0099* (-2.01)
LAQ	0.0163** (3.51)	0.0328** (4.57)	0.0024 (0.45)
AC*LAQ	-0.0084 (-1.33)	-0.0259** (-2.64)	0.0088 (1.14)
RV	0.5667** 6.72	0.4434** (3.52)	0.5376** (4.92)
MVE	0.0006 (0.90)	0.0016 (1.39)	-0.0010 (-0.92)
RS	-0.0307** (-3.93)	-0.0178 (-1.87)	-0.0419** (-2.76)
AVGIPOUP	0.0171** (3.86)	0.0194** (2.67)	0.0139** (2.64)
CAR+	-0.0231 (-1.54)	0.0269 (1.09)	-0.0450** (-3.19)
CAR-	-0.0984** (-6.67)	-0.1160** (-5.75)	-0.0880** (-3.93)
Price	-0.0105** (-6.83)	-0.0145** (-5.64)	-0.0061** (-3.41)
NYSE	-0.0052** (-2.99)	-0.0070** (-2.87)	-0.0047* (-1.96)
TICK	0.0113** (6.41)	0.0088** (3.65)	0.0119** (5.15)
Ind FE	Included	Included	Included
N	4727	2363	2364
Adj. R2	18.2%	25.0%	12.5%

Table 7 (Continued)**Panel B-Institutional Investors and the Interactive Effect of Accounting Comparability and Returns Volatility on Underpricing**

This table estimates model (3) which describes the impact of the interaction between accounting comparability and return volatility on underpricing based on the level of institutional ownership. In Column (1) we report the results on full sample base for reference purpose. In Columns (2) and (3), we report the results from the SEO firms with institutional ownership below and above the median level of institutional ownership. The dependent variable is underpricing (U). Accounting comparability (AC), lack of accruals quality (LAQ), and returns volatility (RV) are measured on a quintiles-based scale from zero to one such that higher values indicate better comparability, lower accruals quality, and higher returns volatility.

$$\text{Model (3): } U = \delta_0 + \delta_1(AC) + \delta_2(RV) + \delta_3(AC * RV) + \delta_4(LAQ) + \text{Controls} + e$$

All variables are measured as described in Appendix A. t-values are reported below each coefficient. ** and * represent statistical significance at 0.01 and 0.05 levels, respectively, based on two-tailed tests.

	Full Sample (for reference)	LOW INST	HIGH INST
Intercept	0.0696** (4.56)	0.0965** (4.36)	0.0540** (3.26)
AC	0.0056* (1.90)	0.0071 (1.51)	0.0015 (0.39)
RV	0.0381** (8.37)	0.0292 (3.75)	0.0357** (6.30)
AC*RV	-0.0247** (-3.56)	-0.0314** (-2.93)	-0.0123 (-1.40)
LAQ	0.0026** (3.50)	0.0026** (3.11)	0.0034 (1.52)
MVE	0.0005 (0.61)	0.0012 (1.02)	-0.0008 (-0.77)
RS	-0.0321** (-4.05)	-0.0195* (-1.99)	-0.0417** (-2.78)
AVGIPOUN	0.0171** (3.71)	0.0216** (2.82)	0.0107* (2.04)
CAR+	-0.0207 (-1.30)	0.0340 (1.34)	-0.0464** (-3.21)
CAR-	-0.1022** (-6.79)	-0.1224** (-5.90)	-0.0870** (-3.93)
Price	-0.0105** (-6.78)	-0.0154** (-6.00)	-0.0056** (-3.11)
NYSE	-0.0053** (-3.06)	-0.0087** (-3.71)	-0.0034 (-1.43)
TICK	0.0124** (-7.04)	0.0106** (4.43)	0.0121** (5.28)
Ind FE	Included	Included	Included
N	4727	2363	2364
Adj. R2	17.5%	23.5%	12.9%